Using Stakeholder Feedback to Set Strategy and Manage Risk

"The purpose of a board is to represent and balance shareholder or stakeholder interests. Standing in for those to whom the organization belongs, boards must decide and act as their constituents would if they had the time, energy, experience and knowledge to do so on their own behalf." (Dennis Pointer and James E. Orlikoff, *Board Work*, 1999.)

Hospital and health system boards have long understood that their primary responsibility is to govern on behalf of their organization's stakeholders. However, the Blue Ribbon Panel on Health Care Governance's 2007 report suggests that to what entity a health care organization should report its stakeholders' perspectives and needs, and the board's obligations to those stakeholders are often less than clear.

In an environment of increased expectations for governance performance and accountability, boards must understand their stakeholders' needs and concerns in order to ensure that their organizations address them. In this environment, savvy health care organizations and boards, like their counterparts in other sectors, also leverage their understanding of stakeholder perspectives and needs to create strategic advantage and manage risk.

Hospitals and health systems are beginning to reach out to stakeholders more frequently. While many typically seek stakeholder perspectives as part of their strategic planning processes, some hospitals also check in with stakeholders at least annually through surveys, interviews and assessments aimed at evaluating their perspectives on:

• Whether the organization acts in ways that are consistent with its mission and values;

• How positively the organization is perceived in the community;

• The organization's strengths and areas where improvement is needed;

• Opportunities and challenges facing the organization;

• Initiatives or actions the organization should undertake; and

• Relationships the organization should cultivate or strengthen.

Once this information is gathered, the quandary, says Tracy E. Houston, a Denver-based board advisory consultant to energy companies and their boards, is to prioritize stakeholder concerns and address them in ways that help decision-makers create a sustainable future for their organizations.

"Hospitals, like electric utilities, are rooted in the needs and concerns of the community and both provide a service that everyone requires," Houston says. "However, the health care and energy sectors continue to face unprecedented change and uncertainty, characterized by issues such as fluctuating demand for service, new or unpredictable competition and changing relationships and technologies. Services that society once thought would always be available in abundance have become less accessible due to resource constraints, rising costs and other factors. At the same time, society is holding businesses and service providers to a higher standard, calling for new leadership models and skills that can better anticipate and manage change over the long-term."

Houston adds, "In times like these, organizations will seek to reposition themselves for risk and reward and some will win and others will lose in the transition. Those that are successful understand that certain issues go beyond an organization's social responsibility to provide philanthropic support to address them. It is also the job of the board and organizational leaders to identify those issues that translate into real business problems that require strategic solutions."

In this environment, boards and other decision-makers should compare

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stakeholder feedback with the organization's overall strategy to help identify emerging priorities and create a focus for action, what Houston calls "strategic intent."

"Strategic intent grows out of a relationship model that helps create strategic intelligence to develop a richer context for establishing organizational priorities and making decisions to minimize risk," Houston says.

This strategic intelligence and risk reduction model has four features:

1. It includes internal and external stakeholders, such as patients, employees, physicians, payers, donors, and legislative bodies and regulators.

2. It involves systematically gathering and mapping feedback from these stakeholders against the organization's strategies, culture and values.

3. It uses strategic and risk intelligence to prioritize issues and concerns and identifies opportunities where hospital and stakeholder needs and values align.

4. It shapes relationships as the organization moves from a reactive to a proactive position.

Additionally, mapping stakeholder feedback against an organization's strategies and values can have several benefits. This comparison can help:

• Increase an organization's strategic agility to address areas of vulnerability from stakeholders.

• Expand the capacity to anticipate and develop strategies for business opportunities.

• Enhance the ability to share knowledge that can help an organization reduce risk and meet stakeholder needs.

• Advance understanding of the dimensions or elements of strategy that foster collaboration and business development.

Questions for Discussion

1. What types of relationships does your hospital or system have with its stakeholders?

2. What information or feedback does your organization seek from its stakeholders?

3. How does your organization gather, prioritize and share stakeholder data as a source of strategic and risk intelligence with the board and other leaders?

4. What are your organization's stakeholders saying today that may indicate an opportunity or risk going forward?

THE STRATEGIC PERSPECTIVE

MAPPING STAKEHOLDER feedback and comparing it with organizational priorities can deepen the context for developing strategies and making decisions because the results provide information to help anticipate market changes and stakeholder preferences.

"This approach and the data it produces have driven the consumer goods industry for many years," Houston says. "Some larger consumer products companies, such as Procter & Gamble, are now evolving this approach by observing how products are used in the home to discover emerging consumer preferences and trends and drive research and development to create products that address them."

Understanding stakeholder preferences also helps organizations better leverage existing products and services. Think of the many companies that analyze their customers' Web site purchases and then expose them to new products they may also want to buy based on their previously identified interests and purchasing patterns. Houston points out, however, that these forward-looking approaches are likely to be most successful in organizations that value innovation and change from a competitive advantage point of view. Yet, competitive advantage can be interpreted more broadly than simply emerging as a market leader or gaining market share for a product or service. For example, hospitals that gather stakeholder information could also use it to educate legislators and regulators about consumer demands that are driving resource needs and allocation to help more favorably influence health care legislation or policy development.

However, in a dynamic, uncertain environment one thing is certain: organizations cannot adopt a fixed definition of issues, events and trends, an approach Houston says is more common in industries where scientific knowledge and logic underlie product or service development and delivery. In times of

Characteristics of Boards that Effectively Deal with Stakeholder Issues

Seven hallmark traits and behaviors characterize a board's ability to effectively deal with stakeholder issues:

1. Curiosity
2. An orientation toward the future
3. An understanding that "the more you know after you know everything" is the secret to success
4. The mental flexibility and agility to weave together a vision and possibilities for the future
5. A tendency to avoid oversimplifying
6. The capability to combine disparate elements into a strategic view
7. Promotion of "what if" conversations.

The nature and pace of change also affect how organizations should react to it. When the environment shifts from slow, evolutionary change to fast, revolutionary change, Denver-based board advisory consultant Tracy E. Houston says organizations are best served by: acting aggressively where the benefits of doing so are clear; planting seeds for future expansion in highly uncertain areas; and working to shape the stakeholder and regulatory landscape.

In today's world of rapid change, she says, organizations are more likely to be outperformed strategically rather than tactically. Therefore, the importance of constantly scanning and interpreting the strategic landscape cannot be underestimated. The sidebar "Approaches to Strategy in Traditional and Emerging Environments" further describes these very different contexts and begins to suggest the types of approaches needed to be successful in each.

Approaches to Strategy in Traditional and Emerging Environments

	Traditional Energy/Health Care	Emerging Energy/Health Care
Definition	Evolutionary	Revolutionary
Environment	Slow change Limited interdependencies	Increased speed of emergence Increased erosion of industry boundaries Increased complexity/interdependencies
Opportunity Horizon	Few but large opportunities Centralized, organized with economy of scale	Many diverse small opportunities Decentralized, unorganized without economy of scale
Strategic Agility	Scenarios Foresight	Pattern recognition Puzzle pieces recognized over time with addition of more pieces New opportunities plus overall structure of where and how they fit together
Strategic Sensitivity	Superior foresight of anticipated key trends/changes/long period	Foresight plus strong insight Combination of long and almost instantaneous change, i.e., immediate adoption of a new standard, commercialization of a new drug or the need to respond quickly to a new regulation. Calm with sudden burst of action

change, organizations need to adopt a flexible mind-set and progressively translate and interpret environmental issues and trends through the lens of ongoing stakeholder input and feedback.

Moving from a fixed to a flexible mind-set requires new governance and leadership skills as well. (See sidebar, "Characteristics of Boards that Effectively Deal with Stakeholder Issues.") Boards and other organization leaders that are not flexible enough to interpret change to their advantage may even pose a risk to their organizations. According to Houston, for these leaders, change and uncertainty can cause a "contracting mentality" where they make strategic choices that will deliver a certain but possibly lower payoff rather than opting for strategies likely to deliver an uncertain but possibly higher payoff.

THE RISK PERSPECTIVE

STRATEGIC MAPPING OF stakeholder feedback involves identifying and prioritizing both opportunities and threats. In considering the risk aspect of stakeholder feedback analysis, boards need to understand that minimizing exposure is not all there is to risk management. Creating risk intelligence involves considering a variety of risk components, such as exposure, the organization's ability to accurately assess risk and how fast the organization can gain access to information and learn from it to reduce potentially negative outcomes.

Risk can be divided into two categories: random and nonrandom risk. Random risk involves situations where an organization would not be able to learn anything that could help reduce uncertainty. Nonrandom risk is associated with situations where learning can occur to help decrease uncertainty. For example, learning that has resulted from quality and patient safety improvement initiatives, application of new technology and other interventions has helped reduce the nonrandom risk of medication errors in hospitals. On the other hand, there is very little that an organization can do if a company in which it has invested drops in its market value, creating random risk exposure for the organization. It is helpful for organizations to identify the risks they can learn about the fastest to both reduce their risk exposure and learn about other organizations that are also taking this type of risk.

The first step in moving from a reactive to a proactive approach to risk assessment is to identify the types of risks facing the organization and then categorize them into random and nonrandom categories as shown on the attached chart that provides a tool for better understanding and managing risk.

Learning about stakeholder concerns helps reduce risk and influence strategic decision-making. Therefore, risks associated with stakeholder needs and concerns fall into the nonrandom category. Answering the questions below can help boards, executives and clinical leaders better understand stakeholder needs and concerns from a risk perspective.

Questions for Discussion

1. What positive and negative perceptions do our stakeholders have about the hospital?

2. Which stakeholder groups can help our hospital expand its potential?

3. Which stakeholders are likely to reduce our hospital's potential in the future?

4. What stakeholder risks is our hospital managing today that it was not addressing five years ago?

As part of the risk assessment process, Houston suggests that hospitals work to identify and share with their boards information about flashpoints, or potential conflicts, that are likely to emerge between the organization's values and those of its stakeholders. Hospitals that engage in ongoing stakeholder feedback assessment are more likely to uncover these conflicts than those that do not. However, major shifts in values more frequently occur after significant events or an accumulation of events, such as a war or widespread disaster, a market crash or a series of high-

profile medical errors that result in negative patient outcomes. Understanding where and when flashpoints are most likely to occur can help hospitals take steps proactively to reduce risk as well as to identify opportunities that can result in strategic advantage.

Once risks have been categorized, hospitals and their boards can then prioritize them to decrease risk. A clear understanding of the organization's culture and values and how they do or do not align with stakeholder values as well as the nature of stakeholder concerns are both essential to success at this stage of the analysis. One way to help establish priorities, Houston says, is to look at stakeholder feedback from different perspectives. For example, it can be helpful to determine whether stakeholder issues or concerns are aspirational in nature, that is, are stakeholders seeking to gain status or improve themselves, rather than simply meeting basic needs? Boards and organization leaders can also assess whether stakeholder feedback speaks strongly to the features of a product or service or the process of its delivery. For example, customers who purchase items at discount stores are more likely to care about price rather than third-world labor practices. Finally, it can be useful to identify whether stakeholders care about impact. For example, the community or environmental impact of a new hospital program or facility may be high or low on the list of stakeholder concerns.

Analyzing stakeholder feedback from various perspectives can also help prompt questions that can lead to deeper insights. Questions might include:

• How well do our existing programs and services satisfy current and emerging stakeholder needs and concerns? What risks does low alignment pose?

• Do we need to revise current offerings or develop new ones to best

A Tool for Better Understanding and Managing Risk

	Random Risk	Nonrandom Risk
Political		
Technological		
Social		
Economic		
Financial		
Market		
Human Resources		
Systems		
Operational		
Legal		

Considering elements that comprise each risk category identified on the left of the table can help decision-makers better characterize the nature of each risk as random or nonrandom. For example, considering where risks reside in the Human Resources category, such as an organization's personnel structure, compensation levels and practices, and leadership and succession planning processes can help leaders determine the nature of the risk this category represents for their organization.

meet stakeholder wants and needs and minimize risk?

• How does what we have learned about our stakeholders affect the assumptions that underlie our hospital's programs, services and strategy development? Do we need to revisit and perhaps revise these assumptions?

Board participation in this stage of the analysis can be especially productive, Houston says, because board members are removed from the hospital's day-to-day operations and may see issues differently or more clearly than organizational insiders. Boards can be most helpful at this stage by pushing their organizations toward a more visionary mind-set.

Like personality styles, individual risk styles vary, Houston says, so it is also important for boards to understand how its senior management team prioritizes risk to ensure that board and senior leadership priorities are aligned. This alignment will affect both the type of information the board receives and how the executive team reports to the board.

Once risks are prioritized, boards, executives and clinical leaders can then

engage in discussion about the best response to each risk on the list. Responses might include aligning with stakeholders where strategic opportunity exists; managing or addressing stakeholder issues that need attention over the next year; or monitoring issues that do not require action today, but should remain on the organization's radar screen. Actively aligning an organization with stakeholder values to achieve strategic advantage often requires time for boards and leaders to better understand opportunities that may or may not exist. Gathering additional information or seeking input from outside experts, Houston says, can help decision-makers gain greater clarity. **T**

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CONCLUSION Gaining stakeholder feedback to achieve strategic advantage and minimize risk allows hospitals to enhance their ability to anticipate opportunities and threats, and to act rather than react to them. Comparing stakeholder values and concerns with an organization's culture and values can also create awareness at the highest levels of where the organization and its stakeholders align and where they do not. It also facilitates sharing of knowledge that can strengthen strategy development and improve risk intelligence.