



SIMPLE BUT POWERFUL SOLUTIONS THAT PRODUCE RESULTS

Assumptions Drive Strategy and Success – Be Very Careful! Number 208 Fall 2008

Simple But Powerful Solutions That Produce Results has championed a central theme: FOCUS (Strategy) + EXECUTION + LEADERSHIP = RESULTS. In this issue, we suggest a careful review of **your underlying business strategy**.

The current economic environment, perhaps unprecedented in its challenges and opportunities, raises the question of the right strategic direction for your organization. Is the current strategy still valid? Are adjustments needed for the short term, the long term or both?

The economic meltdown has been disruptive. Downsizing has become evident throughout the healthcare industry. Major capital expenditures are being delayed, deferred, downsized or canceled. It appears that the industry may be at the beginning of a new wave of consolidation.

The nature and timing of relief, whether in the form of “increased revenue” (more money from Medicare and Medicaid), an economic rebound and/or healthcare reform, remains unclear.

While focusing attention on organization performance remains foremost, testing your underlying business strategy against the current environment is critical. A good starting point is reviewing the assumptions used to build your strategy particularly as the margin of error has diminished and capital and human resources are more limited.

Why is this important? Here are examples of how failed assumptions torpedoed major businesses over the past 25 years.

What Can We Learn From The Experiences Of Other Businesses About Successful Strategy Formulation?

In “**Seven Ways to Fail Big**,” published in the September 2008 Harvard Business Review, business consultants Paul B. Carroll and Chunka Mui, report that nearly half (355) of the more than 750 most significant business failures in the past quarter century were the result of faulty strategy not flawed execution. Note that these findings run counter to the current business literature that points to flawed execution as the cause of failure.

In our minds, the takeaway was not that the relatively common broad strategies themselves were flawed. Rather, their findings suggest that otherwise successful business leaders *implemented these strategies based on a set of assumptions that were inaccurate, unrealistic, untested or simply could not stand the tests of time and changed circumstances*. What were the strategies and what went wrong?

The 7 Ways to Fail:

1. **The Synergy Mirage** - the assumed ability to realize the intended benefits of joining with others who have “complementary” strengths were not realized- **Unum and Provident**.
2. **Faulty Financial Engineering** – enough said – **Conseco**.
3. **Stubbornly Staying the Course** – relied on existing products and strategy despite diverging signals in the environment or marketplace – **Eastman Kodak**.
4. **Pseudo-Adjacencies** - misjudged the difficulty of expanding into related businesses or markets without the requisite expertise or execution capacity - **Oglebay Norton** (steel).
5. **Bets on the Wrong Technology** – betting on a technology that the market was not ready or willing to pay for - or its cousin, maintaining outmoded technology beyond its time – **Motorola**.
6. **Rushing to Consolidate** (in the same industry) - under-estimating difficulties and over-estimating the value of synergy and scale - **Ames Department Stores**.
7. **Roll-Ups of Almost Any Kind** (multiple industries) - probably not applicable to most healthcare organizations today – **Tyco**.

Carroll and Mui emphasize that these common business strategies and many others have served companies well over the years. So what went wrong? The findings suggest that the breakdown may have little to do with the chosen strategy. Rather the failure may have to do with the degree of rigor used to build and test these strategies. So how does a leader apply rigor to strategy development?

Testing Your Strategies

One way is to make sure that your team does its homework. Force rigorous and regular examination of the veracity of the assumptions and conclusions used in all phases of strategy development and deployment. Make sure you and your team carefully quantify examine and understand associated risks. Listen to dissenting views and conflicting data. Build in “triggers” that cause re-examination with changing conditions.

Another option is to let an objective third party “kick the tires” for you. Carroll and Mui suggest the use of a Devil’s Advocate to vet important strategy decisions. The Devil’s Advocate, fully empowered, should force thorough discussion of the following six questions:

1. Is this a realistic strategy for long-term success?
2. What can we learn from history?
3. Do vital information and dissenting views about strategy reach decision makers?
4. Have we assessed the true advantages – and liabilities – that come with scale?

5. Have we considered all our options?
6. Would we bet (our own) money on it?

The external Devil's Advocate may be more readily able to challenge conventional wisdom and force a level of discipline many internal champions cannot achieve.

Implications for Healthcare Leaders

The pressure of the current environment - coupled with uncertainty about the prospect of healthcare reform argues for a re-examination of the short and long-term strategies required to achieve your organization's vision. Your organization must balance the need for a viable response to the economic challenges at hand and the strategy(ies) that will be required going forward. Here are some suggestions:

- Force your organization to articulate the relevant assumptions that will drive your strategy in the short and long term. Write them down and share them broadly with important stakeholders including your physicians, workforce and your governance structure.
- Test assumptions and assessments vigorously against changing reality. Create triggers that cause you to re-examine various assumptions.
- Leverage an internal or external Devil's Advocate to challenge your thinking.
- Focus your organization's attention on execution and accountability.
- Measure progress relentlessly.
- Make adjustments as necessary, and don't forget the Devil's Advocate!

We encourage you to pay attention to the challenges faced by your physicians and workforce and the assumptions they will make about their future.

Like To Explore These Ideas Further?

Call us at 201 656 1004 or send an email to ehindin@hhadvisors.com and we'll schedule a time to talk at your convenience. And we invite you to visit our [website](#) for additional [resources](#) and [case studies](#) that may be of interest. We welcome your comments and suggestions about this publication, our point of view or topics you would like to see explored.



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