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Streamlining Strategy
By Nathan Kaufman June 27, 2012
A good strategic plan focuses on tackling a few big issues.



Editors note: This is the second installment in "From the Trenches" a new monthly series that continues through October.

My friend recently became the CEO of a large hospital. He asked me to look at a strategic plan that was under development prior to his arrival. Major themes of this plan, which my friend referred to as the \$400,000 monstrosity, include:

- build a culture of shared accountability;
- increase physician alignment;
- enhance IT systems;
- advance "known for" signature programs;
- grow the employed physician organization;
- develop a clinically integrated network.

This was followed by some 70-plus generic sub-bullets, including: "sunset redundant programs," and "develop and adhere to specific metrics around quality, outcomes and efficiency."

I saw nothing in this laundry list of suggested actions that meet my definition of good strategy, which is: *a significant investment of resources (time, money, personnel) to position an organization to be sustainably, differently better than its competitors.* The ultimate measure of good strategy is increased market share and improvement in profitability.

Cohesiveness

To paraphrase Richard Rumelt from his book *Good Strategy/Bad Strategy*: Good strategy does not take a thick deck of PowerPoint slides to explain; it does not pop out of some matrix, chart or fill-in-the-blanks scheme. Instead, a leaders most important strategic responsibility is to identify the few big challenges to progress, and to devise a coherent approach for overcoming them. "Strategy," writes Rumelt, "should mean a coherent set of analyses, concepts, policies, arguments and actions that respond to a high-stakes challenge."

- Rumelt defines "bad strategy" as including:
- lofty goals, high hopes and unrealistic ambitions;
 - language that is long on gibberish, but short on specifics;
 - strategic objectives that fail to address critical issues or are impractical;
 - a budget;
 - a long list of things to do.

Another common mistake that organizations make when developing their strategic plan is adopting a strategy for which the organization lacks the competency, the culture or both. This is a recipe for disaster. When the health care industry attempted to manage population health (risk-based contracts) in the 90s, many hospitals lost millions. Most did not understand the fundamental challenges associated with at-risk contracts, including restricting access to specialists and developing sophisticated management

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and information infrastructure. These hospitals would have been far better off not pursuing this strategy because they not only lacked the competency to manage risk, they didn't know what they didn't know. I am concerned that the same phenomenon is occurring with bundled payments, ACOs and population health management today.

By definition, one should be able to estimate a return on investment for a strategy. That is, one should be able to demonstrate that successful execution of a strategy will result in improved financial performance for the organization. Initiatives that do not have a definable ROI should not be discarded but rather considered research and development efforts. Investments in these R&D initiatives should be limited. Do not bet the farm on a strategy with no demonstrable ROI.

Strategy Development

After 30-plus years of providing strategic advice to health care providers, I have come to agree with Rumelt that a strategic plan should address three fundamental questions:

- What are the essential competencies for future success?
- What are the organizations challenges relating to developing and implementing these competencies?
- What specific actions can overcome those challenges?

Essential competencies: The first critical step in strategy development — identifying essential competencies for future success — requires a realistic assessment of the environment for the next five years and the competencies required to succeed in such an environment. Given the Affordable Care Act and the significant influence of the federal and state governments on health care, government policy will dictate many of the essential competencies for the future.

According to the chief actuary for CMS Richard Fosters testimony before the House Committee on the Budget on Feb. 28, most of the "innovations" that have been tried over the years to reduce health care cost growth (bundled payment mechanisms, ACOs, medical homes and disease management programs) have "had some positive impact on lowering the level of health care costs, but there is relatively little evidence that they have succeeded in reducing the cost growth rates." In the annual Medicare Trustees report released in May 2012, Foster acknowledges the trustees projection of future savings (from the ACA) is unrealistic, and Congress won't be able to avoid changing course.

Since there is no clear alternative payment plan on the horizon, the most probable scenario is that value-based fee for service will be the dominant payment mechanism for the next five years. Given the political deadlock and the state of the economy, it is likely that providers will receive only marginal annual increases, if any. In addition, the payment will be based on the providers performance on the value-based purchasing and meaningful use metrics, including adoption of an electronic health record, patient satisfaction, risk-adjusted mortality, readmissions, outcomes and efficiency.

To promote good strategic planning, these are essential competencies that must be addressed locally to position a health system for success over the next five years:

- Clinical transformation: The ability to deliver digitized, efficient, predictable, evidence-based, coordinated care throughout the health system (inpatient and outpatient) — using physicians extenders to the maximum extent possible
- Value-based infrastructure: Achieving industry-best benchmarks in outcomes and efficiency using established work-redesign technologies in collaboration with the hospital-based physicians
- Patient-centered culture: Rigorous, disciplined measurement and transparency
- Mutual benefit model for employing physicians: Aligned incentives, patient-centered focus, win-win deal structure and a positive net financial contribution to the system
- Payer strategy: Increasing revenues through volume/steerage, rates, quality bonuses and shared savings
- Non-organic growth: Selectively adding new facilities, physicians and services
- Leadership that manages the interaction of the parts (versus leadership that monitors the performance of the parts as separate entities)

The foundation for all of these competencies is collaboration between a hospital system and a large group of employed, contracted and affiliated physicians to improve outcomes and lower costs. This will require creation of a culture of trust through radical transparency, shared values and, most importantly, the ability to resolve conflicts rapidly and without blame.

Organizational challenges: Unlike determining essential competencies, which are based on national and state trends, identifying the organizations challenges is an exercise based on the characteristics of the local environment. For example, it is generally acknowledged that the adoption of standard evidence-based protocols improves quality and reduces cost. While this approach has been implemented effectively at Geisinger and TheDacare, it is being violently resisted by providers in other markets. Thus, a strategy must honestly assess the critical, market-specific challenges that must be overcome before profiling the specific actions needed to overcome those challenges.

There are several methodologies that can be used to identify the challenges. The most common are SWOT analyses and third-party assessments. The critical component of this step is honesty. For example, if an essential competency is to develop a mutual benefit model to employ physicians, one must then honestly assess whether a health system has:

- the skills to structure a win-win transaction;
- the infrastructure to effectively manage a large group of physicians;
- the culture to coalesce the physicians into a branded, truly integrated group practice.

Without an honest assessment of local challenges, there will be little chance that the strategic plan will be anything more than a credenza document.

Specific actions: As I provide strategic advice to health care systems around the country, I have identified several specific actions that apply to most markets. These actions help address the essential competencies and overcome local challenges:

- Select a cost target and a systematic approach to cost reduction through process redesign and stick to it! (Expect resistance.)
- Establish a "physician cabinet" of medical directors, a medical executive committee, and "care-line" leaders to be partners in guiding the system.
- Assign accountability for *managing* and optimizing the performance of hospital-based physician services and medical directors.
- For all departments, including the employed physician group, establish a performance culture. Routinely measure and report critical performance metrics (focusing on costs and outcomes) and demand action plans when targets are missed.
- Uncover underlying systems issues before they manifest themselves into multimillion-dollar problems. Have a third party conduct an *objective* performance assessment and develop implementation plans to optimize all critical functions: e.g., revenue cycle, documentation, IT, cost accounting, reporting on quality and outcomes, patient flow, capital allocation, employed physician practices, and so forth.
- Develop a digitally connected network of physicians committed to delivering efficient, predictable, evidence-based, coordinated care. First, test this narrow networks effectiveness on system employees and their beneficiaries.

Ultimately, the success of a health system will depend on its ability to identify a few critical competencies that will be needed to succeed in the future, honestly assess the challenges to effectively develop those competencies in the local market, and implement a series of actions to overcome those challenges. Thats good strategy!

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