HealthLeaders - HealthLeaders News Features -- Focus on Strategic Performance to Achieve Competitive Advantage

Focus on Strategic Performance to Achieve Competitive Advantage

Edward M. Hindin, November 28, 2005

Would you like to increase your investment capital without requesting more funds or cutting costs? Is there an alternative to the constant refrain that healthcare organizations have to continue to do more with fewer resources?

New research suggests that changing just one dimension of performance-the captured or realized value of strategy and strategic investments-can have a significant bottom-line impact. Closing the gap between projected returns and actual results provides real cash that hospitals can reinvest at no additional cost.
A study in the July-August 2005 issue of Harvard Business Review, "Turning Great Strategy into Great Performance" by Michael G. Mankins and Richard Steele, clearly illustrates the potential gain companies can realize by improving the results promised in their strategic plans. The authors analyzed 197 companies with sales exceeding $500 million. On average, these firms realized only 63 percent of the financial value projected in their strategic plans. Most captured less than 50 percent of promised returns.

The study attributes this strategy-to-performance gap to failures in planning and execution. Those companies that excel at planning and executing-and link the two processes-close this gap. They realize a "premium" that becomes freely available for reinvestment.

High performing companies achieve higher returns by linking planning and execution. Cisco Systems, Dow Chemical, 3M and Roche realize more of their strategies' potential value by improving planning and execution and tightly linking both processes.

While we do not have comparable data about strategy-to-performance gaps for hospitals and health systems, experience suggests that these gaps do exist. Healthcare organizations, like their business counterparts, can also use the extra cash achieved by closing this gap to improve services and to create new programs without additional investments.

Consider the hypothetical case of two hospitals competing in the same market. Each invests $50 million in new strategic initiatives with an expected 2-1 return on their investment. Hospital A realizes the average return of 63 percent, while Hospital B realizes 80% of its expected return. By exceeding the average, Hospital B ends up with a $17 million premium that it can use to reward shareholders or that it can reinvest for further competitive advantage. This $17 million in "found money" can create substantial new opportunities-a critical assist in today's challenging and competitive business environment.

Reducing a hospital's strategy gap shortfall by 25 percent produces a 10 percent improvement in performance and results in most organizations. Most healthcare organizations would be delighted to be able to apply this gain to their strategic investment accounts.

According to Mankins and Steele, achieving maximum value from strategic initiatives is directly correlated to how well an organization communicates, aligns around top initiatives, creates short term and long-term plans, and holds itself accountable to deliver the promised results.

Factors contributing to the performance gap

In the HBR study, 11 factors accounted for the average 37 percent loss in performance or realized value. These factors are not the hard technical skills typically associated with business planning expertise. They are:

1. Inadequate or unavailable resources
2. Poorly communicated strategy
3. Actions required to execute not clearly defined
4. Unclear accountabilities for execution
5. Organizational silos and culture that block execution
6. Inadequate performance monitoring
7. Inadequate consequences or rewards for failure or success
8. Poor senior leadership
9. Uncommitted leadership
10. Unapproved strategy
11. Other obstacles (including inadequate skills and capabilities)

Most leaders in healthcare know what hinders performance, yet they lack the time or support to ensure these barriers are addressed each day. Many executives refer to these factors as the "soft skills" that cannot be readily measured or improved. Many prefer to focus on solving the technical or process questions by introducing new manuals or processes. Yet, this research points out that these "soft skills" are the biggest levers to directly impact the strategy-performance gap.

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Seven rules emerged from the research. Though simple, they permit organizations to identify, correct and ultimately prevent performance shortfalls. Adhering to these rules can transform both the quality of an organization's strategy and its ability to deliver results.

Rule 1: Keep it simple; make it concrete.

Be clear and specific about what you will do and what you will not do. Avoid the technocratic jargon. Make your plans understandable to your entire organization. Peter Drucker and others have noted that clear strategy has to answer only five basic questions:
1. What are the most important challenges we'll face in the foreseeable future?
2. What do we aspire to be?
3. What are the most important things we need to do in order to be what we aspire to be?
4. How do we intend to accomplish our strategies?
5. How will we know how we're doing?

Challenge your organization to be clear and focused, to create a simple and powerful one-page plan that tells it all.

Rule 2: Debate assumptions, not forecasts.

High performing companies use forecasts to drive what they do. Forecasts are the product of a number of assumptions about markets, trends and expected performance. Understanding, gaining agreement on, and vigorously monitoring and adjusting underlying assumptions more readily permits adjustments in forecasts and plans than the endless debate about the accuracy of forecasts.

Rule 3: Use a rigorous framework; speak a common language.

The planning model or framework you choose is less important than mastering the framework you choose and ensuring that your approach is commonly understood throughout your organization.

Rule 4: Discuss resource deployments early.

Be realistic about human and capital resources required to complete and to carry out your plan. Great plans backed by insufficient resources go nowhere.

Rule 5: Clearly identify priorities.

Focus and align your organization on the few critical actions that matter. Align your monitoring program and incentive structure to these priorities.

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Rule 6: Continuously monitor performance.

Know where you are compared to your plan, always. Make the monitoring process open, transparent and visible to ensure that the need for adjustment is recognized early.

Rule 7: Reward and develop execution capabilities.

Hold your organization accountable for delivering results. Help staff develop the skills needed to execute effectively. Create meaningful incentives for effective execution. Make certain that all levels of the organization that can affect execution have a stake in the outcome.

Applying these rules to your hospital or health system's strategy formulation and execution processes will substantially improve execution and results. These steps can help you identify and capture a "performance premium" for your organization.

Step 1: Create and focus and align your organization on the few critical actions that matter.

Identify the top initiatives for the next 12 months.

Step 2: Determine how much of the potential return on your strategic investments your hospital or health system achieves.

Compare the expected return of your strategic investment for three to five of your most recent strategic initiatives. Identify the "gap" for your organization and set an internal goal for your next initiative under development. Set a specific goal around improving your performance.

Step 3: Identify and quantify the contributors to performance loss for your organization as an important step to realizing an improved return on investment.

Be objective in this evaluation.

Step 4: Attack the Gap: apply the rules

Clearly devise and communicate strategy and accountabilities.Who is on the hook for what? Meanwhile, align leaders around top goals and initiatives and ensure collaboration occurs to achieve the anticipated results - everyone must drive for a shared set of goals and not strive for individual gain

Step 5: Measure and monitor performance

Each month, review your progress and keep score publicly. Focus on the results that have or have not been achieved--not the process.

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Hospitals and health systems have an unending appetite for capital. For many organizations, investment in new initiatives that do not provide immediate returns is not possible.

Use the "performance premium" to fund important initiatives that could make a real difference over the mid- to long-term. Consider creating a "Performance Fund" to be used as your organization's self-funding venture capital or research and development account. Link the availability of new funding for development initiatives directly to improved performance in execution.

The collateral benefit of reducing the strategy-to-performance gap far exceeds the immediate additional financial yield. Closing the gap also produces cultural and behavioral changes that have a lasting impact on an organization's capabilities, strategies and competitiveness. Success produces new investment capital and a renewed commitment to continuous improvement.

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