



THE PAINE GROUP LLC  
CONSTRUCTION SOLUTIONS FOR THE HEALTHCARE INDUSTRY

## **CONSTRUCTION AND THE HEALTHCARE BOARD**

*Effective governance is essential to a successful strategic facilities building program.*

*Advance Copy*

### **INTRODUCTION**

A 2003 poll of healthcare trustees and executive leaders reported that 88% of respondents were very satisfied with their board's involvement in construction/renovation projects.<sup>1</sup> And yet, a recent ACHE (The American College of Healthcare Executives) conference on healthcare design and construction began with the bold declaration that "hospitals and healthcare systems are considered among the worst clients within the construction industry by the Architects and Contractors they work with." Why the disconnect?

The reasons are straightforward. Through the years, hospitals have mastered the art of the small project – the constant stream of imaging suite renovations, patient-room facelifts, and office conversions that takes place day in and day out in America's hospitals. In some cases, this skill extends to medium-sized ground-up projects – new departments, even new wings. But when a hospital announces a strategic facilities building program, one whose intent is to build, buy or lease the multiple facilities or even campuses critical to the success of the institution's strategic plan, *it will probably become the largest developer in its metropolitan region overnight*. Yesterday, that hospital was in the healthcare business. Today, it has added a second major focus – real estate development – which will consume as much as 20% of its annual cash flow for several years. And its board and executive leadership, which have demonstrated their ability to manage routine capital projects, may understandably find themselves outside of their professional comfort zone.

While there are a great many issues unique to healthcare construction – physician ownership and certificates of need among them – it is the governance and strategic leadership of the programming, design and construction (PDC) process itself that is the concern of this paper.

### **THE PDC PROCESS**

A strategic facilities building program is typically broken down into three phases – programming, design, and construction. Of the three, there is only a single phase which is firmly and solely the responsibility of the Owner. That phase, programming, consists of the definition of the need to be satisfied by a construction project.

During programming, your institution will look at the needs of the community it serves and its own business needs. It will determine the combination of care delivery models, technology, staffing, management, philosophy, branding, clinical use and support services necessary to meet those needs, now and in the future.

It is an extraordinarily complex process, requiring the mobilization and focus of your caregivers, medical staff, department directors, business planners, patient advisory committee, executive leadership and board. Even the Nurses' Union, Chamber of Commerce, immediate neighborhood or others could conceivably have input. (It is important to note that your hospital does not need to go down this path alone – many consultants and full-service architectural firms offer programming and masterplanning services. Hospitals and healthcare systems should take advantage of their valuable expertise. They should be employed as guides, however, not as leaders.) The result of programming will be a manual used by your architects as the foundation for their design work.

While it will not produce blueprints or erect steel, a well-conceived programming effort is absolutely critical to the building program. Why? Because decisions made during programming will substantially commit over 80% of a project's total cost. Additionally, these decisions will determine operating costs for a period of 20 – 40 years, either locking in cost savings or cost burdens. And lastly, programming is the Owner's only chance to control cost associated with the PDC process itself. Construction will largely "take as long as it's going to take." Design, however, depends entirely on the Owner's ability during programming to define its needs and wants. Does design stop and start? Do you go back to the drawing board repeatedly? Is design continuing into the construction phase? All depend, ultimately, on the Owner's management of programming.

If your institution wants to save two weeks or \$35,000, ask your Contractor at the beginning of construction what can be done to optimize the project. If your institution wants to save 6 months or \$1,000,000, then the board and executive leadership must ask themselves how prepared they are to lead a successful programming phase. Doing so is the process of achieving strategic alignment, and falls squarely within the board's Duty of Care.

## **STRATEGIC ALIGNMENT**

More than just confirmation that the proposed project supports the strategic goals of the organization, true strategic alignment confirms that all involved agree on how to implement the strategic plan. Specifically, strategic alignment is the concurrence, at the board, executive leadership, and senior management levels, on

- Alignment among the project plan, business plan and strategic plan,
- An enterprise risk assessment,
- Organizational preparedness,
- The resources to be employed,
- Respective roles and responsibilities,

- Metrics for evaluation,
- Financial, operational, philosophical and care priorities,
- And specific tasks and accountabilities necessary in order to achieve strategic goals.

*Strategic alignment on these issues is the single greatest predictor of project success.* Without it, programming will be inconclusive, misguided, or even completely contradictory. Design will be inefficient and representative of what the Architect, and not the Owner, sees as both the need and its fulfillment. And construction will become adversarial and much more expensive than necessary.

Strategic alignment is a very challenging process. It is the cold water in the face and long, hard look in the mirror, and it often leads to difficult conclusions and even more difficult decisions. As a team, your institution's leadership must accept the fact that they will be not just *responsible for* but *the actual cause of* either success or failure, and commit to the intent of a successful strategic facilities building program. This process of achieving strategic alignment, the crux of "the "Achilles Heel" of effective governance,"<sup>2</sup> must begin in depth long before an Architect is even selected if a strategic facilities building program is to be truly successful.

## **THE BENEFITS**

The benefits of strategic alignment at the board, executive leadership and senior management level are many, and they begin paying off immediately:

Immediate – An institution that has achieved strategic alignment can take advantage of aggressive project delivery methods such as Extreme Collaboration, which have been shown to cut the duration of Schematic Design by as much as 50%. Additionally, on any given project, strategic alignment will reduce hard costs for construction by an auditable average of 1-1/2%, without changing contractors, rebidding or cutting scope – simply by improving internal processes at the board, executive leadership and senior management levels. Lastly, strategic alignment and better programming will inevitably lead to not just a better design, but a more complete set of construction documents, resulting in more bids from better qualified subcontractors and fewer surprises during construction.

Near Term – The internal process improvements demonstrate to your partners – your Architect, Contractor, and local subcontractor base - that your institution is committed to being a true team member. Over time, this will lead to an additional 3 - 5% reduction in subcontractor cost, as they remove the "hassle factor" from their bids to you. On the operations side, the process of achieving strategic alignment will result in a leaner, higher performing organization.

Long Term – A successful programming phase can produce operational savings of 3 – 5% annually for the life of the facility.

Lastly and most importantly, strategic alignment will lay the foundation for what you are in healthcare to do – deliver better care to your patients.

## **A TRANSFORMATIVE PROCESS**

A strategic facilities building program will be a transformative process for the institution conducting it. It will involve more than a little strain, and will require more of your caregivers than they can likely remember. In the process, whether it is planned or not, many leaders and caregivers will leave, new faces will join the team, and the corporate culture of your organization will be permanently changed. Whether those departures are desired or not, the change for the good of the institution or for ill, has everything to do with the quality of the planning at the highest levels of the organization in the years before an Architect is first consulted. If it is to be a transformative process, then it is within your power to assure that it is a beneficial one.

*This article was written by Matthew H. Paine, founding principal of The Paine Group. The Paine Group is the first and only construction management firm in the US dedicated to developing the governance and strategic leadership competencies necessary for leading successful healthcare strategic facility building programs.*

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<sup>1</sup> “Construction Projects,” *The Governance Institute*, Fax Poll Results – March 2003

<sup>2</sup> Ibid.