

Strategic Resource Allocation

BY SUSANNA KRENTZ AND CATHY SULLIVAN CLARK

Almost all hospitals face the issue of not having enough money to accomplish everything they would like to. So how does the board pick among winning ideas when it can't afford them all? The resources needed to support operations and implement strategic initiatives can far surpass those available. What is the role of the board in establishing organizational priorities? How do you know which winning ideas are worth pursuing now? How can an organization tackle ambitious plans while ensuring that operations stay on track?

The following tips for boards can help maximize the return on their organizations' limited resources.

Avoid Sprinkling

When faced with numerous good ideas, many boards prefer to give all projects some funding rather than say no to any. The net result is that no project gets the full resources it needs to be successful.

No matter how appealing, boards should resist the temptation to spread financial and other resources too thinly across too many ideas. It is almost always better to postpone some investments so that others can have the full nourishment they need to thrive.

Use Good Evaluation Criteria

The first step in a sound resource allocation process is the identification of good evaluation criteria. Sometimes, the list of winning ideas presented to the board is longer than it should be because the organization failed to hone its evaluation criteria to reflect what is truly

important. Often, the criteria used do not discriminate among initiatives (i.e., all projects score the same).

For example, many organizations include a criterion regarding the mission impact of potential projects. Then, when they attempt to apply this criterion, they find it difficult to give any project less than the maximum score. The better

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approach is to consider consistency with the mission up front. To the extent that a project is not consistent with the mission, it should not even be put into the queue for further evaluation.

If evaluation criteria are appropriately defined and refined up front, only a few projects will rise to the top. The board must ensure discipline in the establishment of evaluation criteria that are truly meaningful and that can differentiate among alternatives. Examples of evaluation criteria that can differentiate among projects include projected return on investment, potential market size and

adequacy of the medical staff (size and scope) to support the project.

Seek the Why, Assess Alternatives

When faced with many winning ideas, board members should probe to really understand why each initiative is important. The power of asking why cannot be understated, and following the first answer with yet another why really helps the board understand what makes each initiative compelling. The board should also push management to identify any alternatives that might be used to respond to those uncovered whys. Perhaps there is another path that could be pursued that would consume fewer resources? The uncovered whys may reveal a justification that does not fit well with the evaluation criteria established by the board. Good boards excel at asking the right questions, a role that is critically important in resource allocation.

Find the Critical Path

The critical path is often overlooked in resource allocation decisions. A critical path exists when one initiative must be completed before another can take place or take place successfully. All else being equal, projects that establish the foundation for other essential projects should be given priority. Investments in information technology (IT) often fall into this category.

While not generating revenue on their own, certain IT projects may be needed before other projects with revenue potential can be implemented. In exploring the relative merits of each project,

consider where the project is on the critical path.

Consider Intangibles

For many years, resource allocation in hospitals was almost ad hoc, based largely on politics or other non-rigorous, subjective processes. Then, governance leaders began to insist on much more transparent and rational approaches using well-defined evaluation criteria and focusing on measurable impacts.

While the move to a more quantitative approach has certainly been a good one, boards should also consider important intangible factors such as:

- Is there a clearly defined champion to lead each project and continue to push it forward despite obstacles?
- What is the track record for the team, department or area proposing each project? To what extent have they been able to deliver on promises associated with past projects?
- How risky is each project compared with other projects? Have appropriate mitigation strategies been identified? Are these the kinds of risks the organization is comfortable managing?

While many of these factors cannot be quantified, they can have an enormous impact on the ultimate success of a project and must be considered when allocating scarce resources.

Directing resource allocation to achieve the organization's mission is a critical board role. Effective board performance requires members to hold themselves and management accountable for separating "good-but-not-great" initiatives from those that are truly essential to mission success. Objective resource allocation techniques, coupled with active questioning, create the platform for sound resource allocation. **T**

SUSANNA KRENTZ is senior principal and national practice director of strategy and planning at Noblis. CATHY SULLIVAN CLARK is senior principal and service line manager, enterprise strategy, for Noblis' Center for Health Innovation. Both are headquartered in Falls Church, Va. The authors can be reached via e-mail at susie.krentz@noblis.org and cathy.clark@noblis.org.