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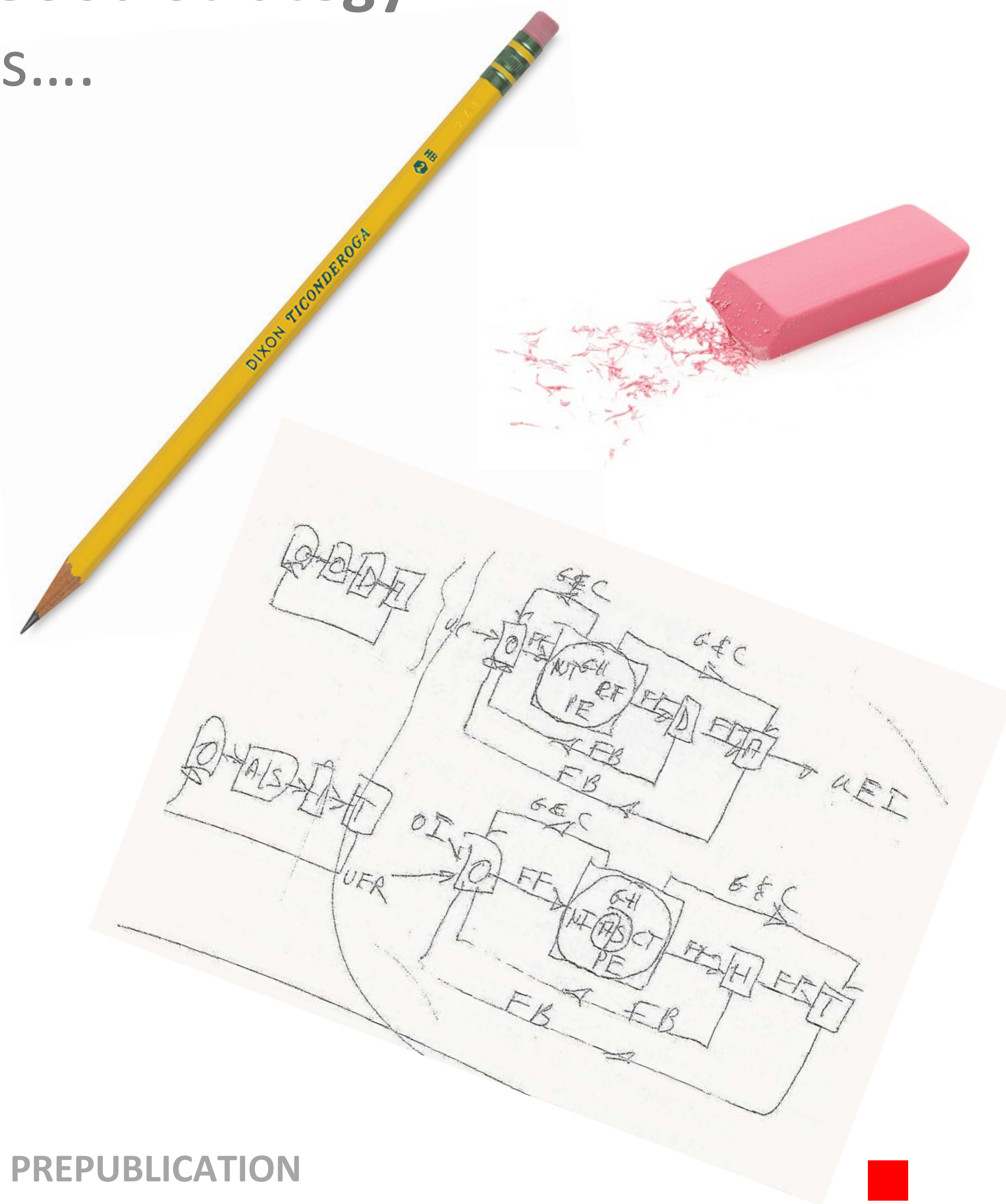
on what
Good Strategy
is....



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What Good Strategy Is

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INTRODUCTION

Like most people, I'm often asked "What do you do for a living?" When that question moves beyond casual inquiry, I often respond, "I get to help important people, in some of America's most important organizations, make their most important decisions."

This monograph was developed to support strategic thinking by our clients in health care. It reflects more than 30 years of experience related to formulating Strategies designed to enhance the competitiveness of hospitals, health systems and physician groups. In writing this guide, I've relied heavily on the work of Harvard's Michael Porter and the brilliant interpreter of his work, Joan Magretta.

Strategy is subject to fads. Porter's ideas, however, have demonstrated sustainability. Although he brings different perspectives and approaches to Strategy, Richard Rumelt has also demonstrated staying power. Leaders interested in enhancing their strategic insights are faced with an overwhelming set of alternatives when it comes to experts and ideas. They will not go far wrong by focusing their attention to the individuals quoted in this monograph.

Many thousands of pages have been written about Strategy. This brief monograph does not attempt to be comprehensive in its treatment of the subject. Still, there has been an attempt to distill it to its essence and present a view that health care leaders will find helpful in framing their most important decisions related to the future.

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WHAT GOOD STRATEGY IS

> *"Everyone needs a strategy. Leaders of armies, major corporations, and political parties have long been expected to have strategies, but now no serious organization could imagine being without one. Despite the problems of finding ways through the uncertainty and confusion of human affairs, a strategic approach is still considered to be preferable to one that is merely tactical, let alone random. Having a strategy suggests an ability to look up from the short term and the trivial to view the long term and the essential, to address causes rather than symptoms, to see woods rather than trees. Without a strategy, facing up to any problem or striving for any objective would be considered negligent . . . If a decision can be described as strategically significant, then it is obviously more important than decisions of a more routine nature. By extension, people making such decisions are more important than those who only offer advice or are tasked with implementation."* Lawrence Freedman, Strategy: A History

> *"At the dawn of the 21st century, strategy seems to have gone out of fashion. At the big consulting companies, strategy business is down, while billings for information systems surge. It is as if corporate leaders believe that it is more important to install technology than to understand what to do with it. This is a dangerous attitude since it is possible to spend billions implementing technology that will make the company less competitive, as General Motors did with its automation effort in the 1980s that coincided with its 40% drop in market share."* Chet Richards, Certain to Win: The Strategy of John Boyd.

The true meaning of Strategy is obscured by its wide variety of definitions. It is often easier to see it in action than it is to define. In the early 1990s, three different health systems embraced equally different Strategies.

In a small conference room at St. Luke's Hospital in Milwaukee, Wisconsin, a Strategy emerged that would fuel St. Luke's transformation into Aurora Health Care and plant its signature teal-colored logo all over eastern Wisconsin.
St. Luke's had carved out the strongest preference levels of any hospital in the state, largely on the reputation of its heart program. When health plans began to push hospitals in southeastern Wisconsin for significant discounts, St. Luke's pushed back; no health plan could offer a competitive product that didn't include St. Luke's. Leveraging that knowledge into a Strategy of premium pricing generated the margins that propelled the growth of Aurora for a decade.

Ninety miles south of Milwaukee, Northwestern Memorial, faced with a growing chorus of experts who suggested that hospitals were an endangered species destined to languish at the bottom of the food chain, doubled down on the continuing importance of the hospital enterprise. When the Chicago system's CEO looked at providers arrayed across the nation, he saw no world-class academic medical center serving America's third-largest metropolitan population. He rejected the advice of those pointing to the managed care-dominated California market as the harbinger for the rest of the country and spent billions on new facilities and technology consistent with Northwestern's aspiration to fill that vacant world-class position. Meanwhile, many California hospitals went on to demonstrate that the quickest way to become a commodity is to believe that you are one. And a commodity is the last thing you want to be when the market rewards differentiation.

In Cleveland, a new CEO at Cleveland Clinic recognized early in his tenure that the institution would not long survive if it sat unchanging in the then decaying neighborhoods surrounding its main campus on Euclid Avenue. So the Cleveland Clinic built anchor outpatient facilities in the Cleveland suburbs and then, trading on the value of its powerful brand, acquired community hospitals at well below market prices. Those suburban investments secured the utilization that would catalyze the rejuvenation not only of the clinic's main campus, but also of downtown Cleveland.

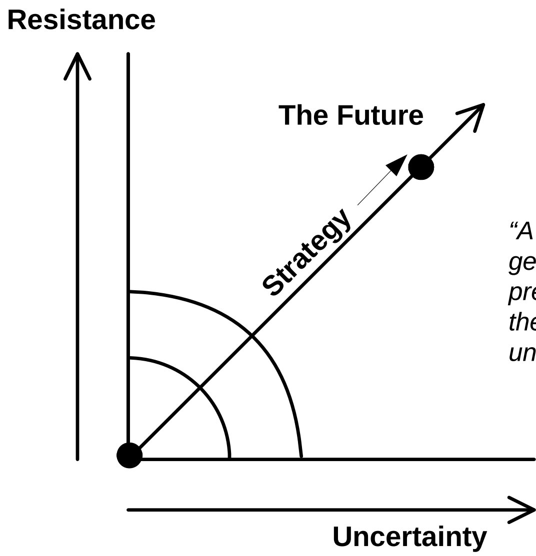
Every successful organization has Strategies. Those Strategies may never have been fully articulated. But whatever form they take, if you dig long enough, you'll find Strategies driving the performance of every thriving organization.

Defining Strategy

Few words are used across as many diverse situations as the word, Strategy. We hear of "strategic operations," "strategic finances," "strategic accounting," and "strategic human resources." According to UCLA Strategy expert, Richard Rumelt, *"The concept has been stretched to a gauzy thinness as pundits attach it to everything from utopian visions to rules for matching your tie with your shirt. To make matters worse, for many people in business, education, and government, the word 'strategy' has become a verbal tic. Business speech transformed marketing into 'marketing strategy,' data processing into 'IT strategy,' and making acquisitions into a 'growth strategy.' Cut some prices and an observer will say that you have a 'low-price strategy.'"*

What Good Strategy Is

Since the word, Strategy, proliferates in just about every context, some exploration of what it signifies is in order. Here's my definition: *A Strategy is "a plan for getting from a place in the present to a better place in the future in the face of uncertainty and resistance."*



"A Strategy is a plan for getting from a place in the present to a better place in the future in the face of uncertainty and resistance."

A Strategy delivers leverage over uncertainty and resistance. Absent uncertainty and resistance, you don't need a Strategy. You just need a to-do list. Without uncertainty and resistance, there are no consequences related to turning right or turning left. Pushing hard or letting up. Consolidating or divesting. Uncertainty and resistance separate Strategy from mere action. Uncertainty and resistance suggest the future is not passive. No decision can be made in the present that doesn't have its result in the future. But the future will not be fully predicted, and when it's pushed, it may push back

According to Harvard's Joan Magretta, *"Thinking strategically means recognizing that the world is filled with purposeful people whose aims may constrain or challenge yours. . . Strategic thinking is necessarily interactive: It acknowledges that the world is filled with potential rivals and allies; it allows for both competition and cooperation.* In his book, Strategic Thinking Skills, Stanley Ridgley emphasizes that Strategy involves not only creating fit with the environment, but fitting the environment to the organization wherever possible, *"The term 'strategy' itself refers to more than just a plan. It is a way of perceiving and considering the future with our aims and goals in mind. It is also a way of dealing with a constantly changing environment, both responding to that environment to achieve our goals and attempting, where possible, to change that environment to our benefit."*

Other Definitions of Strategy

There are a variety of other definitions for Strategy, and you'll see some of them below:

"Strategy increases our capacity for independent action. We join with others so that we can cooperate – and compete – toward that goal. Since the resources available to us are finite, we thereby begin a struggle that can never end." John Boyd, fighter pilot and strategist, as paraphrased by Daniel Ford in A Vision So Noble

"Strategy is a deliberate search for a plan of action that will develop a competitive advantage and compound it." Bruce Henderson, Founder, the Boston Consulting Group

"Strategy isn't beating the competition, it's serving the customer's real needs." Kenichi Ohmae in The Mind of the Strategist

"Strategy is a method or plan that we craft to bring about a desired future, such as achievement of a goal or solution to a problem. It's a plan that assesses, acquires and allocates necessary resources to the most effective and efficient use. And it's a plan that anticipates and incorporates competitor responses." Stanley Ridgley in Strategic Thinking Skills

". . . By and large, strategy comes into play where there is actual or potential conflict, when interests collide and forms of resolution are required. This is why a strategy is much more than a plan. A plan supposes a sequence of events that allows one to move with confidence from one state of affairs to another. Strategy is required when others might frustrate one's plan because they have different and possibly opposing interests and concerns." Lawrence Freedman in Strategy: A History

1. "*Strategy is a plan, a 'how,' a means of getting from here to there.*

2. *Strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a 'high end' strategy.*

3. *Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets.*

4. *Strategy is perspective, that is, vision and direction."*

Henry Mintzberg describing varying definitions of Strategy in The Rise and Fall of Strategic Planning

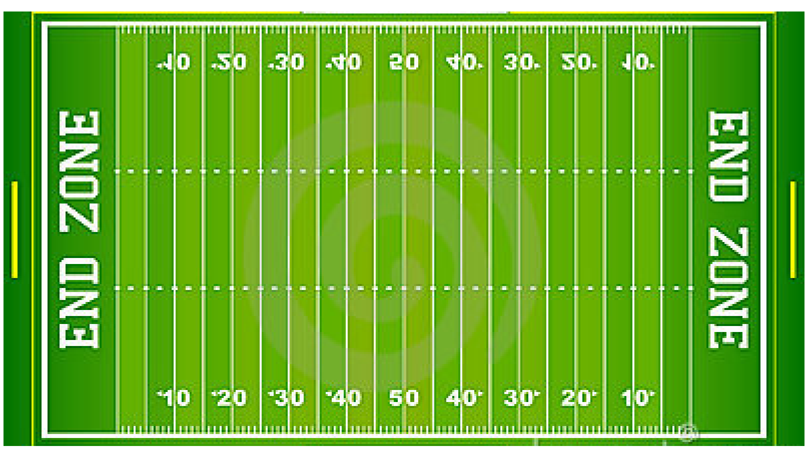
What Good Strategy Is

Harvard's Michael Porter' has a straightforward answer to the question, "What is a Strategy?" Strategy is how an organization faced with competitors intends to achieve superior performance that delivers unique value for its chosen customers. Competitors as well as customers generate uncertainty and resistance. A good Strategy takes an organization to a more advantageous position and creates significant value above what existed before. Value represents the difference between price of a product or service and the cost of the inputs needed to produce or deliver that product or service. You can substitute "utility" for price in many instances because some "value" is never "priced" and some "inputs" can't be "costed."

When it comes to defining and communicating Strategy, the words matter. Certainly the meaning of words can change over time and most definitions have some wiggle room in them but dictionaries exist for a reason. Words deserve to be used with as much precision as possible.

For example, "goals" and "objectives" are not "strategies." They are end points. Strategies are pathways. Strategies define not *what* constitutes success but *how* success will be achieved. "Increase market share to 70 percent" is not a Strategy. It is an objective. It defines an end point. "Establish primary care physicians in areas of growth" is a Strategy. It provides the *how*.

On a football field there are goal lines. Between those goal lines are yard markers. Yard markers and goal lines are performance indicators. Strategy addresses the question – How are we going to move the ball down the field – across the yard markers and over the goal line?



Goal lines and yard markers are performance indicators.

Strategies are how you move the ball down the field.

Goals and objectives can also be likened to the instrument panel in an airplane's cockpit with its indicators for air speed, fuel consumption, altitude and rate of climb. Strategies, on the other hand, are analogous to what can be done to improve the performance those instruments measure. Improved aerodynamics, lighter construction and technological breakthroughs in engine design can make the plane fly faster, use less fuel and climb more quickly. Metaphorically, those performance enhancers are the Strategies. There is a fundamental distinction between performance and the Strategies that improve it. Goals are about performance. Strategies are about accomplishment. Accomplishment generates performance.

The notion of a "strategic goal" is an oxymoron. A Strategy is about action. It ought to have a verb in it. Some goals are measurable. Some aren't. Calling a goal "strategic" is intellectually sloppy. It is a sloppiness that matters because it reveals a fundamental misunderstanding of what leadership should be about – initiating and shepherding action towards a future of greater value.

Ask a hospital executive team about its Strategies and you may be presented with a set of "pillars," typically one for quality, service, growth, finance and people. Arrayed around each pillar may be a set of goals or objectives. Although this may be a useful framework for conveying performance targets, it isn't strategic unless it explains how improved performance will be achieved.

Unfortunately, as former CEO of the Cleveland Clinic, the late Floyd (Fred) Loop, M.D., observed, *". . . most corporate strategic plans have little to do with strategy. They are simply three-year or five-year rolling resource budgets and a rough projection of market share. Calling this 'in-the-box' instrument a strategic plan creates false expectations that the exercise will somehow produce a coherent strategy. Likewise, best practice benchmarking may be important for improving operating efficiency, but organizations seeking to distinguish themselves should draw the line at mimicking a competitor's strategy."*

A Vision is an overarching organization-wide goal. It is not a Strategy. It is an overall target of an organization's Strategies, what it aspires to become in the future. Like any goal or objective, it is something to be accomplished. But a Vision doesn't define the way something is to be accomplished. Strategies define the way. It answers the question, "How?"

Strategies have quality. Some Strategies are better than others. The quality of a Strategy depends greatly on the quality of the Vision it supports. Lack of clarity in a Vision, including its reduction to a vacuous slogan, will result in a lack of precision in Strategies. The clarity of the path depends on the clarity with which the destination is defined. It is the role of the Vision to clarify that destination with enough specificity that Strategies and organizational resources can be oriented to it. Henry Ford articulated one of the best Vision statements in the history of American industry: *"I will build a motor car for the great multitude...constructed of the best materials, by the best men to be hired, after the simplest designs that modern engineering can devise...so low in price that no man making a good salary will be unable to own one-and enjoy with his family the blessing of hours of pleasure in God's great open spaces."*

"Democratizing the automobile" at Ford.

There is experience and art involved in Strategy formulation. An ability to think strategically is key to formulating high impact Strategies. Some Strategies are much more important than others. These Strategies are sometimes called "Grand Strategies." I call them "Driving Strategies." They are the high-level themes that drive what the organization does. A Driving Strategy with quality is simple, succinct, directional and differentiating. It clearly contributes to accomplishment of the organization's Vision. It is consistent and synergistic with other Driving Strategies.

The following summarizes Porter's advice on Strategy (as distilled by Magretta):

- *"Vying to be the best is an intuitive but self-destructive approach to competition. (Competing to be the best results in convergence towards sameness. Organizations should compete to be different.)*

- *There is no honor in size or growth if those are profitless. Competition is about profits, not market share.*

- *Competitive advantage is not about beating rivals; it's about creating unique value.*

- *A distinctive value proposition is essential for strategy. If your value proposition doesn't require a specifically tailored value chain to deliver it, it will have no strategic relevance.*

- *Don't feel you have to "delight" everyone. The sign of a good strategy is that it deliberately makes some people unhappy.*

- *No strategy is meaningful unless it makes clear what the organization will <u>not do</u>. Making trade-offs is the linchpin that makes competitive advantage possible and sustainable.*

- *Don't overestimate or underestimate the importance of good execution. It's unlikely to be a source of a sustainable advantage, but without it even the most brilliant strategy will fail to produce superior performance.*

- *Good strategies depend on many choices, not one, and on the connections among them. A core competence alone will rarely produce a sustainable competitive advantage.*

- *Flexibility in the face of uncertainty may sound like a good idea, but it means that your organization will never stand for anything or become good at anything. Too much change can be just as disastrous for strategy as too little.*

- *Committing to a strategy does not require heroic predictions about the future. Making that commitment actually improves your ability to innovate and to adapt to turbulence."*

Porter Applied to Health Care: Cleveland Clinic

Perhaps no health care organization has demonstrated application of Porter's principles better than the Cleveland Clinic. Current CEO, Delos (Toby) Cosgrove, M.D., captures the extent to which the clinic has adhered to those principles in a September, 2013, article in the Harvard Business Review, "Value Based Health Care Is Inevitable and That's Good."

On value as the heartbeat of Strategy. Cosgrove points to value as a game changer: *"Vaccines. Anesthesia. Penicillin. Bypass surgery. Decoding the human genome. Unquestionably, all are life-saving medical breakthroughs. But one breakthrough that will change the face of medicine is being slowed by criticism, misunderstanding and a reluctance to do things differently. That breakthrough is value-based care, the goal of which is to lower health care costs and improve quality outcomes."*

On industry and market structure. Cosgrove describes significant shifts: *"Whether providers like it or not, health care is evolving from a proficiency-based art to a data-driven science, from freelance physicians to hospital-employed physicians, from one-size-fits-all community hospitals to vast hospital networks organized around centers of excellence."* Cleveland is a highly consolidated market with two increasingly dominant health systems that have reached a state of relative competitive equilibrium. This has allowed them to begin to expend less on competing with one another and to invest more in value creation.

On competing to be different. According to Cosgrove, *"What makes Cleveland Clinic different stretches back to our founding 92 years ago as a physician-led group practice that runs a hospital — not a hospital that employs doctors."* Cosgrove and his predecessors have been dogged in reinforcing the legacy of the clinic's uniqueness. For decades, the clinic has honored and leveraged continuity by publishing its history in a hardbound book entitled To Act as a Unit, a phrase attributed to founder, George Crile, M.D., that captures the essence of the organization's differentiation. The book is updated regularly and helps to ensure that the clinic's Values, accomplishments and uniqueness continue to roll forward.

On value proposition and value chain. Cosgrove identifies one of those discrete activities that help to make its value chain unique: *"As a leader in electronic medical records, we have a wealth of data that can tell us what's working and what's not."* Accumulating and distributing that wealth of data fortifies and leverages a value proposition built around a multispecialty group of physicians who are connected and coordinated by shared purpose and integrated systems of care.

On choosing what not to do. Cosgrove, when reflecting on the deep legacy of the clinic's reputation in heart care, has emphasized the importance of *"dancing with the girl who brought you to the prom."* By this, he meant the clinic was willing to forgo other opportunities to build strength related to heart disease. It then selectively and systematically extended the aura of its distinction in heart disease to diseases of the eye and the neurological system as well as to cancer. The clinic chose not to overinvest scarce capital in acquisitions. Instead, it traded the reputational value of its world-class brand for ownership and partnerships regionally, nationally and internationally. Recognizing that economies of scale are derived from geographical concentration of volume rather than from sheer size, it decided not to become a multihospital conglomerate and opted instead to market bundled products to draw patients to Cleveland where it can deliver economies of scale that are real.

On fit and continuity. At the Cleveland Clinic, fit can be seen in the rapid adoption and use of information technology by physicians employed in its multispecialty group practice. And the clinic's long-standing commitment to ambulatory care facilities on its main campus and in the suburbs generates fit by making care available in the most convenient, affordable and clinically appropriate setting. The fit among the clinic's multispecialty group practice model, its advanced information technology and its ambulatory capacity allows it to offer patients and referring physicians next-day appointments.

Characteristics of Good Strategy

Listed below are nine summary points on what a Strategy is (and is not):

- *A Strategy is not a Goal or an Objective.*
- *Goals and Objectives are end points.*
- *A Strategy is a means to an end.*
- *A Strategy is a high-level "To Do."*
- *A Strategy has a verb in it.*
- *A "Driving" Strategy accomplishes what's most important.*
- *Strategies have quality. Some Strategies are better than others.*
- *A Strategy has "increased value" as its ultimate goal.*
- *Superior Strategies and Superior Execution generate Superior Performance.*

And here are three examples of "Good Strategies:"

- **Mayo Clinic:** *Serve growing southern and western markets populated by Midwesterners.*

- **Johns Hopkins:** *Build awareness and preference in New York City.*

- **Cleveland Clinic:** *Increase access and convenience throughout the Cleveland suburbs.*

There is a distinction made between "Corporate Strategy" and "Business Strategy." Corporate Strategy is focused to the question, "What businesses should we be in?" while Business Strategy relates to how to generate a sustainable advantage within a particular business. "What business are you in?" is one of the big foundational questions every enterprise must thoughtfully address. Defining what is meant by a "business" isn't quite as black and white as one might anticipate.

I would argue that hospitals and health systems have for some time been in at least three businesses even though they might think and act as if they are in only one – these include the "inpatient business," the "outpatient business," and the "emergency care business." Increasingly, they have been entering a fourth business, the "physician practice business." Each of these is distinctive enough in terms of customers served, competencies and structures required and competitors faced to be regarded as different businesses thus requiring different Strategies and Tactics (although each can be unified under a common Mission and Vision).

Criteria for Good Strategies

On the following pages are some criteria that executives can use to further assess and strengthen their Driving Strategies:

> ***Good Strategies lead to a difference that matters.*** Driving Strategies plot a path to a future that is "different" in a way that is meaningful and valuable. As Porter emphasizes, organizations should strive to be different rather than compete to be the best. Competing to be the best results in convergence; as everyone steers toward the same destination defined by a consensus view on what constitutes "best."
>
> Leaders frequently exhort their organizations to "be the best." Such encouragement is intended to be inspiring. But by definition, there can be only one "best." Competing to be the best results in a zero sum game. The focus should be on generating differentiated value for chosen customers rather than outrunning competitors.

Competing to be the best steers the herd toward undifferentiated homogeneity and price competition. The airline industry reflects this kind of convergence. That's why the airline industry as a whole has never enjoyed sustained profitability. Competition to be the best has driven out meaningful differences, so the airlines today compete as commodities based largely on price and the quasi-monopolies they operate at hub airports. Only one airline, the one that competed to be different – Southwest Airlines – has consistently prospered.

Strategy experts, Gary Hamel and C.K. Prahalad, referred to differentiation as "genetic variety" in their book, <u>Competing for the Future</u>, and observed that: *"At different times, one has been able to observe a startling lack of genetic variety across whole industries: the U.S. car industry in the '70s, the European chemical industry in the '80s, the U.S. banking industry in the '70s, and business schools from the '60s through the '80s. Take one example of genetic sameness: the major U.S. airlines. By the early '90s American, United, Delta and Northwest all had a strikingly similar set of conventions: hub-and-spokes route structure, minimalist in-cabin service, mileage-based loyalty programs, and ownership of reservation systems . . . The result has been a downward spiral of customer expectations, where ever poorer service begets ever lower expectations and ever more price sensitivity. In this environment, the only way an airline can keep fliers loyal is to bribe them with free miles . . ."*

Successful organizations have a core difference – a consistent approach to playing the game that has yielded sustainable success. This core difference is translated into a unique value proposition and serves as the consistent starting point and springboard for development of Driving Strategies. In its early days, the value proposition for the Ford Motor Company was affordability made possible by production efficiencies. Here are other examples of value propositions:

- **Walmart:** *Low prices everyday.*
- **Microsoft:** *The "de facto" industry standard.*
- **Southwest Airlines:** *The low cost airline.*
- **Mayo Clinic:** *The patient consideration is the only consideration.*

An alternative to competing to be the best is competing to be the biggest. The presumption, of course, is that size delivers economies of scale. Porter and others suggest there is no systematic evidence that size correlates with profitability or any other measure of success. In 2010, the CEO of General Motors, which had just gone public after a mammoth government bailout, issued a challenge, "May the best car win!" In so doing, he delivered the beleaguered company its second curse. The first had been the flawed view that size and dominance were pathways to sustained success. The chunks Toyota and other foreign manufacturers took out of GM's market share proved otherwise. It's a lesson seemingly lost on health care industry pundits and leaders who continue to pound the "big is better" merger drum. The drum they should beat is "better is better."

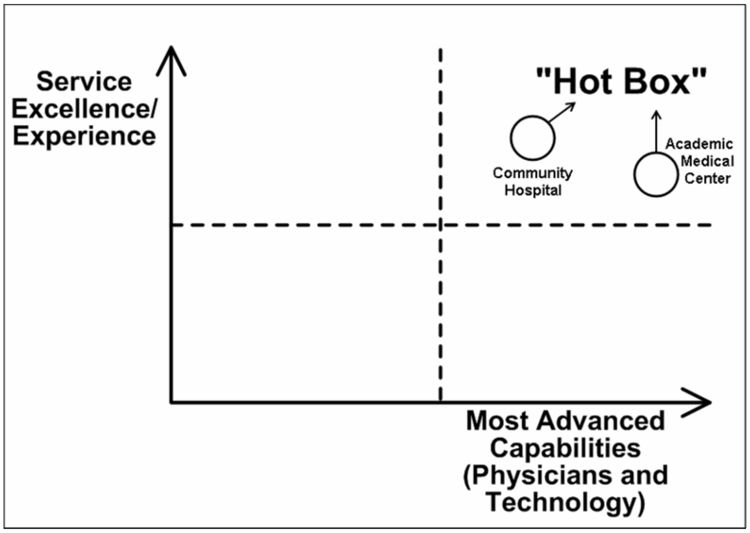
For decades, many hospitals and physicians have been able to rely on location and proximity as their primary points of differentiation. And those can be powerful points of advantage. But they are advantages that have often been quite accidental. There are a variety of other paths to differentiation such as depth and breadth of clinical capability, levels of service excellence and relative affordability. As Magretta reminds, *"In a competitive world, doing a good job of creating value is only the necessary first step toward superior performance. Competition demands that you do a better job than the alternatives. And doing better, by definition, means being different. Organizations do better – they achieve superior performance – when they are unique, when they do something that no one else does in ways that no one else can duplicate. When you cut away all the jargon, this is what strategy is all about: how you are going to do better by being different."*

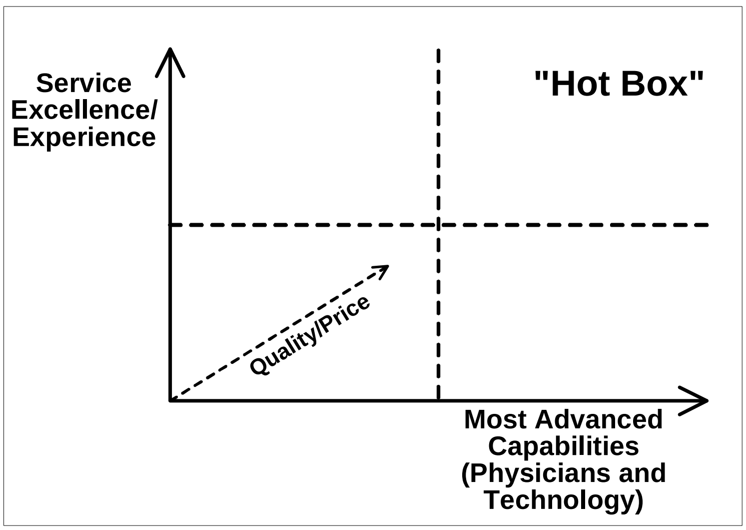
Differentiation is fundamental to competitive success. Today, academic medical centers remain among health care's most differentiated players. The power and impact of the intrinsic differentiation of academic medical centers continues to be reflected in their bond ratings and relative market positions. In 2001, Nancy Kane reported on her analysis of the financial performance of academic medical centers. She referenced the 2000 report from bond rating agency Standard & Poor's that noted that academic medical centers *". . . have fundamental strengths, including broad regional market penetration, strong regional and sometimes national reputations, and great financial flexibility. Advantages accruing to many academic medical centers include special state and federal subsidies, strong fund-raising capabilities, and dominance in the market for specialized services, which permits them to charge premium prices."* Like the proximity-based differentiation that favors many community hospitals, the reputations for advanced capabilities that distinguish academic medical centers have resulted more from good fortune than strategic intent.

The differentiation of academic medical centers described by Kane in 2000 appears to have lasted. In 2014, Moody's commented that academic medical centers generally have stronger overall credit quality than do community hospitals. Moody's rates 85 academic medical centers (defined as a hospital that receives more than $50 million per year from the National Institute of Health). Overall, the median rating for an academic medical center was "A1," which was two rating notches higher than the median "A3" rating for all nonprofit hospitals. In addition, academic medical centers continue to dominate U.S. News & World Report's list of top hospitals whether at a national, regional or local level.

Despite the power of their intrinsic differentiation, academic medical centers can expect to be challenged. To differentiate themselves, tertiary-level community hospitals will continue to develop advanced capabilities that once could be found only in academic medical centers. This will be reinforced by the rapid diffusion of knowledge and technology as information grows ever more democratized and proprietary barriers erode. Already in many markets, the ability of academic medical centers to claim leadership in specialized care and technology has been contested by community hospitals that have built advanced capabilities in key service lines, particularly heart and cancer. In Wisconsin, for example, the market leader for advanced capabilities in heart care has for decades been a large, tertiary-level community hospital. And in the suburbs of Chicago, a highly profitable community hospital with only limited tertiary capability installed a proton accelerator in 2010. This expensive display of hubris demonstrated that it takes more than technology to enjoy the benefits of differentiation.

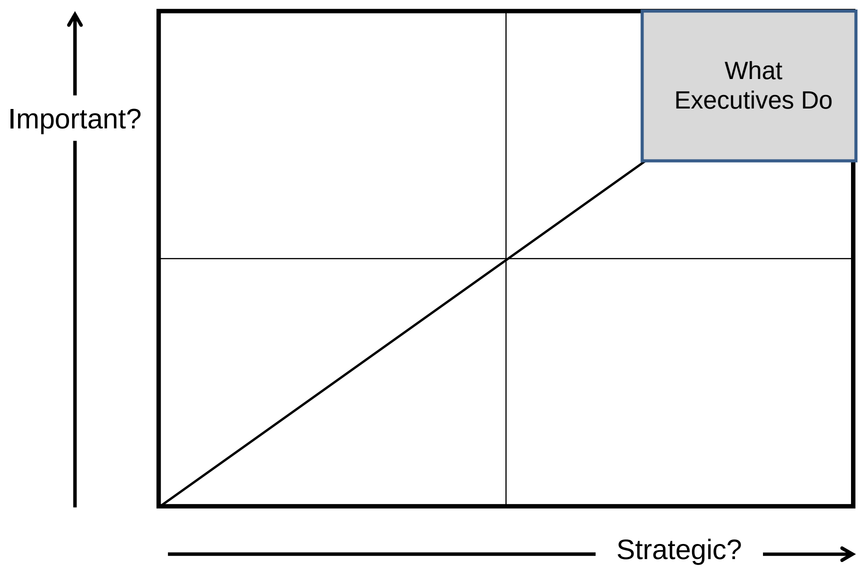
Until recently the competitive landscape for hospitals and health systems has been essentially defined along two axis: one for the patient experience and the other related to their level of clinical capability. Thus, using subjective judgment relative positions of the hospitals in a market could be defined on a matrix. An academic medical center would be arrayed pretty far along the capabilities axis based on its depth and breadth of services and expertise. But because of its size, it might fall short when it comes to delivering an acceptable patient experience. A smaller community hospital might perform well on patient experience, but it's not going to be able to match the academic medical center when it comes to clinical capabilities. Somewhere between the two you could position a large tertiary community hospital. All three are competing towards the same place – the "Hot Box" – the upper right hand corner of the matrix.





That the importance of differentiation hasn't received more attention in health care probably reflects the extent to which the industry historically has not operated under true market pressure. This is changing as payments (and penalties) shift towards demonstrated value and data becomes available on the patient experience and clinical quality. Value-based reimbursement has brought quality and price onto the playing field as indicated in the second diagram above. This will make creating and sustaining a competitive advantage an even more complex challenge.

Good Strategies are focused on what it is <u>most important</u> for the organization to do. The job of leadership is always to define and manage what is most important. An executive team's effectiveness is defined by how well it accomplishes what's most important. Driving Strategies deal with what's most important. Thus, formulation of Driving Strategies is primarily an executive responsibility. It is the executive team's job to wrestle with the organization's most important questions, make tradeoffs and ensure effective implementation of its most important initiatives.



Importance is, of course, a subjective notion. What is important in one situation may not be important in another. And what one person sees as important, another may regard as trivial. But you know it's strategically important if an argument can be made that it holds the potential to be essential to the organization's sustainability.

Determining what's most important requires leadership dialogue. An executive team that fails to focus most of its time on what is most important to the long-term sustainability of the organization is failing to fulfill its fundamental responsibilities. The challenge of strategic leadership is continuous. What's most important will change as the organization's situation shifts and its capabilities evolve.

Unfortunately, the temptation in many contemporary organizations is to declare everything equally important so as not to alienate constituencies. But everything is not equally important and tough choices must be made. Attention must be focused if it's going to have impact. Honest and open dialogue that results in focus beats the anxiety and aimlessness that arises from ambiguity and ambivalence. Absent focus, people invariably begin to work at cross purposes and fragmentation becomes inevitable.

As Rumelt emphasizes, *"A good strategy draws power from focusing minds, energy, and action. That focus, channeled at the right moment onto a pivotal objective, can produce a cascade of favorable outcomes. . . Like a quarterback whose only advice to teammates is 'Let's win,' bad strategy covers up its failure to guide by embracing the language of broad goals, ambition, vision and values. Each of these elements is, of course, an important part of human life. But, by themselves, they are not substitutes for the hard work of strategy."*

Focus is essential in an environment of scarce resources. Five to seven Driving Strategies is about the right number for most organizations. Simultaneous pursuit of too many Strategies is typically a recipe for disaster. Few organizations are rich enough or competent enough to pursue a dozen Strategies at once. Too many Strategies overwhelm organizations and are sure to result in dilution and fragmentation of effort. A handful of Strategies allow for the necessary concentration of attention and resources. Such focus also forces trade-offs.

Deciding what is most important to do requires a degree of self-confidence; but deciding what not to do may require even more. How do organizations end up with too many Strategies? Usually it's because leaders lacked the insight and backbone to say "no." As a result, hardheaded decisions about what's most important give way to muddled compromises. Margaret Thatcher once captured the dulling influence of "consensus" when she said: *"For me, pragmatism is not enough. Nor is that fashionable word, 'consensus.' To me, consensus seems to be the process of abandoning all beliefs, principles, values and policies in search of something in which no one believes, but to which no one objects – the process of avoiding the very issues that have to be solved, merely because you cannot get agreement on the way ahead. What great cause would have been fought and won under the banner, 'I stand for consensus?'"*

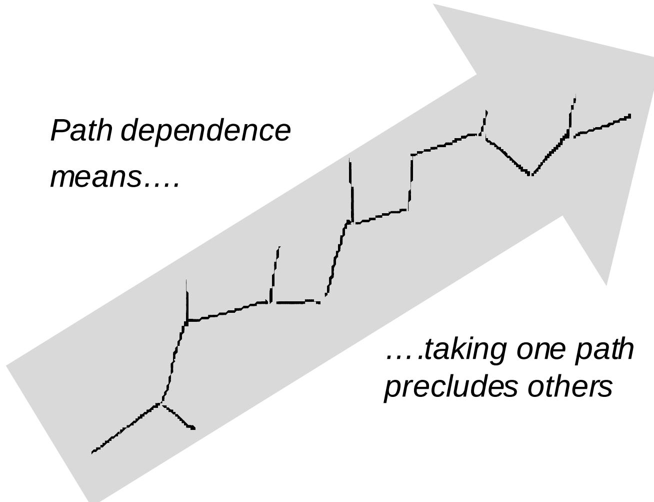
Good Strategies require trade-offs. Occasionally, as Driving Strategies solidify, it becomes apparent that some existing or contemplated initiatives are at odds with overall strategic direction. This represents a situation in which a strategic plan is called upon to do one of its most important jobs – to define "what not to do."

Being different and focusing on what's most important requires trade-offs. Trade-offs are conscious decisions to do some things and not do other things. Formulating a Strategy involves choices. In the examples cited at the beginning of this monograph, Aurora decided not to play the price game with insurers. Northwestern decided not to embrace California-style managed care as an inevitability. And the Cleveland Clinic decided not to rely on a single downtown location. Trying to be all things to all people accelerates convergence toward homogeneity, commoditization and price competition.

As Porter has observed, *"Great leaders are able to enforce the trade-offs: 'Yes, it would be great if we could offer meals on Southwest Airlines, but if we did that it wouldn't fit our low-cost strategy. Plus, it would make us look like United, and United is just as good as we are at serving meals.' At the same time, great leaders understand that there's nothing rigid or passive about strategy – it's something that a company is continually getting better at – so they can create a sense of urgency and progress while adhering to a clear and very sustained direction."*

There's "path dependence" associated with sound Strategies. Deciding to take one path precludes taking others. And investment along one path ought to generate synergy associated with further investment along that path as strength builds on strength while experience grows competency and capacity. If you are a cheetah, it's always better to invest in becoming a better cheetah than to seek transformation into a falcon.

Consideration of "what not to do" should be as explicit as discussions of "what to do." Of all the things that might be done, some are more important and must be pursued even at the cost of compromising or sacrificing other, less important things. A Strategy targets action to the most important things. There are always opportunity costs involved. During World War II, the invasion of France, the push to liberate Paris, and the move into the German homeland all came at the cost of diverting attention and resources away from the Russian front. This had consequences including ceding control of much of Eastern Europe to the Soviets.



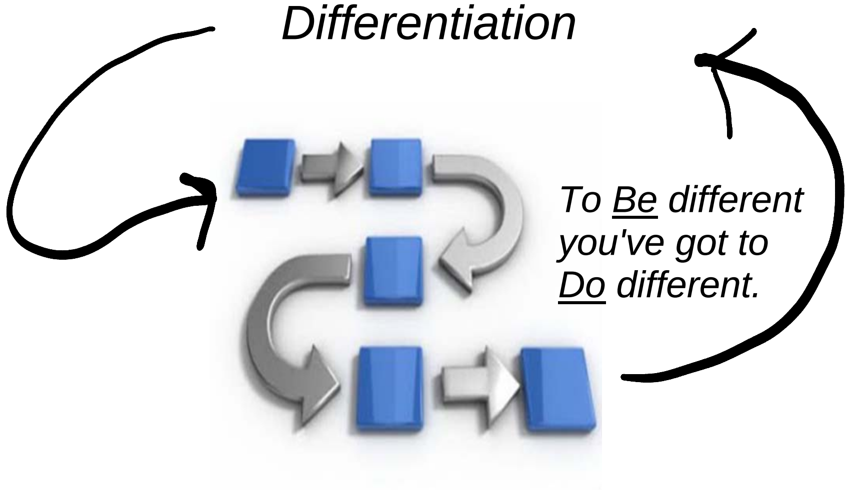
Choosing "what not to do" requires first determining an organization's fundamental purpose. This involves more than articulating a Mission Statement. It requires saying, "We will focus here and forgo the rest." At its core, the purpose of a hospital involves delivering high-value outcomes for patients. But there are different ways to deliver that value, and defining a way that is unique is the essence of strategic leadership.

As Magretta suggests, *"The fundamental premise of doing better by being different is that you are playing in a world of alternatives. The strategic choices every enterprise makes, explicitly or implicitly, determine how it is positioned and configured in relation to those other alternatives. Broadly speaking, they are choices about which customers and markets to serve, what products and services to offer, and what kind of value to create. Made well, these strategic choices enable an enterprise to outperform its competitors."*

Former Dean and CEO, Ed Miller, and his leadership team at Johns Hopkins cultivated unified strategic decision making after leadership conflicts over Strategies had nearly paralyzed the organization. He later succinctly summarized the choices he and other leaders made regarding what to do and what not to do: *"Four years ago, Johns Hopkins Medicine focused on the Clinical Enterprise. We decided that service was our top priority and that the best way to attract patients was to deliver the best possible medical care, which we defined as taking care of the needs of both patients and their families. Without buying practices, we developed relationships with physicians that made it easier for them to refer patients to us and helped them to get timely responses to their referrals. We decided not to take contracts on which we would lose money, even if that meant that we had to shrink. What we found, however, was that our patients became our advocates and that the managed care companies needed to have us in their panel for them to remain competitive."*

Good Strategies drive differentiated operations. "Being" different requires "doing" different. And doing different requires doing some things to the exclusion of others. Another point emphasized by Porter is that differentiation must be supported by a unique "value chain." A value chain describes those activities that deliver the output of the organization. Specifically, it is the set of discrete activities performed to create, produce, market and deliver unique products and services. Every product or service that delivers unique value must have an equally unique value chain. No Strategy can generate meaningful differentiation unless it is underpinned by a well tailored and unique value chain. According to Magretta, "*Competitive advantage lies in the activities, in choosing to perform activities differently or to perform different activities than rivals. These ultimately are the choices that result in a company's ability to charge premium prices or to operate at lower cost. (Remember, we're talking about quantifiable performance.)"* Obviously, there are many thousands of such activities that comprise a value chain for most organizations. The challenge is to group key activities into clusters that flow into one another in a way that operationalizes Strategies. A unique "value proposition" sits at the heart of differentiation and determines the kind of value that will be created. It defines which customers and what needs will be served at what relative price. Offering a unique value proposition requires that an organization do things differently from rivals.

Differentiation



Value Chain

Competitiveness has two faces. One is strategic. The other is operational. The line between the two is often not bright. Both must change over time as the environment transforms and as competitors catch up. A distinctive value chain that underpins Driving Strategies makes operations strategic.

Walmart's move into groceries, a low-margin business, was not the result of a desire to be all things to all people. It came out of a desire to fortify the retailer's core business and profits by leveraging its powerful value chain. The retailer's regular customers tended to visit a Walmart store about once a month. But most shoppers visit a grocery store once a week or more. By positioning groceries with its existing retail business, Walmart increased the frequency with which customers purchased products from its more profitable retail operation and made it less likely they would turn to a competitor. In entering the grocery business, it brought to bear the power of a unique value chain that included leading edge warehousing, distribution and information technology. A similar strategic logic drives Walmart's movement into health care services. Such extensions of is value chain deepened Walmart's value proposition by synergistically extending the application of its unique value chain.

***Being** different requires*
***Doing** different.*

Honda creates unique value by focusing on the engineering and production of internal combustion engines. It remains a relatively small auto company, but it is one of the world's largest manufacturers of internal combustion engines which it then rolls into a comprehensive line of products. This unique value proposition allows Honda to dominate some markets, such as motorcycles, while enjoying a premium pricing position in many others.

Honda's differentiation is tied to production of internal combustion engines.

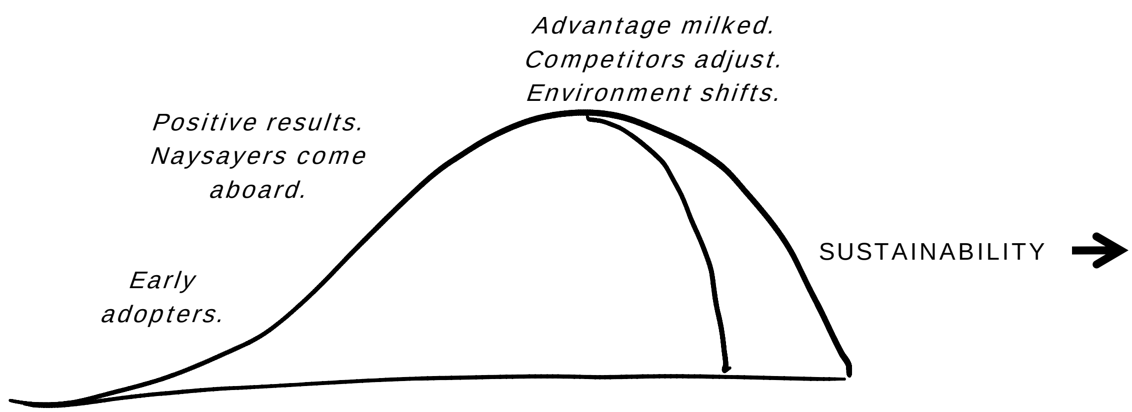
The time it took Southwest Airlines to turn a plane around at the gate became a cornerstone of its operations. Southwest turned its aircraft around in 15 to 20 minutes versus 40 to 60 minutes for its competitors. Furthermore, it took four Southwest employees to turn a plane versus an industry average of nine. These differences meant that, on average, a Southwest plane was in the air nine hours each day compared to the competitors' six hours and at a significantly lower operating cost. Southwest's higher utilization of assets and lower costs yielded a huge difference in operating margins.

There were other inherent operating advantages imbedded in the value chain at Southwest. Because it relied on one model of aircraft. Maintenance, fueling, cleaning, inventory, and a wide range of other operating tasks could be much more standardized and efficient. Most of the major airlines relied on 6 to 7 types of aircraft. Labor costs at Southwest ran 25% to 30% of revenues compared to around 40% at United and Delta. Higher profitability at Southwest increased its ability to acquire new planes out of operating margins. Newer planes meant less maintenance and greater fuel efficiency. Less maintenance and greater fuel efficiency meant higher profits. A cycle of higher productivity yielded the ability to invest in improved operating efficiencies. Southwest's use of secondary airports like Houston's Hobby, Dallas' Love and Chicago's Midway also yielded lower costs for renting gates, as well as more scheduling flexibility.

Today, freestanding, physician-owned surgery centers rank as some of the highest rated health care organizations in the country when it comes to patient and physician satisfaction levels. Much of the credit for this performance goes to their unique and highly disciplined value chains. Because so many of these surgery centers are designed by and for surgeons, they tend to be well focused to the needs of surgeons, particularly when it comes to quick, hassle free OR utilization. A focused value chain unencumbered by a multiplicity of hospital imperatives and constraints allows surgicenters to deliver improved productivity for physicians as well as a more responsive experience for patients as well.

Good Strategies are sustainable. Mayo's integrated patient focused multispecialty group practice model has proven sustainable for more than a century. The Cleveland Clinic embraced essentially the same model at its founding and has demonstrated similar durability. Both organizations blend their multispecialty model with reputations for advanced clinical capabilities. The academic medical center model pioneered by Johns Hopkins, which married patient care with teaching and research, has provided sustainable differentiation to nearly every American academic medical center. Although Mayo, Cleveland Clinic and Hopkins may share key characteristics that have given them staying power, they have relied on unique Driving Strategies to leverage these characteristics.

No Strategy lasts forever, but the best ones have a lifespan extended by a unique value chain that other organizations find difficult to emulate. Continuity is the shape of resolve. A good Strategy has lasting power. Its effects are sustained over a time horizon that is long relative to lesser initiatives. A short-term price increase is less strategic than establishing and maintaining a premium price that conveys quality and prestige. If you could plot the impact of a Strategy, it's likely that it would reflect the familiar bell-shaped curve. In the beginning (the front edge of the bell-curve), impact will be slight as the Strategy is weighed down by skepticism, competing imperatives, learning curves and start-up costs.



Some Strategies burn out before they take off because they were bad Strategies or because they were poorly executed. The effective Strategy will begin its rise up the front slope of the bell-shaped adoption curve as naysayers come on board, positive results attract more resources, and the organization becomes experienced with the Strategy. Eventually, the Strategy will reach its zenith. At that point, the organization will have milked its advantage, competitors will have adjusted, and the environment will have changed. Then the Strategy will usually descend the back slope of the curve. The height and width of its adoption curve reflect the sustainability of a Strategy. The higher and wider its adoption curve, the stronger it has been as a Strategy.

Good Strategies create value. Price is a definable measure and point of comparison. In the absence of solid information regarding relative levels of quality among competing options, price will be the focus. But no customer, either an insurer buying on behalf of enrollees or a consumer buying on behalf of a loved one, buys health care on the basis of price alone. They buy on the basis of value which represents the utility of a bundle of benefits relative to its price. Manipulate either variable (benefits or price) and the value changes.

$$\frac{\textbf{QUALITY + ACCESS}}{\textbf{PRICE}} = \textbf{VALUE}$$

Kaiser Permanente's stumble in the early '90s reflected its problems related to both variables in its value equation. Its investment in hospitals and physicians impacted its ability to price competitively, while its size and operating philosophy impacted the utility of the benefits it offered customers. According to its CEO at the time, David Lawrence, Kaiser was not focused on offering an array of flexible managed care products. Lawrence acknowledged that, *"there was a steady drumbeat of companies telling us that they wouldn't offer Kaiser to their employees or that they were dropping us"* because Kaiser limited its enrollees' ability to receive care from doctors other than those it employed. In October of 1994, the Kaiser plans were rated by an employer coalition in the lower 25% of California HMOs when it came to member satisfaction. So many callers were left waiting when they phoned Kaiser that 30% hung up.

Too often, Strategies are formulated in the rarefied air of the corporate board room and painted only with numbers. But the numbers require customers willing to generate them.

Magretta distills the numbers that matter, *"A company's profits are what's left after subtracting costs from revenues. It follows, then, that there are only two ways one company can outperform another. It can get its customers to pay higher prices or it can operate on lower costs. To do either of those two things, it has to be different – or how else could you explain its ability to charge more or to use fewer resources? That's the simple arithmetic of superior performance."*

The central role value creation must play in health care Strategy was described in an article Porter co-authored with physician, Thomas Lee, in the April, 2015, issue of the New England Journal of Medicine: *"Value is defined as the health outcomes achieved for patients relative to the costs of achieving them. It is the only goal that can guide strategy in health care, the only 'true north' that can resolve the difficult choices organizations will need to make. Providers that organize themselves to improve outcomes and become more efficient in doing so will be rewarded with patients, professional satisfaction and financial success . . . Those that fail to focus on value lack the essential foundation for strategy. Whatever their reputation is today, they will become increasingly nonviable and irrelevant."*

According to Porter and Lee, *"The time has come for health care organizations to rethink the meaning of strategy. Strategy is about making the choices necessary to distinguish an organization in meeting customers' needs . . . Strategy demands leaders willing to make these choices, drive their execution, and bring the organization along. Leadership in health care organizations has tended to be more about stewardship than choices . . . But future success depends on the ability of organizations to create value for patients."*

Good Strategies are infused with both resolve and flexibility.

Organizations are constantly encouraged to transform themselves. And transformation, of course, implies a wholesale remaking of what the organization does, presumably including changes to the chain of activities that generate unique value. But success also requires resolve, an unshakable commitment to persist in the face of a dynamic environment. Adjustments are necessary to meet change but overreacting can be as destructive as under reacting. Porter uses "continuity" to describe stability in an organization's value proposition. It takes time and persistence to develop and deepen competitive advantage including tailoring the discrete activities that constitute the value chain, making trade-offs and achieving fit.

When it comes to Strategies, leaders must constantly walk a tightrope between resolve and abandonment. No Strategy should be carved in stone. Circumstances change and what was the right Strategy six months ago may be the wrong Strategy today. When it becomes clear that a Strategy is off target, it should be adjusted or abandoned without remorse. That's why it's never a good idea to build too much organization and infrastructure up around a Strategy. Once organization and infrastructure are in place, they can too easily become bureaucratic and self-perpetuating.

Walmart got its start by focusing on rural markets. And while it continued to leverage the warehouse and distribution system at the heart of its unique value chain, it also expanded into increasingly urban markets. Not doing so would have meant limiting its growth and giving competition space to mount a counterattack.

Initially, Bill Gates regarded the internet as a distraction, but he eventually came to see the potential for software to be easily and cheaply downloaded "without plastic wrap." He also began to recognize that software might not even be downloaded but instead could be resident in the cloud. Either development would dramatically change the market for software and computing. So Microsoft turned 90 degrees and headed for the internet in 1995 introducing Explorer one year later. By offering Explorer for free, it wiped out Netscape and established itself as the de facto standard for internet computing.

A similar about face occurred when Microsoft, despite repeatedly declaring it had no interest in manufacturing hardware, set its sights on Sony and the growing possibility that its PlayStation could reshape the software playing field. The business of interactive computer gaming was already generating a bigger percentage of the entertainment industry revenues than movies. Interactive computer games were following a completely different route of development than traditional PC software and hardware. The product's features, rapid interaction and realistic graphics were focused to younger consumers. All of this took a lot more computing power, both in terms of the sophistication of software and processing muscle. So in March of 2000, Microsoft aimed the Xbox at the heart of Sony's growing market leadership. Although Microsoft demonstrated an ability to shift, it also maintained a steadfast resolve related to its value proposition as the comprehensive standard for operating systems and cornerstone software applications for word processing, spreadsheets and presentations.

When Walmart decided in the mid-'90s to move into what most would regard as a low margin business, groceries, its rationale was not too dissimilar from that of Gates. It was protecting and fortifying its traditional discount retail base – preserving its core. By May of 2002, it had the largest market share in the grocery business.

Groceries represent a market three times as big as retail and are well matched to Walmart's competencies in warehousing, distribution and inventory management. Merging groceries with discount retail in "superstores" allowed Walmart to deepen its relationship with its core customers, get their grocery business and cross sell higher margin retail to those customers.

Many a company - IBM and GM, for example - loved their Strategies for too long. Abandonment of Strategies can be very difficult because it often means jettisoning a Strategy that may still be winning management accolades and bonuses. Success builds self-confidence that can easily transition to overconfidence. In a turbulent environment, a degree of schizophrenia is probably the healthiest mental state. While executives are spending much of their time optimizing utilization of an existing capability, new technology and competitors are usually already washing away demand for that capability. A look at the photography industry demonstrates just how quickly this can occur. Digital photography has nearly wiped out the world's leaders in film, including Kodak. And it did it in short order. In the end, Kodak's prime competitors were not other film companies but the manufacturers of digital cameras and smart phones.

While there must be a constant readiness to abandon a Strategy, there must be a counterbalancing resolve to see it effectively executed. Timing may not be everything but it's certainly something. Strategies abandoned before their time represent missed opportunities on at least two levels. First, of course, you miss the benefits the Strategy might have delivered if you had stuck with it long enough. Second, you eat the costs of the investments you made prior to abandonment. Most Strategies require significant new investment of human and financial capital. While current Strategies are being milked, new ones must be steadfastly whelped and nurtured. Unfortunately, it is very difficult to know when the time is right for a change in Strategy or what the consequences of inaction might be. In the end, it's always going to be a judgment call. The key is to make sure it's an informed judgment call rather than a shot in the dark.

Yesterday's failed Strategy may be tomorrow's success. Urgent care centers were a Strategy first embraced in the early '80s. Within three years, they were being widely abandoned. The reason? Urgent care centers typically lost money or just broke even. And in some instances, opening an urgent care center aggravated a hospital's independent medical staff. So many a hospital executive decided they weren't worth the trouble and sold or closed them. But some hospitals that hung onto their urgent care centers were glad they did. Why? Because they provided excellent platforms for delivering convenient high volume primary care as well as expanding and preserving referrals.

Many health care organizations abandoned employment of physicians in the 1990s when the costs of the Strategy seemed too onerous. But some organizations didn't blink and kept building group-practice experience and infrastructure. As a result, their practice operations have tended to move towards higher levels of integration and lower operating costs. The same pattern was repeated when hospitals entered, then abandoned, the insurance business. Today, the organizations that persisted in insurance may end up with a ten-year lead over many of their rivals when it comes to managing risk and population health. Abandoning a Strategy should occur only if conditions change dramatically, if there is clear evidence the Strategy has become unworkable, or if it's apparent the Strategy has been substantially accomplished.

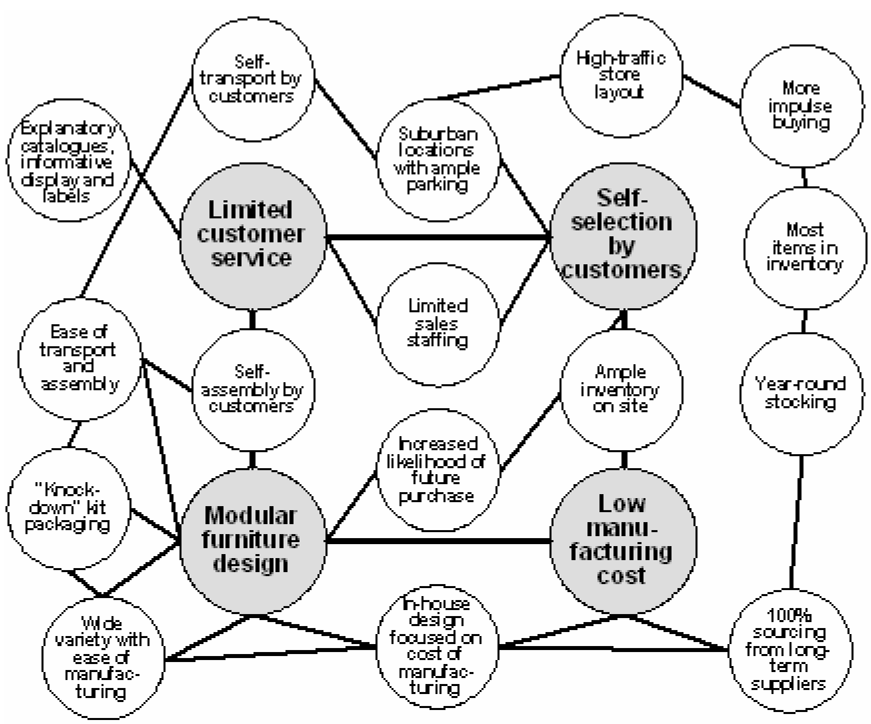
Horatio Nelson once provided an example of leadership resolve. His fleet had been mired in a punishing 3½ -hour battle with the Danish off Copenhagen when the British Admiral in charge signaled him to withdraw. Nelson, who was blind in one eye, raised his telescope to his blind eye and remarked, *"I really do not see the signal."* He turned to his flag-captain and said, *"Foley, you know that I have lost an eye and have a right to be blind sometimes."* Nelson went on to win the battle, negotiate a peace agreement and become Admiral Lord Viscount Nelson. The British Navy continued to dominate the seas for the next 150 years.

Good Strategies are multidimensional, coherent and codependent. "What *is* your Strategy?" isn't the right question. The right question is, "What *are* your Strategies?" It takes multiple Driving Strategies to generate a difference that matters – but not too many Strategies. Strategies fit the organization to its environment. Strategies must also fit with one another. "Fit" amplifies unique value. Fit, according to Porter, describes the extent to which the activities constituting the value chain relate to one another in a way that makes the contribution of those activities greater. For example, IKEA packages its furniture in flat packs. This reduces the cost of shipping and warehousing. Flat packs also allow IKEA to maintain higher levels of inventory, which means greater choices available to customers and less waiting for the furniture they want. It also allows price to the customer to be further reduced through self-assembly and in-store pickup.

One hospital I worked with launched an intensive organization-wide cost reduction program with the initial intent to pump up its margins. It soon became clear that it had moved into the "low cost" position in its market. That move was complimented by another Driving Strategy which involved becoming exceptionally close to the needs of area employers. Its low cost Strategy made this focus on employer needs possible.

It's often difficult to clearly discern where one Strategy ends and another begins. A healthy set of Driving Strategies displays a high level of interdependency and synergy. Accomplishment of one Strategy facilitates the accomplishment of others. Remove one, and the others suffer. Robust Strategies exist as an interwoven cluster rather than separate and distinct imperatives. According to Magretta, *"Great strategies are like complex systems in which all of the parts fit together seamlessly. Each thing you've chosen to do amplifies the value of the other things you do. That's how fit improves the bottom line. It also enhances sustainability . . ."* Each Driving Strategy should be thought of as one in a cluster of five to seven highly interrelated concentrations of action arrayed in a dynamic balance. Touch one Strategy and you touch them all. These overlaps reflect coherent thinking. Supporting each Strategy are Tactics. These too are highly interrelated. One Tactic can support multiple Strategies. For a graphic representation of this, see the example of IKEA below.

IKEA'S Strategies and Tactics are Coherent and Connected



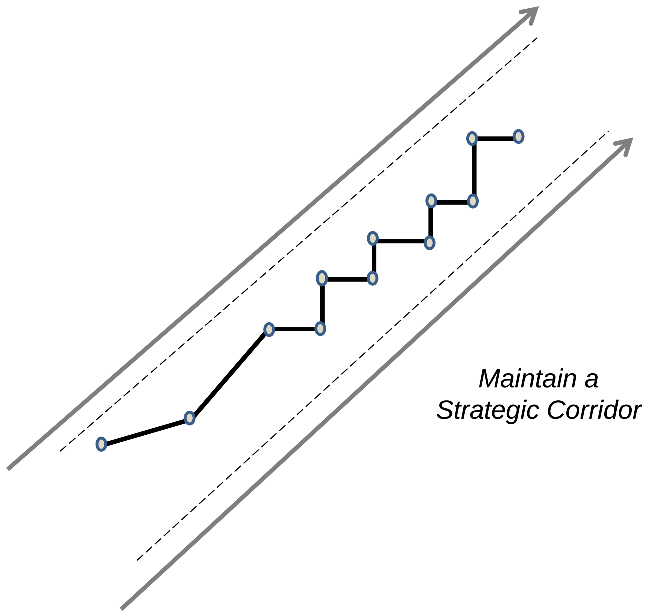
Source: Michael E. Porter

The mental process of generating strategic coherence can be likened to the experience described by Mozart as he composed, *"First bits and crumbs of the piece come and gradually join together in my mind; then the soul getting warmed to the work, the thing grows more and more, and I spread it out broader and clearer, and at last it gets almost finished in my head, even when it is a long piece, so that I can see the whole of it at a single glance in my mind, as if it were a beautiful painting or a handsome human being; in which way I do not hear it in my imagination at all as a succession – the way it must come later – but all at once as it were. It is a rare feast. All the inventing and making goes on in me as in a beautiful strong dream. But the best of all is the hearing of it all at once."* Nobel laureate Richard Feynman once suggested that it's possible to recognize a valid physics formula because it is beautiful. A cluster of coherent Strategies is also beautiful.

Things are coherent when they are connected, compatible and coordinated. In other words, whether they are ideas or processes, they work together – they are, or can be, integrated. According to Rumelt, *"The idea that coordination, by itself, can be a source of advantage is a very deep principle. It is often underappreciated because people tend to think of coordination in terms of continuing mutual adjustments among agents. Strategic coordination, or coherence, is not ad hoc mutual adjustment. It is coherence imposed on a system by policy and design. More specifically, design is the engineering of fit among parts, specifying how actions and resources will be combined."*

When coherent Driving Strategies support a clear Vision, they provide the discipline of consistency to decisions. There is linearity to a good Driving Strategy. If you plot its accomplishment, there is a path to be discerned. That path will bend and weave depending on the uncertainty and resistance encountered but there ought to be an overall consistency of direction to it. Sharp turns in strategic direction destroy momentum. One of the most debilitating of strategic disorders is the attention deficit syndrome exhibited by executives who shift regularly from one silver bullet to another, giving their organizations whiplash in the process. As Swayne, et al., suggest, *"Decision consistency is central to strategy; when an organization exhibits a consistent behavior it has a strategy. Strategy is the set of guidelines or plan an organization chooses to ensure decision consistency and move it from where it is today to a desired state some time in the future – it is the road map to that future . . ."*

Decision Consistency



Over time, an organization displays a Strategic Corridor which is reflective of Driving Strategies that are bounded and guided by the organization's long-term commitments including its Mission and Values as well as the value proposition that constitutes its differentiation.

Good Strategies align with Mission, Values and Vision.

Southwest Airlines has rarely displayed confusion over its Mission:

> *"From our very beginning, Southwest Airlines has been a maverick in the airline and Customer Service Sectors. We set ourselves apart every single day through delivering our Customers reliably, safely and in a low cost manner to the places, events, and People that are most important to them." Southwest Airlines . . . connects People to what's important in their lives though friendly, reliable, and low-cost air travel."*

Supporting this is a set of Values consistently communicated since 1988:

> *"Southwest Airlines is dedicated to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit. We are committed to provide our Employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, Employees will be provided the same concern, respect, and caring attitude within the Organization that they are expected to share externally with every Southwest Customer."*
>
> Further, Southwest exhorts its employees to *". . . operate with a Warrior Spirit, a Servant's Heart and a Fun-LUVing Attitude."* (LUV is the stock symbol for Southwest Airlines but it also harkens back to the airline's start up at Love Field in Dallas.)

Mission and Values were translated into a rule that came to symbolize employee empowerment at Southwest: *"No employee will ever be punished for using good judgment and good old common sense when trying to accommodate a customer – no matter what our other rules are."*

The spirit articulated in its Mission and Values has instilled a feisty competitiveness. Witness Southwest's reaction to a competitor's claim in 1992 of being the best-rated airline when it came to on-time performance. According to Kevin and Jackie Freiberg in their book on Southwest called *Nuts!*, the airline responded with a print ad, the headline of which read: *"After lengthy deliberation at the highest executive levels, and extensive consultation with our legal department, we have arrived at an official corporate response to [our competitor's] claim to be number one in customer satisfaction … Liar, liar. Pants on fire."*

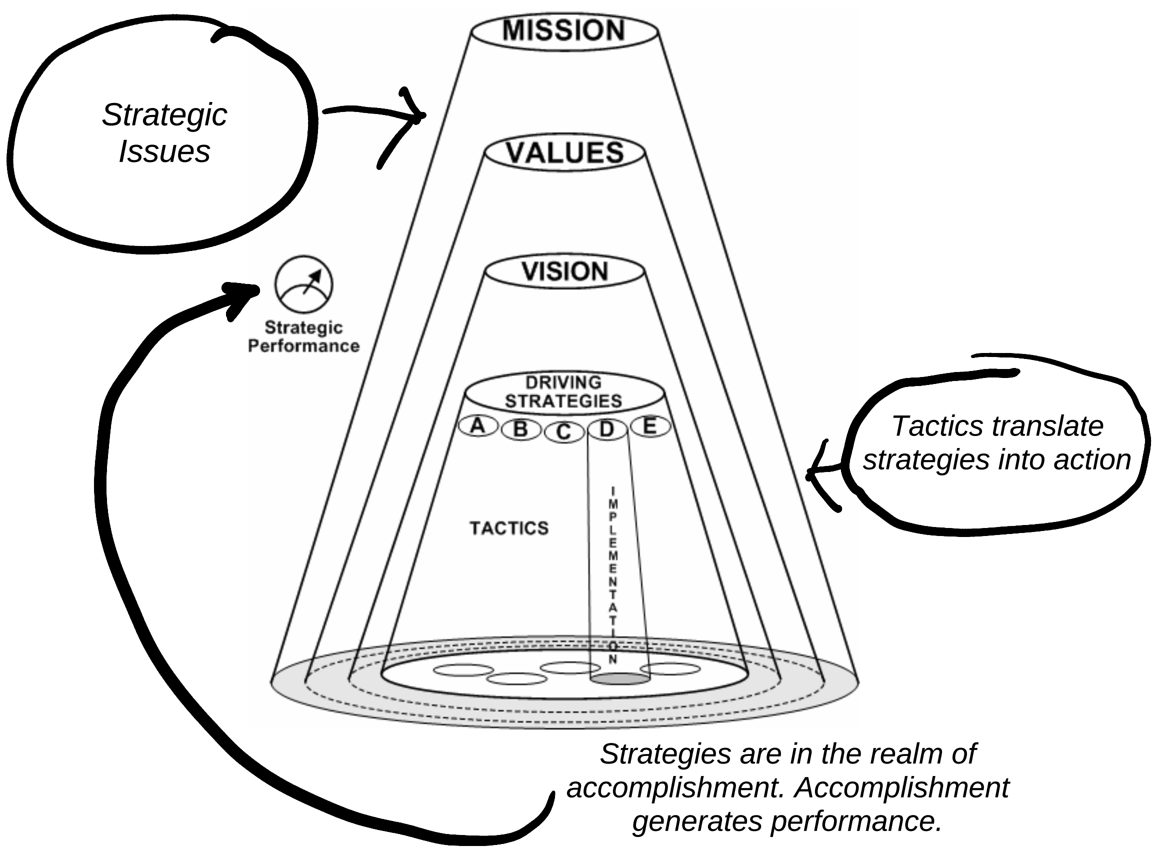
Mayo Clinic's Mission is *"To inspire hope and contribute to health and well being by providing the best care to every patient through integrated clinical practice, education and research."* And it has one primary overriding value, *"The needs of the patient come first."* This Value is supported by subordinate Values including teamwork, organization and integration. The Cleveland Clinic's Mission is *"Better care of the sick, investigation into their problems and further education of those we serve."* The primary value at the Cleveland Clinic has been, *"Act as a unit."* This is also supported by subordinate Values including quality, innovation and teamwork.

An organization's Values taken together constitute "culture." Culture ought to enable Driving Strategies rather than inhibit them. It is not true that "culture eats Strategy for breakfast." Culture eats weak leaders. Strong leaders see culture as a tool that is malleable. They reshape culture to accomplish what's most important. They cultivate Values that support differentiation.

Vision represents a clear statement of the organization's aspirations. According to Ridgley, *"Strategy without strategic vision is merely soulless technique, a great flurry of activity. There is nothing courageous about making a bold pronouncement in vague language. Lack of strategic intent means a loss of focus and the routinization of process."* As the Cleveland Clinic's Loop once observed: *"Vision isn't about knowing where the company is going. It's about knowing where the industry is going. If you don't understand the profession, the market, and the mission, you are not fit for leadership."*

Like Mission and Values, Vision sets the guardrails for what the organization will and won't do. Driving Strategies answer the question, "How are we going to accomplish our aspirations in a way that is consistent with our Mission and Values?" Driving Strategies and Tactics are articulated in the context of the organization's most significant strategic issues distilled from its unique situation. Driving Strategies and Tactics are then formulated in response to those issues but also in response to the organization's purpose, culture and aspirations as set forth in its Mission, Values and Vision.

Good Strategies Align with Mission, Values and Vision



Good Strategies are clearly articulated and communicated.

According to Porter, *"Strategy is useless if it's a secret, if nobody else in the organization knows what the strategy is. The purpose of strategy is to align the behavior of everyone in the organization and to help them make good choices when they're on their own. People are out there, every day, making choices. You want them to make choices that fit the organization's strategy. So you've got to communicate it."* One of the most significant and overlooked barriers to effective strategic leadership is nomenclature. Too often executives are sloppy in how they describe things. They call Strategies "goals." They call goals "objectives." They don't draw distinctions or provide consistent definitions. They call things that are essentially the same by different names. And this turns organizations into "towers of Babel" where torrents of words, ideas and initiatives collide, confuse and in the end amount to nothing. Inconsistency in definitions and in direction can give organizations whiplash.

Effective leaders avoid fluff. According to Rumelt, *"Fluff is superficial restatement of the obvious combined with a generous sprinkling of buzzwords. Fluff masquerades as expertise, thought, and analysis. As a simple example of fluff in strategy work, here is a quote from a major retail bank's internal strategy memoranda: 'Our fundamental strategy is one of customer-centric intermediation.' The Sunday word 'intermediation' means that the company accepts deposits and then lends them to others. In other words, it is a bank."*

A clear Strategy is distilled into a single sentence. It should be simple in its ideas and its language. As Rumelt has suggested, fluffy, pretentious and technical words should be set aside in favor of plain common language. Strategies connote action so that sentence must invariably contain a verb. The clarity of a Driving Strategy depends on the clarity of the Vision it supports. Vision represents a picture painted with words describing where the organization aspires to go. What it aspires to become over some definable time horizon.

Proverbs cautioned that, *"Where there is no vision the people perish."* And the renowned biologist, Richard Dawkins, once related the importance of vision to science, *"Often the most important contribution a scientist can make is to discover a new way of seeing old theories or facts. A change of vision can usher in a whole climate of thinking in which many exciting and testable theories are born, and unimagined facts laid bare."*

"I would not give a fig for the simplicity this side of complexity but I would give my life for simplicity on the other side of complexity."

Oliver Wendell Holmes

Getting to simplicity can take many hours of engaged iterative dialogue. Oliver Wendell Holmes once suggested, *"I would not give a fig for the simplicity this side of complexity, but I would give my life for the simplicity on the other side of complexity."* But simple doesn't mean superficial or cryptic. There is a view that a Vision statement should be as short as possible – reduced to an easily memorable slogan. But a Vision reduced to a slogan can be vacuous, bereft of the specificity essential to delivering on the purpose of a Vision which is to provide unifying overall direction. And memorable is not the same as meaningful. W. Edwards Deming often warned against the emptiness and ineffectiveness of slogans. The first obligation of a strategic plan is clarity. Clarity requires meaningful simplicity. Meaningful simplicity has a kind of elegance. It feels right. The University of Virginia's Jeanne Liedtka made the point when she reflected on how much is enough, *"Antoine Saint-Exupery has noted (about planes, not little princes), elegant design is achieved not when nothing else can be added, but when nothing else can be taken away"*.

As Porter has observed, *"Strategy used to be thought of as some mystical vision that only the people at the top understood. But that violated the most fundamental purpose of a strategy, which is to inform each of the many thousands of things that get done in an organization every day, and to make sure that those things are all aligned in the same basic direction.*

If people in the organization don't understand how a company is supposed to be different – how it creates value compared to its rivals – then how can they possibly make all of the myriad choices they have to make?

The best CEOs I know are teachers, and at the core of what they teach is strategy. They go out to employees, to suppliers, and to customers and they repeat, 'This is what we stand for, this is what we stand for.' So everyone understands it. This is what leaders do. In great companies, strategy becomes a cause. That's because a strategy is about being different. So if you have a really great strategy, people are fired up; 'We're not just another airline. We're bringing something new to the world.'"

Good Strategies are non-negotiable. Today, there is a popular tendency to cast the strategic planning net widely and to invite large numbers of individuals at all levels of the organization to provide the input out of which a consensus view of the future is cobbled. Unfortunately, although such exercises may feel good, they ignore the fundamental role of leaders, which is to lead. While group participation and input is important in building and solidifying understanding and commitment, there is no solid evidence that it delivers superior Strategies. Superior Strategies result from choices – choices made by leaders.

Implicit in the word "leadership" is a question, "Leading where?" Answering that question requires strategic thinking. High-level Strategy is the work of top leadership. It is not something that bubbles up out of participatory democracy from the bottom of the organization. It is the job of top leadership to define a place worth going, a path to that place, and then to enlist the organization in getting there.

Too many organization-wide strategic planning efforts seem to assume that those below the level of leadership will somehow resent and resist efforts by top leadership to set overall direction. My experience suggests just the opposite. Generally, employees expect their leaders to provide strategic direction and welcome it. They grow anxious and disheartened when leaders fail to deliver direction. Ambiguity is distracting and it drains organizational energy. The process of Strategy formulation and Implementation can be likened to making champagne. If the recipe for fermentation is well defined and communicated from the top, the effervescence necessary for Implementation will bubble up as aligned action.

Followers are more likely to follow when they sense depth of commitment and insight at the top of the organization. Swayne, et al., reinforce the importance of CEO leadership, *"Ultimately, strategic decision making for health care organizations is the responsibility of top management. The CEO is a strategic manager with the pre-eminent responsibility for positioning the organization for the future. They prioritize constantly; aware that wars are lost by fighting on too many fronts. They know the key messages to communicate from day-to-day, from audience to audience. If the CEO does not fully understand or faithfully support strategic management, it will not happen."*

Former IBM CEO, Lou Gerstner, captured the essence of top leadership's responsibility to provide strategic direction, *"Since the purpose of strategic planning is to make basic decisions on the future course of the company, it is ultimately a responsibility of the CEO and his or her key lieutenants. In other words, top management cannot confine itself to perusing written plans and giving perfunctory once-a-year approval. That would be abdication, not responsible delegation. To ensure that the right set of critical issues and decisions is in fact identified, top management must actively involve itself in the planning process. It is top management's responsibility to weigh strategic issues, apply judgment, and make the decisions. Strategic planning may be a staff function, but strategic decision making is the responsibility of the CEO and the top management team."*

It is the job of top leadership to set direction and ensure it is implemented with discipline. Rumelt suggests Strategy is something to be imposed, not requested, *"Strategy is visible as coordinated action imposed on a system. When I say strategy is 'imposed,' I mean just that. It is an exercise in centralized power, used to overcome the natural workings of a system. This coordination is unnatural in the sense that it would not occur without the hand of strategy."*

Leadership shouldn't feel obligated to expand participation in Strategy formulation beyond those who are likely to be accountable for its successful implementation. Swayne, et al., go on to suggest that, *"For most organizations, it is not possible for everyone to be a full participant in the strategic planning process. Decision making is protracted if everyone must have a say – and a consensus may never be reached. A few key players – senior staff, top management, or a leadership team – are needed to provide balanced and informed points of view. Often representatives of important functional areas are included as well. An effective leader will incorporate a variety of individuals."*

"Strategy is visible as coordinated action imposed on a system. When I say "imposed" I mean just that. It is an exercise in centralized power used to overcome the rational workings of a system…"

Richard Rumelt

Breadth in input may help strengthen Strategy formulation but this shouldn't devolve into a show of hands. Porter echoes the central obligation of leaders to define Strategy and for followers to get on board, *"If there are individuals who don't accept the strategy, who simply refuse to get on board, they cannot have an ongoing role in the company. That's a polite way of saying they've got to go. It's healthy for people to disagree, and managers should be given a chance to make their case and to change minds, but there comes a time when the discussion has to end. It's not about democracy, or consensus, or about making everyone happy."*

As the English management expert Charles Handy emphasized, the glue that matters most in loosely coupled federated organizations like hospitals and health systems is trust. By trust, Handy meant *"… a confidence in someone's competence and in his or her commitment . . ."* Those who cannot be trusted need to be shoved out, *"ruthlessly if need be."* What they are expected to be committed to is the organization's Mission, Values, Vision and Driving Strategies.

The only substitute for trust are what Handy called "systems of control," often experienced as onerous impositions, particularly by professionals. Systems of control are also prone to breakdown and collapse when they are confronted with too much uncertainty and resistance. But the excuse that the "system is the problem" is too easy a dodge. Sometimes there *is* individual fault involved. Sometimes even the most robust systems cannot overcome the influence of a few rotting apples in the barrel. Some people just can't be trusted to care enough about what matters most.

In the formative years of the Mayo Clinic, Will Mayo was well known for tough inflexibility when it came to observance of the characteristics that came to represent the Mayo Way including its Values of "patient first" and "teamwork." Physicians unwilling or unable to comply with Mayo's standards were shown the door. That tradition is still very much alive at Mayo. Although the approach may be more refined and gentle than that used by Will Mayo, those who don't fit the Mayo Way are quickly and efficiently eliminated from its talent pool; most of them well before they ever become employees.

Good Strategies emerge and evolve. In his book, Strategy: A History, Lawrence Freedman commented on the incremental and iterative nature of Strategy, *"Strategy is often expected to start with a description of a desired end state, but in practice there is rarely an orderly movement to goals set in advance. Instead, the process evolves through a series of states, each one not quite what was anticipated or hoped for, requiring a reappraisal and modification of the original strategy, including ultimate objectives."*

Although it is certainly possible for a Strategy to spring forth fully formed, most Strategies take time to grow into their skins. They clarify and solidify over time. Thus, Toyota's "Lean Production" emerged gradually not from Strategy formulation sessions at corporate headquarters but out of the brutal realities of a war-ravaged Japan in which space and many other resources were in exceedingly short supply.

Southwest Airline's Strategies also emerged out of an environment of intense scarcity that forced the airline during its startup to standardize its aircraft, avoid head-to-head competition and make the best use of its limited assets, including its people.

To save on expensive warehousing and shipping, IKEA defaulted to "flat pack" packaging and "assemble yourself" products that became, over time, powerful differentiators with its economy-minded customers.

In Chicago, Advocate Healthcare has become a national leader in clinical integration that unifies employed and independent physicians in collaboration resulting in demonstrable advantages in quality and cost as well as the ability to contract as one through a "super PHO." But this Strategy was forged in the very hot and expensive fire of a lawsuit brought by a major insurance company which contended that the PHO at the heart of Advocate's still emergent model, created an unfair market advantage. The FTC saw it differently and gave Advocate the running room it needed to develop a powerful differentiated position.

Similarly, the Cleveland Clinic's century-old multispecialty group practice model and the unique value chain that supports it has made possible the same-day appointments the clinic now touts persistently and consistently in its national advertising.

As Swayne, et al., remind, *"It is quite possible that a strategy may be developed and subsequently realized. However, we must be realistic enough to understand that when we engage in strategic management the theoretical ideal (strategy developed, then realized) may not, and in all probability will not, be the case. A great deal may change. The possibilities include:*

1. *There is a reformulation of the strategy during implementation as the organization gains new information and feeds that information back to the formulation process, thus modifying intentions en route.*

2. *The external environment is in a period of flux and strategies are unable to accurately predict conditions; the organization may therefore find itself unable to respond appropriately to a powerful external momentum.*

3. *Organizations in the external environment implementing their own strategies may block a strategic initiative, forcing the activation of a contingency strategy or a period of 'groping.'"*

"Strategies inevitably exhibit some emergent qualities and even when largely deliberate, they often appear less formally planned than informally visionary."

Henry Mintzberg

McGill University's management and strategy professor, Henry Mintzberg, reflected on how good Strategies emerge, *"We have found that strategy formation must draw on all kinds of informational inputs, many of them nonquantifiable and accessible only to strategists who are connected rather than detached. We know that the dynamics of the context have consistently blocked any efforts to force the process into a predetermined schedule, or onto a predetermined track. Strategies inevitably exhibit some emergent qualities, and even when largely deliberate, they often appear less formally planned than informally visionary. And learning, in the forms of fits and starts, discoveries based on serendipitous events, and the recognition of unexpected patterns, inevitably plays a key role, if not the key role, in the development of strategies that are novel. Accordingly, we know that the process requires insight, creativity, and synthesis; all the things that formalization discourages."*

And according to Harvard professor, Cynthia Montgomery, in her book, <u>The Strategist: Be the Leader Your Business Needs</u>, *"Good strategies are never frozen – signed, sealed and delivered. No matter how carefully conceived, or how well implemented, any strategy put into place in a company today will eventually fail if leaders see it as a finished product. There will always be aspects of the plan that need to be clarified. There will always be countless contingencies, good and bad, that could not have been fully anticipated. There will always be opportunities to capitalize on the learning a business has accumulated along the way."*

Good Strategies are often opportunistic. A successful Strategy may be the result of trial and error or dumb luck. Or it may reflect a fortunate chain of events that got a product to market first. Apple's early computer provided a completely new product concept which over time was one of the first to offer clear advantages over typewriters, accounting ledgers and board games. And it was a chemist's mistake in the lab that resulted in NutraSweet, a pleasant tasting alternative to the artificial sweetener, saccharin. Opportunistic organizations often do a better job with somebody else's business model. Walmart emulated Kmart but sidestepped it by targeting rural markets and then creating an advanced warehousing and distribution system.

A reason planning often falls short is that its practitioners attempt to project current trends continuously into the future. They ignore the fragile nature of trends and their demonstrated tendency to shatter or dart off in completely unexpected directions. When he was CEO of Chrysler, Lee Iacocca was smart enough to recognize the opportunity the minivan represented after the company stumbled onto it. Once the full extent of the minivan market began to become apparent, Iacocca solidified Chrysler's lead and expanded it. Although Chrysler leveraged its early success with minivans, it completely missed another related opportunity. So did GM at first, even though one of the hottest vehicles of the mid-'90s sat languishing for years in its longstanding stable. No one predicted that a utility truck with gas mileage in the mid-teens would emerge as the darling of the country club set. But that's exactly what the Chevy Suburban did. The Suburban hadn't changed much in 10 years. But the customer did, and suddenly the truck matched up with the market. Nobody in Detroit predicted it. Just as no one in Detroit (or Germany) in the '60s predicted that an underpowered, under engineered, undersized car from Volkswagen would sweep America.

Honda first entered the U.S. motorcycle market in 1959. By 1966, it had 63 percent of that market. Its success had been largely accidental and opportunistic. It first focused on midsized motorcycles but quality problems soon emerged. Honda representatives had used small Honda 50s to run errands around Los Angeles. Americans liked these little motorcycles and they soon began to sell reinforced by a legendary advertising campaign, *"You meet the nicest people on a Honda."*

In the late 1990s, one of the Cleveland Clinic's community hospitals had become so busy that members of its medical staff had grown increasingly frustrated with lack of capacity including a shortage of hospital beds and operating rooms. University Hospitals, the Cleveland Clinic's primary local competitor, saw the opportunity and seized it by building a new hospital in an adjacent community. Utilization, not surprisingly, soon moved to the new hospital.

It is easy to regard uncertainty and resistance as problems. And for organizations ill equipped to respond to them, they can be problems. But it is out of the frothy turbulence of uncertainty and resistance that opportunities emerge. Organizations need to be deliberately and incrementally opportunistic. That requires alertness and talent. In structuring for the future, it's important to consider how talent is allocated to problems and opportunities, as well as to the present and the future.

Peter Drucker weighed in with this advice: *"Don't solve problems. Seek opportunities. Almost without exception, the best performers are assigned to problems – to the old business that is sinking faster than had been forecast."* Then Drucker asks, *"'And who takes care of the opportunities?' Almost invariably, the opportunities are left to fend for themselves."* And as George Gilder has suggested, *"When you are solving problems, you are feeding your failures, starving your successes and achieving costly mediocrity."* The best talent in an organization should be dedicated to pursuit of opportunities, reinventing its work and generating new perspectives. For example, instead of sending top managers on field trips to other health care organizations, it often makes more sense to send them to study a Toyota assembly line or experience how Ritz-Carlton delivers superior service. Or encourage them to follow the advice of Kevin Kelly in his book, <u>Out of Control</u>, *"Don't read trade magazines in your field; scan magazines of other trades. Talk to anthropologists, poets, historians, artists, philosophers. Hire some seventeen-year-olds . . ."*

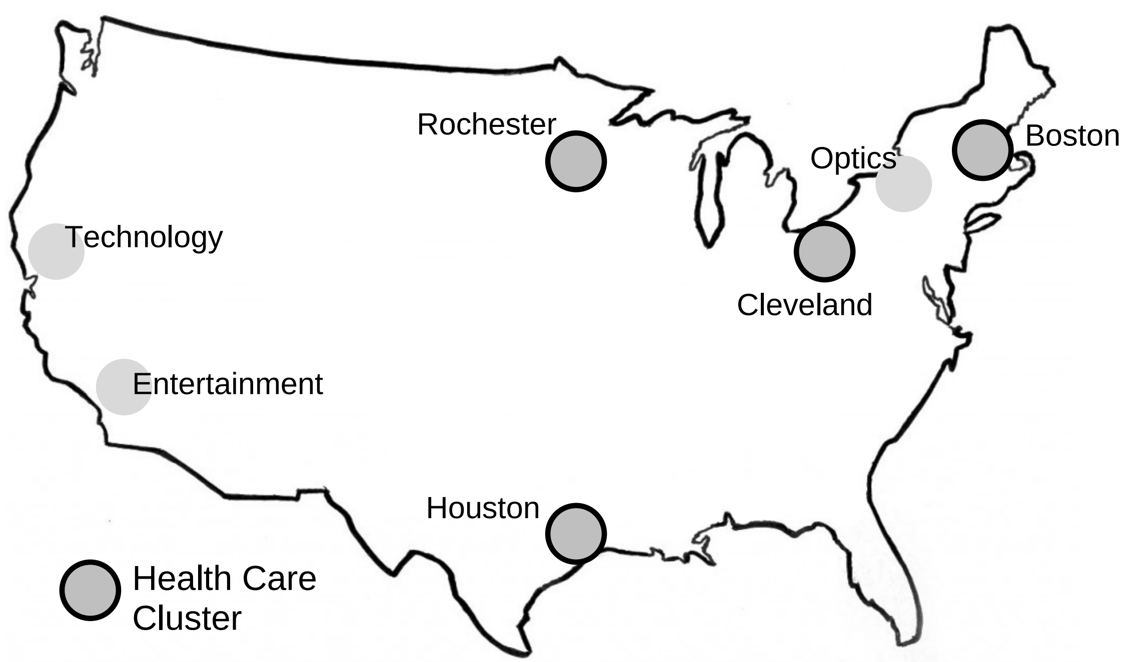
"When you are solving problems you are feeding your failures, starving your successes and achieving costly mediocrity."

George Gilder

Good Strategies leverage experience. A "cluster" describes a geographic concentration of companies, suppliers, researchers, intellectual property and financiers who, because of proximity and incentive, develop a network of self-reinforcing relationships that generate a synergistic environment for organizations in the same or related business. The best example is Silicon Valley, where William Shockley, a co-inventor of the transistor, encamped when he was offered a good deal on office space near Stanford University. Shockley then proceeded to alienate his partners and employees, who subsequently left to form their own technology companies — 65 of them over the course of 20 years. These 65 companies then formed the nexus of what would become the Silicon Valley technology cluster. Similar clusters exist including the optics cluster that grew up around Kodak in Rochester, N.Y., and the entertainment cluster in Hollywood.

In health care, clusters exist in Boston (related to the Harvard teaching hospitals), Houston (related to Texas Medical Center) and in the corridor leading to and around Rochester, Minn (related to Mayo Clinic). Nashville, Tenn., has a cluster for investor-owned heath care companies.

Clusters Leverage Relationships and Experience



The formation of a cluster like Silicon Valley is usually accidental. Leveraging cluster power is not. It requires intentionality. A cluster effect can be seen when consumers and referring physicians demonstrate a preference for providers concentrated in a particular geography. This is typically because that area has a relatively high degree of subspecialization (often because of the presence of one or more academic medical centers). Thus, consumers in suburban and rural areas may express a desire to "go to the city" for specialized care. In health care, such clusters represent unexploited opportunities because the providers in them generally fail to recognize, jointly develop and promote them. Cluster dynamics can generate the rising tide that lifts all ships in a discrete geography (although admittedly often at the expense of other geographic locations).

The intense rivalry between Cleveland Clinic and neighboring University Hospitals is the stuff of legend. Yet, through the movement of talent and ideas between the two organizations and other kinds of inevitable transference that result from proximity, they have lifted rather than diminished one another. The Clinic and University Hospitals now share an academic relationship with Case Western University. Both organizations have invested heavily in rejuvenating downtown Cleveland. And while local officials bankrolled the marginal contributions of the Rock & Roll Hall of Fame, the Clinic and University Hospitals turned health care into an economic juggernaut fueling the growth of high-paying jobs in northeastern Ohio.

Good Strategies are situational. Good Strategies are built on good assumptions. The first step in the development of workable Strategies is to develop perspectives on the present and the future. But most organizations spend little time contemplating the true nature of their current environment, let alone the future. A Strategy must be crafted (and consistently recrafted) in an environmental context. Only by luck will it succeed if the quality of its underlying assumptions is low. While recognizing that the environment is in constant flux and beyond prediction, the organization must still do its best to anticipate the general terrain on which it will be playing. That field must influence the shape of the organization's Strategies and particularly its Tactics and Actions.

Some assumptions should pertain to the customers you serve. Some should consider your competitors. Some should relate to the dynamics of financial markets. Some should pertain to likely regulatory impacts. And some should consider the influence of technology. All are in flux. Assumptions once established must be translated into strategic issues. Strategic issues represent statements describing the most significant challenges likely to confront the organization in the future.

Not only must an organization have its own assumptions and Strategies, it must interpret those of others. Strategies often aren't what they appear to be. What goes out in the press releases may not fully represent the real underlying Strategy. And why should it? Beyond the need of publicly traded companies to convey a solid Strategy to investors, most organizations derive little benefit by broadcasting their intentions.

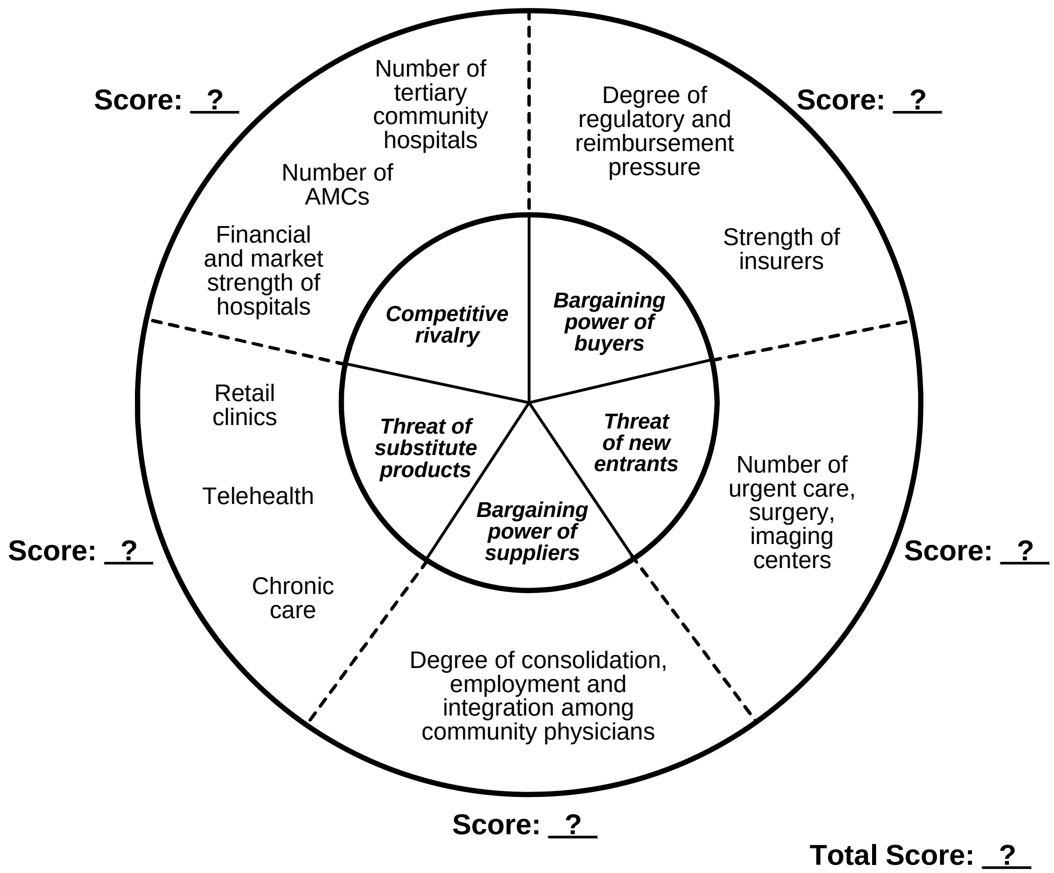
Levels of uncertainty and resistance oscillate. Strategy must oscillate as well so as to continuously fit the organization to its environment. Failure to establish and maintain fit will result in organizational irrelevance. Napoleon made reference to this dynamic, *"Strategy is the art of making use of time and space. I am less chary of the latter than the former. Space we can recover, time never. I may lose a battle, but I shall never lose a minute."* Frans Osinga goes on to suggest that, *". . . strategy is a process, a constant adaptation to shifting conditions and circumstances in a world where chance, uncertainty and ambiguity dominate . . ."*

Napoleon considered Time the essential situational variable.

There are obviously significant differences related to the dynamics of discrete markets. Not only do competitive dynamics vary from place to place, they vary significantly over time as well. Industries are characterized by varying degrees of uncertainty and resistance. Porter addressed this reality and its connection to profitability within a framework he describes as the Five Forces. He emphasizes that the object of competition is not to beat rivals; it is to earn profits. Your ability to earn a profit is determined in part by your performance, but the level of potential profit available in an industry is determined by market structure, which includes, according to Porter, the degree of rivalry between existing competitors, the bargaining power of customers and suppliers, the availability of substitutes for existing products and services, and the extent to which new entrants are poised to enter the market. Each of the Five Forces holds the potential to drive down prices and drive up the cost of competing.

Porter's Five Forces can be applied not just to industries, but to discrete markets and specific service lines as well. For example, one metro area may be more profitable than another because it has fewer hospitals, has insurers with limited leverage or serves more affluent patients. And as health care leaders are well aware, service line profitability can be similarly impacted. The Five Forces framework brings discipline to the challenge of understanding market dynamics and defining Strategies within an informed context. It is a superior substitute for the SWOT assessment (strengths, weaknesses, opportunities and threats) which is, in my experience, a weak and overused tool. With a SWOT, far too much time is consumed distinguishing between strengths and opportunities as well as weaknesses and threats. After all, every strength represents an opportunity to be leveraged and every significant weakness is a threat.

Assessing Your Situation



A qualitative score can be assigned to each of Porter's Five Forces reflective of market intensity. Some forces are likely to be more important than others so weighting of each score may be appropriate. (Porter suggests "competitive rivalry" is the major determinant of profitability.) Totaling the five scores provides a basis for comparing relative volatility of markets.

Organizations inside and outside health care dedicate a very small percentage of their available time and resources to strategic assessment. Hamel and Prahalad underscored how little time leadership teams really dedicate to considering the future: *"In our experience about 40% of senior executive time is spent looking outward, and of this time about 30% is spent peering three or more years into the future. And of the time spent looking forward, no more than 20% is spent attempting to build a collective view of the future (the other 80% is spent looking at the future of the manager's particular business). Thus, on average, senior management is devoting less than 3% (40% x 30% x 20% = 2.4%) of its energy building a corporate perspective on the future. In some companies the figure is less than 1%. Our experience suggests that to develop a prescient and distinctive point of view about the future, a senior management team must be willing to spend 20% to 50% of its time over a period of months. It must then be willing to continually revisit that point of view, elaborating and adjusting it as the future unfolds."*

"Strategy is a process, a constant adaption to shifting conditions and circumstances in a world where chance, uncertainty and ambiguity dominate…"

Frans Osinga

Good Strategies cascade into flexible Tactics, Action Steps and Accountability. There is a point when the rubber hits the road. Where, as Drucker once suggested, all the planning disintegrates into work. Where the game moves from board room into the trenches. Where Strategy becomes Tactics.

Without effective tactical execution, Strategy is just a spark. It can light no fires. And the executive who has his hands around a strategic plan but hasn't the capacity to "make it happen" is holding wasted paper. The best leaders spend time in the field, in the thick of things, getting dirty, hot and sweaty.

In examining the nature of Tactics, it's important to establish their relationship to Strategy. Tactics specify how a Strategy will be accomplished. Tactics describe how you'll win a battle. Strategies are how you'll win the war. Tactics and Strategy share a common life. They are different poles on the same continuum. It is often difficult to clearly ascertain where a Strategy ends and Tactics begin. Powerful Strategies often start out as Tactics. Napoleon's strategic principle of "maneuver" grew out of his tactical experience in moving artillery quickly on the battlefield, eventually morphing into the grand Strategy of Blitzkrieg.

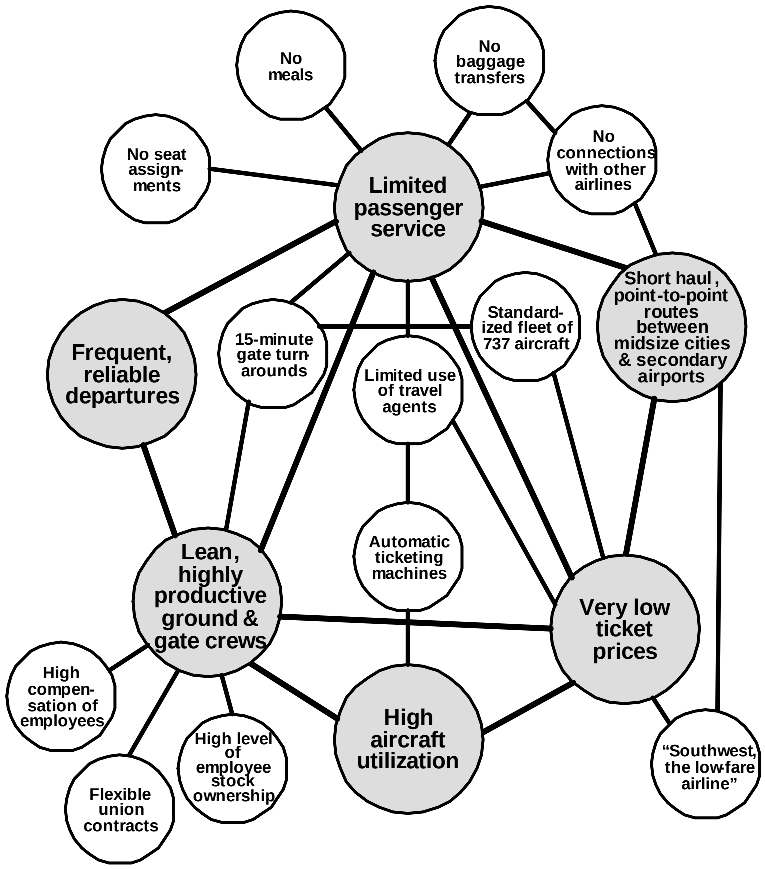
Strategies must be supported by Tactics which are in turn supported by more specific Actions. Tactics should identify who's primarily responsible to accomplish them and when they are targeted to be accomplished, along with an estimate of the resource commitments necessary. Tactics provide specificity to strategic commitments. While Strategies are appropriately top-down in origin, Tactics and Actions should be more self-defined and bottom-up. Strategies and Tactics align the work of the organization by shaping daily Actions at every level.

Good Strategies Cascade into Good Tactics

An organization should focus on a handful of Driving Strategies. Each of those Driving Strategies should be supported by a handful of Tactics. Tactics will be stated with more specificity than the Strategies they support. A Tactic can support more than one Driving Strategy.

Porter has developed "activity maps" that are designed to identify the key Strategies and their supporting activities as well as the interrelationships between them all. These maps provide one of the clearest perspectives on the relationship between Driving Strategies (big circles) and Tactics (small circles).

Southwest Airlines' Strategies are Supported by Robust Tactics



Source: Michael E. Porter, "What Is Strategy?" *Harvard Business Review*, November-December, 1996.

There is a "sequencing" that in principle characterizes the development of Strategies and Tactics. In theory, Strategy comes first, then Tactics follow. But Strategy often emerges from tactical concerns. Strategies and Tactics overlap, blend into one another, shape each other. Tactics and execution ultimately determine the fate of a Strategy. It takes rich tactical experience to develop truly sound Strategies. And tactical experience is most effectively built on the frontlines where the organization's value is created. Mao Tse-tung once commented that, *"Reading is learning, but applying it is also learning and the more important kind of learning at that."* Decades later, MIT's Peter Senge would make the same point as he advocated for the "learning organization."

In most organizations, executive accountability is associated with performance. But performance can be quite accidental; the result of luck rather than intent. Strategies intentionally generate the differences that translate into meaningful improvements in performance. A good Strategy delivers significant improvement in the key indicators of success. Delivering such improvement involves continuous monitoring of performance indicators such as speed, quality, and satisfaction. But accountability for Strategy requires more than accountability for performance. Strategies operate in the realm of accomplishment. They say, "Here is what we are resolved to do." So the question essential to assessing an executive team's accountability for Strategy is, "Did you accomplish what you committed to accomplish?" As Magretta comments, *"Strategy is not some arcane, academic abstraction. Strategy is about making choices that lead to sustainably superior performance. And the kind of performance I'm talking about can, and must, be rigorously defined and quantified."*

In Making Strategy Work, Lawrence Hrebiniak observes, *"Because the translation of strategy into short-term operating objectives is so important to the execution of business strategy, it must be controlled and orchestrated. Without this control, managers and workers at mid- and lower-level positions may be focusing on the wrong things. A differentiation strategy based, in part, on improved customer service will fail if short-term concerns focus primarily on cost and the avoidance of additional expenses, including those related to customer service. Similarly, if business strategies are changing and adapting to industry forces over time, execution of the new strategies will suffer if short-term objectives and performance metrics don't change and continue to emphasize decisions, actions and measures 'we've always had or relied on in the past.' A business simply must ensure that everyday objectives and performance metrics are consistent with its strategic goals and plans."*

After an organization has articulated a Vision of what it aspires to be, and clearly formulated the handful of Driving Strategies that will take it there, it should delegate to front-line managers decisions and authority related to defining and implementing the Tactics and action steps that might best accomplish the Strategies. In this way, the entire hierarchy of activities that comprise the most important work of the organization can be orchestrated in pursuit of the Strategies. Executives, including chief medical officers and those in finance, human resources, information technology and marketing, become aligned because they are required to answer, within the context of their own unique functional responsibilities, the same question, *"How do we accomplish our Driving Strategies?"* Out of considerable tactical dialogue dedicated to this question emerges ownership and alignment.

A "Strategy Leader" approach is often the most workable organizational model for pursuing effective implementation of Strategies. In the Strategy Leader model, a member of the executive team is assigned to orchestrate one of the Driving Strategies. This executive maintains his or her functional responsibilities while simultaneously taking on responsibility for guiding accomplishment of a Strategy. Because Strategies almost always cut across functional lines, the Strategy Leader will usually have to work across departments, some of which may be outside the realm of his or her direct responsibility and authority. This invariably forces executives to spend more time in communication and coordination - the very stuff that generates strategic alignment. The executive team then becomes the central coordinating body for effective implementation and adjustment of the Driving Strategies.

Competitive Strategy

For many people, the notion of Competitive Strategy is off putting. It is too closely associated with ruthless zero sum battles between aggressive players in dog-eat-dog industries. And even more distasteful to some is Strategy derived from military experience. After all, the object of war has been to leave as many of your opponents dead or out of action as possible. In his book, Certain to Win: The Strategy of John Boyd, Chet Richards conveys the necessity of a military stance by the ancient Greeks, *"Strategy was not an abstract issue for the Greeks. War was much more a part of their daily lives than for modern Americans and Western Europeans, where war has become something we watch on the evening news or experience as rising prices at the gas pumps. In heroic Greece, if your army lost, your walls were pulled down, surviving male adults killed, and women and children raped and enslaved. So they had a strong incentive to get strategy right."* Competition between Honda and Yamaha in the motorcycle market took on a ruthless warlike quality in the early '80s when Honda pronounced, *"Yamaha wu tsubusu!"* which roughly translated means, "We will crush, squash, butcher, slaughter Yamaha!"

But there is something seemingly out of synch when organizations committed to healing and prevention draw lessons from warfare. Still, there is an unavoidable reality related to Competitive Strategy. It has many of its roots in the military. Its terminology and many of its key concepts are drawn directly from the battlefield. So are the organizational charts and job titles so readily and comfortably taken for granted today by even the most benevolent and progressive of enterprises; terms like "department" and "division," not to mention anything with the word, "chief," in it. There is no escaping the military legacy in the management of contemporary organizations regardless of the altruism embodied in their purpose.

It may be possible to make a distinction between "bad competition" and "good competition." Bad competition leaves those engaged in it so wounded and worn out that they've diminished their ability to deliver value. Good competition, on the other hand, motivates organizations to continuously raise the bar on value by enhancing their products or services so as to build and maintain a differentiated value advantage. Good competitors compete to increase value while bad competitors compete only to diminish their rivals. Porter and Teisberg described the zero sum game as it's played out in health care. *"Costs are reduced by shifting them to others. Physicians are pressured to improve productivity by skimping on time spent with patients. Physicians win by merging into groups to gain more bargaining clout on rates . . . Health plans win by restricting services and muscling physicians to accept lower pay. In ways such as these, each player in the system gains not by increasing value for the patient but by taking value away from someone else."*

I got a taste of "good competition" while consulting with an academic medical center on its Strategies. Despite my best efforts, I couldn't seem to capture the attention of the faculty leadership. I eventually stumbled onto an approach that worked. In a planning session, I pointed out how far the medical center was falling behind other academic medical centers based on its reputation for advanced capabilities. That did it. Suddenly, previously disinterested department and division leaders were paying attention. They didn't care about managed care, neighboring community hospitals, service excellence or referral patterns. They did care about their standing relative to faculty at other academic medical centers. They were intensely competitive in that regard. I found that competitive spirit could be translated into improved performance including a healthier community.

I've also experienced what might be appropriately described as "bad competition" when the board chair of a community hospital vowed to put a competing hospital out of business. In a two-hospital town, this would have given the surviving hospital a virtual monopoly depriving the community of choice and putting a lot of folks out of work as well as forgoing the potential increases in value that good competition might have generated.

Choosing to be a good competitor carries an intrinsic vulnerability. What if your competitors decide not to be good competitors? As biologist, Edward O. Wilson, based on his lifelong study of ants, reminds us, there are bad competitors everywhere, *"The foreign policy of ants can be summed up as follows: restless aggression, territorial conquest, and genocidal annihilation of neighboring colonies, wherever possible. If ants had nuclear weapons, they would probably end the world in a week."*

A bad competitor in the midst of good competitors can be like a wolf among sheep. He'll eat the sheep regardless of how much they bleep about how bad he is. It's in his nature. Of course, there's a role for government and regulators when it comes to bad competitors. When Teddy Roosevelt took his "big stick" and busted up the trusts, he was ostensibly getting rid of bad competitors who were monopolizing whole industries. Still, a lot of sheep can be eaten before the government and the regulators decide to move. And politics and favoritism often comes into play. An example is the hands-off stance taken relative to the consolidation of health plans compared to the relentless attention given to policing consolidation of health care providers including physicians and hospitals. It is not a good Strategy to rely on being rescued by the FTC or an attorney general. A better stance is a strong defensive position. Farmers faced with packs of sheep-eating wolves learned to erect tall sturdy fences and keep a loaded rifle next to the door. An aggressive competitor usually requires an aggressive defense.

Not all competitors are rational, at least in a business sense. Antipathies can extend beyond competitive spirit. I once encountered two hospital CEOs who were running competing hospitals literally across the street from each other. They had been rivals since they had shared the same playground in grade school. At times, each appeared willing to sacrifice the best interests of their institution and the community in furtherance of a 30-year grudge match.

Competition and cooperation are often treated as if they were polar opposites occupying the endpoints of a continuum. There are countless examples of cooperation in nature as well as in business, politics and statecraft. Still, competition is the driver that underpins increases in value or in Darwinian terms, "fitness." Although there are clear tendencies towards cooperation, particularly among social animals like humans, I'd suggest that no living thing has cooperation as its prime imperative. Organisms and organizations cooperate to better compete. The biologist, Richard Dawkins, has argued persuasively that the animating force of life derives from a competition between organisms to get their DNA into the future. Cooperation is then a Strategy for advancing in competition.

While aggressive ruthlessness may be a natural condition of some industries, it is arguably inappropriate to one based on healing and prevention – one described as providing the most intimate of all human services. But even the most altruistic and passive of players will usually admit that good competition delivers benefits including steadily improving products and services, while lack of competition has the opposite effect – think of the DMV, the postal service, the airlines or any other enterprise that has been sheltered from competition through government sponsorship, regulation or monopoly. In health care, we have our own versions of these at work in CON laws, medical licensing and market consolidation.

By definition, winning requires competition. If there is no competition, there is obviously no need for Competitive Strategy. Today, the U.S. health care industry is a mix of market and mandate. In a market, there is choice, and organizations compete to be chosen. That choice is made on a comparative basis by weighing benefits against costs. Current value-based reimbursement policy promises to increase the level of competition in health care by shining an ever-brighter light on comparative quality, cost and satisfaction. Competition, good competition, will lead to improved quality, reduced cost and expanded access. In other words, it will create increased value.

Tactics: Strategies in Detail

Tactics have always been considered poor cousins when it comes to creating an advantage. Generals ponder Strategy and they send the Light Brigade out to tackle the Tactics. This is a serious deficiency in planning. Linger too long with Strategy and the rubber may never hit the road.

You've got to stoop to get tactical. Tactics make your shirt sweaty. Strategy is too often practiced from afar. Tactics are here and now. For the tactician, the challenge of creating an advantage is acute and dynamic simply because he or she is closer to the action. From the more distant perspective of Strategy, tactical movements may appear smooth and gradual. At a tactical level, reality is often defined by cascades of the unexpected and sharp reversals. A strategist may ride out the waves in an ocean liner while tacticians are left to bob violently in a life raft.

German Field Marshall Helmuth von Moltke may have put Strategy and Tactics in the proper perspective during the First World War when he suggested that, *"No plan survives contact with the enemy."* Harvard Professor Thomas Bonoma once put the case just as clearly, *"Business training, it seems, has bred too much of an armchair general's skill at commanding an army from the safety of the rear lines and too little of the master sergeant's ability to take a platoon up a hill under heavy fire."*

What are the differences between the challenge of Strategy and the challenge of Tactics? Compared to Strategies, Tactics must respond to circumstances that are:

Dirtier. You've got to be willing to move from thinking to doing. Rub shoulders with those who create value and consume it. Live with them. Try to think like them.

Faster. You've got to be able to move if you're going to play at a tactical level. It's usually too fast for a spreadsheet and leaves little time for cultivating consensus.

Unique. When it comes to Tactics, skills and insights are not easily transferable from one industry to another. The closer you get to the action, the more the road winds in ways you may never have seen before.

More Volatile. *"Flecti non frangi"* is Latin for "bend but never break." It's essential wisdom when it comes to Tactics. You've got to be willing and able to change your direction quickly as circumstances change. Agility and resilience are key at the tactical level.

Less Forgiving. Strategy provides some breathing room for error. In high-risk environments, one wrong tactical move can knock you out of the game. Strategy may own the intellectual high ground but Tactics can punch holes in your hull below the waterline.

More Uncertain. There is no such thing as a "trend" when your time span is measured in weeks, days, hours and sometimes in minutes. Tactical situations are invariably foggy.

More Responsive. In tactical situations, your resources are often more fully under your control at least in the short term. Such direct influence is usually beyond the reach of Strategy.

Difficult to Redirect. Because Strategy takes much longer to fully deploy, it is possible to change its course. On the other hand, once folks have stormed up the hill, it's very difficult to disengage them.

Potentially Glorious. Let's face it; there is no glory in flip charts. Glory belongs to those who make things happen to those who learn to speak with credibility from the experience of doing.

More Dangerous. No doubt about it, whenever you're out where the bullets fly the chances of getting shot increase. It's hard to hide behind a strategic plan when you've been given responsibility for making things happen.

What characteristics help create tactical effectiveness? The following are critical:

Flexibility - The ability to react quickly is extremely important at the tactical level where changes occur much more suddenly and unexpectedly. Only by pursuing Tactics that provide options for alternative action can flexibility be ensured. At the strategic level it is a different matter. Strategies that are constantly being changed often suggest weak Strategies. But as the Persian emperor, Cyrus, once observed, *"It's a bad plan that admits no modification."* This is particularly true at the tactical level.

Communication - The effective movement of important information is essential to tactical success. Coordination depends upon clear, accurate and timely communication. The resources of the organization cannot be brought to bear in a systematic fashion without it. Organizations have a natural propensity, particularly as they become larger, to impede the ready flow of important information. Unless consciously sought and managed, communication will not flow effectively.

Attention to Detail - Strategy rightly concerns itself with broad movements and trends. Those vested with tactical responsibility must be concerned with more minute phenomena. "God," as architect Ludwig Mies Van Der Rohe once suggested, "is in the details." This is especially true when it comes to Tactics.

The hand-signed letter displays attention to detail. With an eye to details, Pepsi-Cola once determined that vanilla had been the essential ingredient of the "old Coke" when it noticed vanilla shipments from Madagascar fell precipitously with the introduction of the "new Coke."

Intuition - Intuition is a primal collection of personal and inherited experiences that often transcend the rational. It is a fine feel for the doable informed and fortified by doing.

Ross Perot once described intuition as being able *"to bring to bear on a situation everything you've seen, felt, tasted and experienced."* Steve Jobs consistently disregarded consumer research in favor of his own intuition.

Simplicity - The more complex the effort, the greater the chances you'll end up tangled in your own cleverness. Brilliance is most clearly demonstrated when the complex is distilled to the simple - when "common sense" is made common. As events become more transitory, the need for a simple game plan becomes increasingly important.

Speed - The ability to move with dispatch is the sign of a tactically able organization. "Timing" often is everything. Many opportunities pass as fast as they arrive. Spend too much time aiming and you become more likely to get shot. Strategy benefits from its broader perspective. It can afford to be introspective. Tactics usually provide no such luxury.

Initiative - If you're constantly reacting to your competitors' moves, then you're letting them write your game plan. You have to write your own game plan. That means moving before your competitors move and forcing them to react. As Sun Tzu, suggested in The Art of War, *"The clever combatant imposes his will on the enemy but does not allow the enemy's will to be imposed on him."*

Surprise - Surprise dislocates. It generates confusion and panic. Some experts suggest that after size, surprise is the most powerful tactical option. Surprise demands quickness, security and deception. General Mark Clark once remarked that "surprise is worth a thousand soldiers."

Surprise is one of the least used of all tactical options in business. Executive egos and a preoccupation with "strutting your stuff" in front of peers and security analysts has washed surprise away.

Intimidation - Harassing competitors can be done in ways that demoralizes them. Stony silence from a market leader can be as disarming as public pronouncements. When John Deere began to investigate a more aggressive position in heavy construction equipment, Caterpillar responded quickly by signaling an interest in manufacturing farm implements. Deere backed off.

Intelligence - As von Moltke once suggested, *"You will usually find that the enemy has three courses open to him; of these he will adopt the fourth."* You've got to know what your competitors' intentions and capabilities are, while keeping a watchful eye on the needs of the market.

Years ago when Procter & Gamble developed its secret recipe for "Soft Batch" cookies, competitors flew light aircraft low over P&G's plants in attempts to photograph the trucks delivering the ingredients that would make the new dough.

Deception – Some use "disinformation" to confuse competitors by leaking false information. Disinformation has much precedent in history. Stonewall Jackson advised, *"Always mystify, mislead and surprise the enemy."* Sun Tzu consistently advised the use of deception. *"All warfare,"* he said, *"is based on deception. Hold out baits to entice the enemy. Feign disorder, and then defeat him."*

Morale - Competitive contests are often won in the hearts of the men and women who wage them. The ability to elevate and direct those hearts remains one of the most important and elusive of talents. Morale relates to the mental state of the organization. Its most meaningful indicators are resolute commitment, enthusiasm and confidence. Morale is a variable. An organization can slip from "turned on and focused" to "despondent and aimless."

Southwest Airlines has been in the top five of *Fortune's* list of best companies to work for since 1997. Its emphasis on employees is the legacy of former CEO, Herb Kelleher, who was famous for cheerleading and theatrics designed to engage, motivate and direct employees to what he regarded as important. He once observed that Southwest had something competitors were unable to match – an attitude of commitment. When a Southwest jet nears the gate, Southwest employees run to meet it. Its competitors' employees don't demonstrate the same hustle. Kelleher's approach to employee relations was straightforward. He spent time with them.

Discipline - Although the goal of the leader must be to energize his organization, energy undirected can quickly run amuck. Discipline is a constructive force that contains and directs the energy of the organization.

The ancient Athenians, well known for their democratic tendencies, had discipline down pat. In one instance, they executed six admirals who, despite being victorious in battle, had failed to recover the bodies of drowned Athenian sailors from a stormy sea. Resolute, tough-minded discipline, of course, runs in the face of the popularity of warm-hearted participative organizations.

Innovation - Just before the Battle of Crecy, the general in charge of the French troops displayed his obvious lack of respect for an innovation introduced by his foes, the English. That innovation was the long bow. The Frenchman promised that after he defeated the English he would cut off the two fingers the archers used to draw their bows. But the French lost and as the battle concluded, the English archers held their two fingers high in what would become the familiar "V" for victory sign. It was an explicit demonstration of the power of innovation.

Retreat - It's much better to back away and fight another day than to continue throwing yourself into an obviously hopeless situation. Besides serving as a defense against further losses, retreat can also serve as a technique to lure competitors into traps. The appearance of a retreat can encourage an organization to pursue, unwisely assuming that a competitor has been wounded and is vulnerable. Instead, the challenger can find itself at the end of a very long alley, resources spent, facing a hungry lion.

Avoidance - Different than retreat is the decision to simply not fight. The objective here is to conserve resources by refusing to commit them until the situation is the most advantageous. The Japanese intentionally avoided involvement in the American auto market until they had refined their products and marketing techniques in Europe. Having scored there, the Japanese moved to take on the American car manufacturers by focusing first on the California market, and initially avoiding confrontations in the conservative Midwest.

The successful CEO will often have a talented tactician at his elbow. When big boats compete in a sailing regatta, crew members have well defined roles to play. There is the skipper, who is responsible for steering the boat and issuing commands that align the crew. The skipper is the chief strategist. But positioned in close proximity to the skipper is the tactician. The tactician watches the water, the wind and competitors continually feeding observations and recommendations to the skipper.

Note: Additional perspectives on Strategy in Health Care can be found in more than 200 articles that The Beckham Company has published and which are available on the company's website at www.BeckhamCompany.com.

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