

6. Insightful strategy

One of the main responsibilities of the board is to see further than anyone else. They must have a vision for the health service that is forward thinking. It is imperative for the board to review, assess and determine the health, economic, technological and demographic trends that are, and will, shape Victoria, Australia and the world.

Developing effective and insightful strategy is critical in order to manage risk and take advantage of emerging strategic opportunities. Boards must ensure the health service is agile and can respond to changes such as Commonwealth and Victorian Government policy and funding.

Questions that directors of health services should ask

- Does the board consider future strategy when making decisions? Are alternative strategies also considered?
- Does the board have a clear view and understanding of the length and impact of the strategy that supports the decision (e.g. at the 6 month and 10 year marks)?
- Does the board have a well-defined process in place to monitor the quality of management's execution in terms of agreed strategic objectives and performance measures?
- Do I, and the board, challenge management to ensure better implementation of the board's strategy? How do we measure and monitor success?
- Are the strategic options presented by management based on robust and thorough analysis using established tools and methodologies?
- Are post-implementation reviews completed for all major projects?
- Are there annual strategic planning day(s) with board attendance to discuss and approve the strategic objectives?
- Do I, and the board, drive management to develop an operating model that provides the health service with the ability to effectively assist the Minister in fulfilling their policy goals and the requirements of the Enabling Acts?
- What is our purpose? What are we here for?

Red flags

- Board meetings are not strategically focused.
- There is no long term thinking or approach to health service provision.
- The board does not understand the strategic direction and/or accepts the executive's implementation strategy without question.
- The board does not fully understand the nature and implications of the proposed strategy.
- The external environment is not fully considered in strategy development.
- Not all directors attend the meeting where strategy is discussed and approved.
- Risks inherent in the strategy are not defined or managed.

- Mechanisms for measuring stakeholder value are not fully understood.
- Too much emphasis is placed on operational and/or financial performance measures.

Introduction to the chapter

One of the main functions of the board is to create the health service's vision and strategic objectives.

The board must also monitor progress against these objectives once they have been set. Doing this effectively, requires clear systems, tools and information/data to ensure the current and future healthcare needs of the health service's community are met as part of the broader health system.

This chapter will look at:

- the board's role in strategy
- the processes and tools to assist in the creation, implementation and monitoring of the strategy, which includes:
 - strategic planning and development
 - key products and considerations
 - communication and ensuring implementation
 - monitoring and evaluating.

Insightful strategy

Good governance is about performance as well as compliance.

The performance dimension of a board's role focuses on the health service's strategy and the pursuit of stakeholder value, with the aim of providing safe, high quality care for the community, as measured by the Minister and DHHS.

The board's role in strategy is essential. Cooperative and interactive strategic planning processes must be instituted, which enable boards and management to:

- make, review and assess strategic decisions
- understand the key drivers of health service performance against the agreed strategic priorities
- align the health service's strategy, operations and external environment
- understand potential risks and incorporate risk management into strategic decision-making.

The board's role in strategic planning and development

Boards are responsible for ensuring the organisation is agile enough to continue providing safe, high quality health care in an environment of changing health service needs, Government policy and funding mechanisms, and to be able to take advantage of emerging opportunities. The strategic focus of the board is essential in order to provide leadership to the organisation.

With regard to strategy, it is the responsibility of the board to plan, enact and monitor as detailed in Figure 10 below.



Figure 6-1 The board's role in strategy (Source: KPMG)

Strategic development challenges

Directors may often struggle to make a meaningful impact on the strategy process. This can occur for a number of reasons, including:

- limited knowledge of the health service's clinical and operating context
- failure to be fully aware of, and understand, the short and long term health sector trends
- time constraints
- board time being taken up with compliance and/or operational issues
- executives being unwilling to incorporate director input
- the board failing to hold a forum which facilitates director participation (such as a specific strategic planning workshop for the board)
- accepting a 'final' strategy rather than discussing options.

As a result, some boards may find they are sidelined in the strategy development process, being confined to merely approving or rejecting proposals. Reviewing, adding value to, and approving the strategy are crucial to the board's governance role. Boards need to be seen by management as a strategic resource that contributes to superior health service performance. Through the board's unique position, directors can contribute by providing:

- policy context and health sector trends
- experience and expertise accumulated during their professional careers or roles in the community
- new perspectives, challenging thinking and fresh ideas
- an independent and objective viewpoint.

These strengths, combined with management's in-depth knowledge and experience in health service operations, mean that collaborative decision-making often leads to better strategy. Directors are more likely to add value to the strategy process if they possess a strong understanding of the health service and its environment, have strong meaningful working relationships with each other, as well as the

management team, and are able to communicate and exchange information effectively.

Key products

Being a health service and a public entity, the key elements of the board's strategy will be met through the development of two key products that are required by DHHS. This includes:

- preparation of the health service's strategic plan⁸⁸
- agreeing the SoP (or other relevant health service agreement) with the Minister or Secretary.

Strategic Plan

The Enabling Acts require that health services prepare a strategic plan for approval by the Minister (except for public hospitals and MPS where the Secretary may approve the strategic plan). The strategic plan must outline:⁸⁹

- the health service's role and objectives
- strategies to ensure the effective and efficient provision of health services and the financial viability of the health service.
- The strategic plan provides the three to five year high level objectives of the health service and sets the overall context for the accountabilities outlined in the SoP.

Statement of Priorities

The SoP⁹⁰ is the key accountability agreement for health services and is agreed each year between the Minister and the health service board. Some types of health service will sign a SoP with the Secretary or Secretary's delegate.

A health service's SoP must:

- be consistent with the health service's approved strategic plan
- set out the services to be provided by the health service and the funds provided to achieve this
- set out the objectives, priorities and key performance outcomes to be met by the health service
- set out the performance indicators, targets or other measures against which the health service's performance is to be assessed and monitored
- set out how and when the health service reports to the Minister and the Secretary on its performance in relation to the specified objectives, priorities and key performance outcomes
- set out any other matters agreed by the Minister and board, or determined by the Minister.

The SoP is developed collaboratively by the health service and DHHS on behalf of the board and the Minister or Secretary, and is approved and signed by the board chair and the Minister or Secretary/Secretary's delegate as applicable. In the event that a SoP is not agreed by 1 October each

⁸⁸ Note that the HSA Bill will enable the Secretary, DHHS to require a strategic plan from public hospitals and MPS services.

⁸⁹ It is recommended you align your SoP (or health service agreement) with DHHS' strategic plan, which is available online. The DHHS' 2017 Strategic Plan can be found at: <https://dhhs.vic.gov.au/strategic-plan-department-health-and-human-services>

⁹⁰ Not all health services have SoPs. A health service may instead sign a health service or tripartite agreement.

year, the HSA, for example, allows the Minister to determine a SoP for the health service.⁹¹

More information about the SoP is in **Chapter 12: Accountability and Performance**.

Key considerations when developing strategy

Strategy development requires directors to be curious, well-informed and ask questions. It directly relates to the board's ability to identify and interpret the impact of issues occurring in and around the health sector that can shape the short term and long term needs of the organisation.

Sustainability and viability

Directors are tasked with one of the fundamental aims of health service strategy which is to ensure the ongoing viability and sustainability of the health service.

Creating a viable and sustainable health service over the long-term necessitates that organisations are as flexible and responsive as they can be.

Directors should focus on developing a strategy which is based on robust stakeholder engagement, analysis of funding scenarios, consumer needs and policy directives. Each of these can assist health service boards with the following:

- identifying and implementing the best operating model for the respective health service
- innovation in delivery of health services with respect to governance and clinical care
- effective use of assets and resources
- provision of health services relevant to their community's current and emerging needs
- the collective skills and experience of the executive and management team
- well integrated service delivery with other health and community service providers.

Strategic risk

Boards must identify, assess and manage the risks inherent in any strategic plan. Strategic plans often do not achieve their desired aims, are poorly executed, or fail to keep pace with changes to the health service's environment.

Directors should seek to satisfy themselves that an effective strategic risk management plan is in place and is being followed. Such plans seek to:

- identify and evaluate strategic risks
- consider emerging risks and trends
- measure what is happening

Strategic thinking

Strategic thinking refers to the ability to think laterally and creatively towards developing a clear and focused business vision. It requires directors to be flexible in their ideas and how to approach them.

The best strategic thinkers are those who are curious and committed to learning rather than believing that they have all the answers before they start.

⁹¹ Further detail relating to SoPs can be found in the Enabling Acts (e.g. HSA), PMF and PFG and available from: <https://www2.health.vic.gov.au/hospitals-and-health-services/funding-performance-accountability/statement-of-priorities>

- prepare for, and take appropriate corrective action.

Boards must try to balance both short and longer-term strategic risk. Strategic risk increases as the time horizon expands – the longer the timeframe, the more unpredictable it becomes, and thus the more sophisticated the organisation’s risk management capabilities need to be. Many health services develop scenarios that deal with a variety of alternatives to mitigate this problem. Risk management is an increasingly vital part of organisational accountability and strategic decision-making.

Identifying strategic risks can be challenging. There is a broad range of risks that can impact on the ability of a health service to meet its objectives. Directors must be appropriately skilled, and devote a suitable amount of time, to understanding the broader context within which safe and quality care is delivered.

Risks will be constantly evolving and emerging. In developing strategy, directors need know the internal and external environment well enough to be able to determine what the key risks to the organisation meeting its objectives are. This takes a dedication to continually and proactively seek information, share knowledge and ask ‘what does this mean for our health service?’

For more information regarding risk management, please refer to **Chapter 7 – Risk management**.

Future proofing

A good strategy presents a vision for the future and a roadmap for how the health service will get there. An effective, well-articulated, strategic plan is critical for organisational success. Developing a strategy that presents a clear picture, aligned with Government policy and Ministerial directions, of where the health service is heading. Boards should develop a culture of forward thinking. This can be assisted by:

- creating a climate where strategic thinking is a valued activity
- fostering a culture of questioning, learning and constructive challenge of the way things are traditionally done
- challenging and evaluating the processes for developing strategy, not just the strategies themselves
- upholding high expectations for strategic plans
- setting aside adequate time and resources to discuss strategy in a meaningful way
- establishing methodologies, tools and policies for strategic decision-making and monitoring management adherence to them
- considering the needs of the health service’s stakeholders
- putting aside your own agenda and focusing on what is best for the health service within the context of the broader Victorian health system.

Communicating and ensuring implementation

Stakeholder involvement in strategic planning

A critical step in the strategic planning process is engaging with key stakeholders. In its broadest sense, a health service’s stakeholders are those groups who affect and/or are affected by the organisation and its activities.

The Minister and DHHS are considered primary stakeholders, however directors should also consider consumers, other health services, emergency service providers, members of the external regulatory framework (such as the Ombudsman), employees and the broader community when communicating strategy.

Boards face ongoing scrutiny and increasingly high expectations from stakeholders. As part of their responsibility for governance oversight, directors need to identify and understand the expectations of

all stakeholders, which are often continually changing. This is particularly the case when what the community or a particular stakeholder group want is in conflict with what the health service can safely and/or sustainably deliver.

It is considered good practice to incorporate stakeholder views into the strategy development process, whether directly (e.g. through consultation with stakeholder representatives), or indirectly (e.g. by acknowledging their goals when generating strategy). Stakeholders bring their own views, which can help boards to see issues from a new perspective, often leading to more innovative problem solving. By actively engaging with stakeholders throughout the year (not just during the strategy development phase), this will enhance communication and trust, leading to mutual understanding and collaboration, and reduced legal and reputational risks and associated costs.

For more information regarding stakeholder engagement, please refer to **Chapter 9 – Stakeholder engagement**.

Strategy review

Strategies should never be ‘set and forget’. Rather than developing a strategy and then putting it on the shelf until next time, a strategy needs to be continually reviewed and its implementation monitored.

It is the board’s responsibility to conduct a thorough analysis of the current strategy and progress towards the agreed objectives, and to evaluate health service performance in light of these objectives. A board will normally review strategic direction at least annually. Strategies should also be subject to reviews to ensure they remain appropriate and relevant to the organisation’s (and stakeholders’) needs.

As part of this role, boards must ensure management effectively implement the strategy the board sets. Boards must be vigilant in assessing the performance of the health service in line with the strategic objectives. Periodic reporting from management (such as a quarterly report card incorporating exception reporting) can help the board quickly come to terms with what is not working and why.

It is important the board receives the appropriate facts and information to make an accurate assessment. Financial and operational reports are a good starting point, but given the key objective of health services is to provide safe, quality care, the board also requires non-financial performance indicators. These may include indicators of consumer satisfaction, employee engagement, quality of care reviews, patient flows (including how they relate to other health services), community feedback and engagement. The board is there to look objectively at strategy and make the tough decision to mitigate a risk, take advantage of an opportunity and/or change the course of the health service when it is no longer viable.

Rather than trying to predict the future, the board can ensure the organisation’s capabilities and resources are sufficient to manage uncertainty and that strategic plans are flexible. In-built flexibility is promoted by:

- scanning the environment constantly and keeping abreast of changes that could materially affect the achievement of strategic objectives
- exploring how policy shifts and clinical developments (or risks) will impact on strategy
- inviting subject matter experts to address the board and senior management

There is a danger that health services become complacent in their strategy, making incremental adjustments whilst the policy and clinical environments continue to change rapidly.

More agile health services influence their environment and will quickly overtake those that merely react to it.

Learning from mistakes is not about trying to turn back time, rather it is about minimising the risk of repetition of the mistake and/or its impacts.

- ensuring accurate and timely information reaches the board and is discussed candidly by directors and managers by scheduling 'break-out' sessions to allow the board to critique the current strategy.

Monitoring and evaluation

As part of the planning process, directors should have clearly defined the objectives and outcomes of the plan that they wish to see implemented. It is essential to determine what successful outcomes will look like and what evidence will be needed to demonstrate success.

Directors should ensure there is a system by which they can check whether their strategy is working to achieve the intended impact.

Monitoring and evaluation is about learning from what you are doing and how you are doing it, and taking action to adjust the strategy accordingly. Regular monitoring and evaluation will help directors to assess how well the health service is tracking against the objectives set by the board, and ensure the health service is allocating time and resources effectively.

It is important to remember boards must respond through governance, not through delving into operations. When monitoring the health service's strategy, boards do not need to come up with all the answers. Good governance is:

- assigning responsibility to those who do
- understanding the types of responses available (process, systems, legal responsibilities)
- developing appropriate accountabilities (KPIs, patient stories, case reviews).

Measuring performance and assessing your strategy

Demonstrating performance to stakeholders – the PMF

Health services are obligated to regularly track and report their performance to DHHS as part of the PMF. The PMF requires health services to adopt processes aimed at continual performance improvement across a range of domains and objectives. Performance is tracked closely to ensure strategic objectives and KPIs set out in the SoP are being met, and that remedial actions can be implemented if necessary.

Boards should ensure internal reporting aligns closely to the SoP and Strategic Plan to avoid duplication of effort when reporting to DHHS. A range of tools are available for directors and boards to assist with meeting the requirements of the PMF.

Please see **Chapter 12** - Accountability and performance for a more detailed guide.⁹²

The balanced scorecard method

The balanced scorecard method is used by many organisations as a better practice approach to setting performance measures and subsequently measuring actual performance. The PMF utilises a balanced scorecard approach.

To increase performance (financial, operational and clinical), health services must do things such as engage in activities, processes, programs and projects. Directors must go beyond the financials to discover value drivers and the different levers available to the organisation to affect positive clinical and

⁹² Victorian Health Services Performance Monitoring Framework: <https://www2.health.vic.gov.au/hospitals-and-health-services/funding-performance-accountability/performance-monitoring>

financial outcomes. For example, a focus on reducing costs by cutting back staff numbers, may have a positive effect on the bottom line, but is likely to have a negative impact on clinical practices – with fewer staff available to perform tasks in a timely manner.

Directors must learn to measure the value drivers if they are to guide the executive team on how to manage them.

The balanced scorecard approach recommends boards view their health service from many perspectives:

- **Clinical** – How safe is our health service and how do we know? What are the key indicators for our health service to monitor to satisfy ourselves that we are providing high-quality health care?
- **Financial** – How does our performance look to stakeholders? Are we adding value? How do financial drivers relate to clinical outcomes?
- **Consumer** – How do consumers see us? What sort of feedback are we getting from them directly or from other sources (e.g. DHHS, HCC)?
- **Internal business perspective** – What must we excel at? How can we operate more efficiently (including better use of funding models)?
- **Innovation and learning** – Can we continue to innovate and create value? What does this look like in the health services sector?
- **Community and environment** – How do we meet our stakeholder expectations? Can we take advantage of opportunities (and avoid risks) as they arise? How do we manage ‘bad news’ (such as a service no longer being offered)?

Using a balanced scorecard approach, health services set themselves goals and measures for each perspective. These should be directly aligned to the Strategic Plan and the SoP. The board then selects the measures that best calculate progress in achieving these goals. These goals and measures should be geared to the circumstances of individual health services.

The balanced scorecard provides a performance information framework that allows health services to evaluate the effectiveness of their strategy and meet their ministerially appointed obligations under the Enabling Act. The balanced scorecard methodology has been promoted mainly as a management process, but it makes an excellent reporting framework for health service boards.

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