

Strategic Planning for Hospitals and Healthcare Systems

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Strategy is a difficult word to define, and once it is understood, it is a difficult concept to apply. In healthcare, this is especially true for a variety of reasons.

First, many healthcare leaders come from a clinical rather than a business background and, thus, are not accustomed to thinking strategically, especially in a business sense. Given their clinical backgrounds, those responsible for setting healthcare strategy tend to think very operationally or tactically and rarely look up from the task or tasks in front of them to better understand the big picture and apply an overarching plan or unifying approach to their many activities.

Second, healthcare service delivery is an amalgam of both business and clinical activities that tend to, on close analysis, often have conflicting goals and objectives. Thus, defining the strategic plan towards reaching these goals can be difficult.

Consider, for example, the omnipresent tension within healthcare organizations between a value-driven versus a volume-driven approach to service delivery. The latter is usually preferred by those who are primarily concerned with the financial/business performance of the organization, while the former strategy is often the only one that clinicians feel comfortable pursuing. This conflict of strategic intents can often be invisible and only manifests itself when the economic environment changes and resources become scarce or quality of care is called into question. Since both of these circumstances are now playing out across the industry, the lack of a unified strategy in many organizations is coming to light.

Finally, many providers of healthcare services eschew a strategic approach due to the rapidity with which change tends to occur in the healthcare industry and its surrounding environment. Never has this been truer than during the period leading up to and following the passage of the Affordable Care Act in 2010. During this time, the demands for change in the delivery system have been so disruptive that many managers struggle to effectively react to these challenges and forego any thought of trying to develop a proactive strategy for operating in this tumultuous and complex atmosphere.

So, if strategy is not only hard to define but even harder to apply, why should it matter, especially in healthcare? This paper will attempt to answer that important question and in the process demonstrate why a strategic approach is essential for any provider of healthcare services to ultimately succeed.

WHAT IS STRATEGY

Michael Porter, perhaps the foremost thinker about strategy, at least regarding competitive business strategy, defines it thus: “Strategy is those sets of activities and behaviors that tend to differentiate a business from its competitors.”¹ This focus on differentiation is essential to Porter’s concept and is interesting to apply to the healthcare delivery system.

Many healthcare providers consider their overarching strategy to be trying to be better than their competitors. Marketing wars now rage across the industry between hospitals, healthcare systems, physician groups, or even individual physician or non-physician providers. They are armed with the latest evidence that they are the “best” in quality, patient satisfaction, accessibility, technology, and a host of other characteristics, which they believe will set them apart from others in the market and drive more patients to their doors.

Porter would say, however, that the pursuit of any characteristic that is shared between competitors is not a strategy. Instead, he argues, this approach only tends to homogenize or de-differentiate healthcare providers and, in the end, commoditize their services and make it even more difficult for them to attract more business in a unique manner.²

For instance, quality of care has long been claimed by almost every hospital system as their unique differentiator. In fact, a cottage industry now exists of rating services and quality improvement consultants (sometimes a single company provides both services) to assist hospitals and healthcare systems in the never-ending pursuit of quality. Again, this is a competitive strategy that results in diminishing returns as organizations chase after smaller and smaller gains in quality performance.

As an alternative to this mutually assured destruction approach to competitive strategy, Porter advises players within the healthcare industry take a strategic approach, which is specifically different than their competitors.³ Several examples from outside of healthcare often are used to demonstrate this point:

1. Within the large scale retail industry, Walmart has long pursued a competitive strategy that allows them to be the low cost leader in most markets. This strategy involves leveraging their size with suppliers and using advanced technology to track and closely monitor items in their supply chain. Key competitors in this business sector, such as Target, have taken a different approach by offering more high-end products in their stores, which they are able to do through strategic partnerships with specific designers and manufacturers.

2. Within the hotel and tourism sectors, Disney and Ritz Carlton have aggressively pursued an approach that provides guests with a unique “experience” that is carefully scripted and designed. They are part of the burgeoning “experience economy”, where a staged experience is not felt to be contrived, rather the strategic approach that will best set these companies apart from others.
3. Auto insurers have long known that claims adjudication can be costly and often determine whether a company realizes a profit in this business. Progressive Insurance Company has used this fact to successfully map out a differentiating strategy that uses immediate claim settlements, often at the scene of an accident, to both drive customer satisfaction and lower costs. Their fleet of Progressive SUVs brings claims adjusters to the client, where a check is written on the spot and the claim is settled with no delay, involvement of lawyers, or other elements that can drive up costs.⁴

The question, then, becomes how a healthcare provider can map out a truly differentiating strategy and resist simply following the same strategy as all other providers in their market place? There are examples of this happening; but before we consider those, let’s consider whether there are aspects of healthcare delivery that would mitigate the success of using a differentiating approach.

COMPETITIVE DIFFERENTIATION IN HEALTHCARE

The two main features of healthcare that make it difficult to follow a differentiating competitive strategy are the deep preconceptions of patients/consumers of what healthcare services should be like and the regulatory restrictions within the industry that limit deviations from the norm.

Most of us have a vivid picture of how healthcare services should look, feel, sound, and even taste or smell. While innovations, such as urgent care, retail medicine, ambulatory surgery centers, use of mid-level providers, and electronic medical records, are ubiquitous within the healthcare arena, these novel approaches did not succeed quickly in all markets. Many, in fact, consider these more cutting edge practices to be a turn for the worse in how medical science is brought to the bedside or the exam room.

Furthermore, these examples demonstrate the regulatory hurdles, such as restrictions on scope of practice by mid-level providers that need to be overcome in order to make significant changes in the way healthcare is delivered, regardless of whether those changes are for the better or worse. Quality of care and patient safety often takes precedence, as it should, over innovation in the risky world of clinical care.

Despite these limitations, however, healthcare delivery is evolving and changing at an ever-accelerating pace. Those who can build a better mouse trap in this area of the economy will have the world beating a path to their door and be rewarded for their novel approach to a centuries-old tradition of healing and caring.

Thousands of patients each day utilize retail medicine sites like CVS's Minute Clinics for acute minor illnesses or injuries. Here they are tended-to by non-physician providers, such as nurse practitioners or physician assistants. Surprisingly to some, this novel service provision method is widely popular and has many advantages over other more traditional approaches, to include faster access, lower costs, reliable quality, and more convenience.⁵

TRADE-OFFS IN STRATEGIC PLANNING

As the old adage goes, you never get something for nothing. Designing a successful competitive strategy is no exception to this rule. Moreover, carefully considering the trade-offs that will be necessary in creating such a strategy is often the rate-limiting step in that process. This has to do with the allocation of often-scarce resources and the nearly inevitable realization that shifts in strategic approach result in cost savings that can be applied elsewhere.⁶

Consider, for example, Ikea, the popular furniture store whose self-service and self-assembly approach allows them to sell quality furniture at a low enough price to appeal to their generally young and mobile market. In healthcare, it is not hard to identify niche providers, who have sacrificed comprehensive service provision for more focused, high-quality, cost-efficient service offerings that can undercut large, full-service providers. ASCs, freestanding imaging centers, custom labs, and others demonstrate every day how this speedboat approach can outperform a battleship approach in many instances.

In short, the strategic decision about what not to do can be as important or even more important as what you're going to do. Many providers, however, find this difficult, especially well-established large comprehensive hospitals or healthcare systems. The thought of not being all-things-to-all-people is anathema to many senior administrators in these types of organizations, especially when talking about sacrificing lucrative, but unnecessary, services, such as those found in the cardiac, orthopedic, or oncology service lines. There are many examples in the U.S. of large or even moderate size markets, with multiple open-heart surgery or total joint surgery programs, when one program could adequately meet the needs of the community. Each facility, of course, argues that the quality of their program justifies its existence and, therefore, the scenario ensues of more and more providers chasing a smaller and smaller slice of the

target market. Even worse, the phenomenon of supply-driven demand can occur and the provision of unnecessary services can result with accompanying risks and costs.

KEY STRATEGIC ISSUES IN HEALTHCARE

Creating an exhaustive list of differentiating strategies in any business sector, such as healthcare, is not possible. The possibilities are limited only by the creativity and innovative drive of the strategists. Instead, it is perhaps more important to consider some of the strategic issues that now face healthcare service providers and delineate some of the innovative approaches that are being used to solve these issues.

1. **Improving access and patient flow.** With the expansion of healthcare insurance coverage through the affordable care act (ACA) and the aging of the population, more patients will be trying to access healthcare services than ever before. In addition, the ability to create more capacity to accommodate this increased demand will be limited by the availability of financial resources. Therefore, innovative strategies to “do more with less” will be necessary and one of the most intriguing of these is the effect that smoothing the elective surgical schedule can have on patient flow through a hospital. Many organizations have used this technique to more efficiently utilize their bed capacity, decrease wait times in the ED and OR, more precisely match a patient’s clinical needs with the appropriate level of care, and decrease mortality and morbidity. Financial return from this technique also can be significant when increased throughput leads to higher revenues and decreased use of overtime or agency staffing decreases expenses.⁷
2. **Designing leaner and more effective care processes.** Eliminating non-value-added variability in care processes is becoming the “holy grail” within most healthcare delivery systems. While group purchasing and other economies of scale can decrease costs, most experts understand that reducing waste and inefficiency at the front-line level of care will result in the most significant savings. Fortunately, higher quality care delivery usually also results in lower costs (think avoidance of complications). Therefore, strategies to drive high value (quality per unit of cost) need to be developed through collaboration between clinical and non-clinical healthcare providers. This task won’t be easy, however, as achieving cost-efficiency at the point of care is easier said than done and involves integrating physicians and other providers into the business model of healthcare delivery to a degree that has rarely been seen in the industry. Physician practice patterns, however, are not immutable and many doctors can be persuaded to attend to cost efficiency as closely as they attend to clinical efficacy through the right set of incentives and support tools.⁸

3. **Leveraging technology.** Delivering high-quality, cost-efficient healthcare solely through human resources can be a prohibitively expensive proposition. The use of mobile technology (mHealth), such as applications that run on smartphones, however, is often a more cost effective way of delivering certain services. Care coordination, disease management, health risk assessment, health coaching, and even remote diagnosis and treatment are examples of operations that can be provided effectively in this fashion. The coupling of social media with mHealth technology can be an especially successful strategy, particularly for tasks like chronic disease management, such as diabetes, where patient-to-patient interaction and patient self-management is often key.^{9 10}
4. **Aligning with providers.** Many hospitals or healthcare systems have gone through at least one, two, or sometimes three waves of large-scale physician employment initiatives. Unfortunately, many of these attempts to align hospitals and physicians through an employment model have led to disappointing results on both sides. Hospitals frequently find the cost of employing their medical staff untenable, and physicians often bristle at working under hospital or healthcare system ownership. A clinical integration strategy where providers (hospitals and physicians) join forces in a legally compliant fashion that does not involve employment now has become an alternative approach that often can lead to mutually beneficial results, especially as it relates to quality and cost outcomes, without the attendant risks and complexities of employment. A clinical integration strategy is also an important precursor to a population health management program for those organizations who are venturing into a value-based, at-risk, population health business model.
5. **Transitioning from volume to value.** As noted, many organizations consider the leap from volume to value an essential component of their long-term strategic plan. That said, many providers lack the understanding and capabilities to make the journey from volume to value successfully. A strategy that identifies and develops these key capabilities is wise, therefore. Key competencies that must be addressed include a systematic approach to front-line care process design/re-design, the building of a robust IT and care management infrastructure, establishing close alignment with physicians and other front-line providers, and acquisition of risk-management techniques usually not found in healthcare organizations, such as actuarial capabilities and reinsurance of outlier risk.¹¹
6. **Managing population health.** For the most part, the current delivery system is built on an episodic acute-care platform. Adding to excellence in acute care delivery, the two new elements of what is now known as the “Triple Aim of

Healthcare Delivery” (i.e., population health management and cost efficiency) represents a huge challenge and opportunity for healthcare providers. Thus, a strategy that systematically re-tools the delivery platform to do population health management as well as high-value acute care delivery is necessary. To implement this strategy successfully, new capabilities--such as health risk assessment and stratification, coordination of care across the continuum, chronic disease management, greater emphasis on preventive, and wellness care and others--will need to be developed. Once successfully formed, a population health program will then need to focus on contracting and gaining market share in the new marketplace made up of traditional and non-traditional health plans, government payers, large self-insured employers, and other clinically integrated provider networks. The name of the game still will be volume, but market share volume as opposed to patient visit volume.^{12 13}

7. **Creating a more satisfactory care experience.** The healthcare industry now understands the importance of providing patient-centered care. No longer can providers ignore this important aspect of care delivery as systems of accountability for doing so are becoming the norm. A strategy that understands the primacy of the patient’s perspective and goes beyond superficial amenities to improve the patient experience at all levels cannot fail.¹⁴

CONCLUSION

The actions listed in this paper certainly are not exhaustive, as many more challenges than those itemized exist within the healthcare system. What is critical to note, however, is that each provider’s own set of issues must be addressed through a bespoke strategy that best serves their particular portfolio of problems, issues, goals, and aspirations.

Differentiating themselves through a customized strategy designed to address the major issues of the day truly can turn challenges into opportunities and also-rans into unrivaled successes. A successful differentiating strategy, however, is not easy to assemble and must be well understood, communicated, and accepted by all involved in its creation and implementation. This requires a well thought through approach to strategic planning, a well-crafted communication plan, and extensive involvement from the rank and file, beginning with the strategic planning process itself and carrying through to the implementation of the adopted strategy.

Finally, any successful strategy must be flexible and adaptable as situations and contexts change. In the healthcare sector, this is especially important given the pace of change that is occurring and likely to continue for the indefinite future. The most

successful strategies will be those that evolve over time and are not allowed to remain static and irrelevant.

Notes:

¹ Porter ME. What is Strategy Harvard Business Review. 1996 November

² Porter ME. On competition. Updated and expanded ed. Boston, MA: Harvard Business School Pub.; 2008.

³ Porter ME, Teisberg EO. Redefining health care : creating value-based competition on results. Boston, Mass.: Harvard Business School Press; 2006.

⁴ Frei F, Morriss A. Uncommon service : how to win by putting customers at the core of your business. Boston, Mass.: Harvard Business Review Press; 2012.

⁵ Christensen CM, Grossman JH, Hwang J. The innovator's prescription : a disruptive solution for health care. New York: McGraw-Hill; 2009.

⁶ Frei F, Morriss A. Uncommon service : how to win by putting customers at the core of your business. Boston, Mass.: Harvard Business Review Press; 2012.

⁷ Litvak E, Fineberg HV. Smoothing the way to high quality, safety, and economy. The New England Journal of medicine. 2013 Oct 24;369(17):1581-3.

⁸ Baker GR. Improving healthcare using Lean processes. Healthcare Quarterly. 2014;17(2):18-9.

⁹ Topol EJ. The creative destruction of medicine : how the digital revolution will create better health care. 1st pbk. ed. New York: Basic Books; 2013.

¹⁰ Topol EJ. The patient will see you now : the future of medicine is in your hands. New York: Basic Books; 2015.

¹¹ Knight EM. Population Health Management: The 4M Approach to Volume-to-Value Transformation. Coker Group 2014.

¹² Ibid.

¹³ Reiboldt JM. Developing an Effective Clinically Integrated Network Coker Group 2013.

¹⁴ Pine BJ, 2nd, Gilmore JH. Welcome to the experience economy. It's no longer just about healing: patients want a personal transformation. Health Forum Journal. 2001 Sep-Oct;44(5):10-6, 2.