# Board Best Practices for Assessing Strategic Options

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For healthcare organizations with depleted balance sheets, deteriorating operating performance, and compromised market position, today's industry environment is unforgiving. At the same time, the strategic and operating challenges facing hospital leaders have grown in complexity and acuity. Missing cues or deferring a critical conversation regarding strategic and operating risks, or the relevance and effectiveness of the organization's strategic plan and performance to plan, can prove costly.

These issues lie at the intersection of governance and management. To avoid strategic drift and adverse outcomes, the board must approve the development of a strategic plan, ensure its implementation, monitor its continued effectiveness, and in so doing, identify, analyze, and respond to enterprise and operational risks. Yet, all too often hospital and health system boards fail to re-evaluate their long-term strategy regularly, monitor their performance to plan, or assess how the organization's risk profile has evolved. If the board is not performing these key roles annually, it is easy to miss critical cues regarding mounting strategic risks and growing variances to plan in the quickly evolving and highly competitive healthcare marketplace.

## Key Steps When Revisiting the Strategic Plan

The first step in evaluating a strategic plan, performance to plan, or a hospital/health system's risk profile is to develop a common fact base. Charging the strategic planning committee with overseeing this work is sound practice. The strategic planning committee should convene on a quarterly basis to monitor this work throughout the year. Once or twice per year, as circumstances warrant, the committee should report to the board to identify perceived challenges/issues and proposed responsive action items (options) for board consideration.

The common fact base should provide relevant operating, financial, clinical, and market data and findings available to provide the information necessary to make informed decisions. Ideally, long-term trends should be analyzed to reveal changes that may not be readily apparent when comparing year-over-year results.

Gaps from necessary levels of performance on quality, cost, financial, and operating metrics should be noted and evaluated. If the execution or the effectiveness of the organization's strategic plan is in doubt, or if there have been notable adverse trends in the organization's risk profile over the most recent five years, then it is critical to reassess the organization's strategic options.

The perspectives of key stakeholders should be gathered to ensure that an appropriate range of perspectives and insights are heard by the board. These perspectives, coupled with findings developed from the common fact base, will inform development of a set of strategic objectives—both short-term and long-term—for the

## Key Board Takeaways

1. **Annually assess whether the organization is "on track" with its strategic plan.** If it's not on track, management should develop an action plan to address sources of variance or update the strategic plan.
2. **Annually assess the organization's strategic risk profile.** If adverse changes are mounting, management should develop an action plan to address these risk factors.
3. **Depending on the results of the above assessments, the organization may need to conduct a fresh assessment of its short-term and long-term strategic options:**
   - Consider strategic options such as:
     - Continued independence, with a robust plan to address "gaps" in performance
     - Partnering, with a focus on addressing needs to enable the organization to survive so that it can achieve its mission into the future
     - Alternative strategies to access specific benefits to improve strategic position
   - Develop a set of strategic objectives to guide the review of alternative options, given identified risks and performance gaps.
   - Don't wait until there is unanimous board agreement that "something must be done" to explore strategic options—the best time is when you do not have a pressing need to do so. Otherwise, you will have less leverage to achieve favorable terms and to preserve your mission.
   - Keep in mind that very few organizations can afford to pursue a "status quo" option. Dynamic and transformative changes in payment, technology, consumerism, regulatory schemes, and competitive forces, including new entry by large, well-capitalized market disruptors, each pose significant risks, and together present extremely formidable challenges that must be fully considered and carefully addressed.

organization. These objectives guide board decision making and will help leadership evaluate alternative strategic options by considering (among other things) the following questions:

- What is the extent of the gap between current performance and the threshold of performance required to attain our strategic objectives?
- Which strategic option will best enable the organization to achieve its strategic objectives, and thereby survive and thrive so that it can sustain its mission into the future?

There is no risk-free option available to hospitals and health systems. For example, a partnering strategy introduces partner risk: is the partner truly strategically aligned and will they deliver on their commitments? On the other hand, remaining independent (as a solo hospital or small health system) usually requires substantial capital and entails multiple challenging execution risks due to the dynamic and constantly changing competitive environment. Defining the options and evaluating the trade-offs are the core components of a strategic options analysis.

## Moving Forward Despite Uncertainty

The current environment of industry-wide transformation involves a significant level of uncertainty. There likely will be aspects of each strategic option, as well as associated risks and benefits, that are unknowable. Adhering to a disciplined, well-reasoned exploration process, gathering available facts and stakeholder perspectives, and gaining insight into key market and organizational trends are all essential in fulfilling the board's fiduciary role; however, there is no set of analyses and findings that will remove all risk and uncertainty from board decision making.

Because time is never a neutral factor, waiting for unanimity around the board table or certainty that a strategic direction is "absolutely right" can be a dangerous approach. Annual assessment of the organization's risk profile, strategic plan, and performance to plan provide an essential set of tools for the board grappling with uncertainty and risk. Based on the results of these assessments, an organization can determine whether it is time to re-evaluate its strategic options.

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