The Board's Role in Strategic Planning: *Eliminating the Confusion*

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As hospital boards are subjected to greater scrutiny and accountability for their decisions, board members are looking for clarification about the role they should play in the development of strategic plans for the organizations they govern. On the surface, this seems to be an easy question to answer. Since one of the core responsibilities of any board is to set strategic direction, most boards conclude that they should be involved in the strategic planning process. In our experience, the questions concerned board members are asking relate to *how* and *when* board members should be involved.

Reasons for Confusion

There are many reasons boards get confused about *how* to engage in strategic planning. One source of puzzlement is that historically many administrators have intentionally kept the strategic planning process management-driven. The thinking was that board members did not know enough about the complex healthcare industry to be knowledgeable contributors to conversations about strategic options, such as which service lines to develop or whether to employ physicians. As a result, some CEOs have limited board involvement to final approval of a completed strategic plan.

A second challenge for boards that want to play a meaningful role in strategic planning is that not all board members have experience with strategic thinking. Although many boards are populated with strategy-savvy executives from other industries, some boards include mid-level managers and homemakers who have not been involved in formal strategic planning efforts. So, they honestly do not understand which issues are "strategic" versus "tactical."

Thirdly, many board members are unclear about the distinctions between "governance" and "management." This can occur, in part, because CEOs may, inadvertently, muddy the waters by asking their boards for advice on management issues. Or, some board members may simply think it is appropriate to ask questions and comment on anything that comes to mind during a meeting.

Let's address these three sources of potential confusion: the timing and level of the board's involvement; the definition of "strategic;" and the distinction between "governance" and "management."

Timing and Level of Board Involvement

Many CEOs find it difficult to switch from the older paradigm of management—defining problems and creating plans—to a more current approach in which the board and management team partner to discover the issues that matter and solve problems together.[1] However, there does not seem to be much of a choice in this matter anymore. Governmental, regulatory, and other entities are demanding greater board involvement in strategic decisions. Even bond-rating agencies have added a requirement that boards understand their organizations' strategies.

The key issues around the board's involvement in strategic planning are timing and level of participation. As a general guideline, boards should help determine *what* will be achieved, and then allow management to decide *how* to accomplish the board-determined goals. For instance, the board helps set the mission, core values, longer-term vision, and strategic goals (e.g., become the cancer center of choice as measured by 60 percent market share). Then management is responsible for the action steps that will make that vision a reality. The board comes back in to monitor management's implementation of the strategy.

Many board leaders wish there were clear guidelines for when and how boards should be involved in formal strategic planning efforts. There is no such firm rule. The best approach is to make time for an honest conversation between the board and CEO about the appropriate role of the board. During that discussion, ask whether the board would like to:

- Be involved from the start, before anything has been written?
- Frame the issues (e.g., determine the critical strategic issues facing the organization over the next 5-10 years)?
- Help to analyze data on the internal and external environments?
- Serve on the strategic planning task force?
- Provide feedback on initial ideas developed by management?
- Provide targeted expertise (e.g., facility planning)?
- Approve the plan after it has been fully developed by management?

Then, create a written board policy that documents the board's desired role(s) in the strategic planning process. This policy should also include any other board expectations regarding the strategic planning outcomes and process (e.g., develop a five-year vision; secure input from physicians).

Definition of "Strategic"

Boards recognize the importance of focusing on "strategic" versus "tactical" issues, but some are not sure whether a specific issue is "strategic." Many healthcare boards have found it helpful to ask these questions to determine whether a particular issue meets the definition of "strategic:"

- Does it impact our ability to achieve our mission?
- Is it longer-term in nature (versus a short-term matter)?
- Is it likely to have a profound impact on the organization?
- Will it impact key stakeholders such as employees or physicians?
- Could it have significant financial ramifications (negative or positive)?

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[1]Modified from "The New Work of Nonprofit Boards" by Taylor, Chait, and Holland as published in *Harvard Business Review*, September–October 1996.

For most healthcare organizations, the following are strategic-level issues that merit board discussion:

- 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

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.

Distinction Between Governance and Management

Lack of clarity about the distinction between "governing" and "managing" is a chronic condition for most boards. This situation occurs because there is no definitive test that can be applied to every board to determine whether or not it has crossed the line between governance and management. In general, boards should set policy and direction, hire the CEO, and monitor the CEO's progress toward the agreed-upon goals. Boards create the framework in which management should operate, and they let management do the actual work.

Techniques for ensuring that the board stays on the correct side of the governance/management line during strategic planning include:

- Work together with the CEO to jointly define the board's role in each of its core responsibilities.
- Educate all board members on the agreed-upon distinction.
- "Call" each other on conversations that are management, not governance.
- Evaluate the board's ability to stay at the governance level.

Even if the board and CEO have agreed on the governance/management line, there may be times when the CEO confuses the situation by asking the board (individually or as a whole) to provide advice on decisions that are management's responsibility (not the board's). For instance, CEOs ask board members with human resources expertise to assist with difficult issues such as the termination of a long-term employee.

It is a good idea for a CEO to utilize board expertise, but this practice can cause the board to become confused about its role. CEOs who want to help their boards stay at the governance level should clearly state when they have invited the board to "dip down" into management's arena to provide advice. And, more importantly, those CEOs should help the board "move back up" to their oversight role, in which the board sets performance expectations and holds the CEO accountable for achieving those goals.

Conclusion

According to The Governance Institute's 2005 biennial survey, *Raising the Bar,* 94 percent of respondents indicated that it is "very important" to "*play a major role* in establishing the organization's strategic direction, such as setting priorities and approving the plan." Therefore, high-performing boards are making time to distinguish between governance and management, to clearly define "strategic," and to determine how they can best "play a major role" in helping to set strategic direction for their organizations.

Through these methods, boards and CEOs are ensuring that their healthcare strategies will result in the attainment of their organizations' mission—improving the health of the communities served. All healthcare constituents would agree that is the ultimate goal of the board's involvement in strategic planning.

For a more detailed description of the board's role in strategic planning and thinking, see The Governance Institute's white paper, *Setting Strategic Direction: The Key to Board Performance,* by Pamela R. Knecht and Edward A. Kazemek (Fall 2003).