



Inspiring Healthcare Leaders
Accelerating Change

Where's the *Strategy* in Strategy Deployment?

Jeff Hunter

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Introduction

When healthcare systems adopt lean thinking principles and methods, without adopting true strategic thinking, they are not utilizing “strategy deployment.” Healthcare leaders began this as a process for aligning and managing their organization’s improvement initiatives to create more value for customers and for becoming a stronger organization. Unfortunately for most health systems—their strategic plans look remarkably similar to other healthcare systems because they focus on the same broadly-labeled, all-inclusive sets of operational effectiveness activities and not on differentiation activities. The problems this produces are:

- Overburdened and confused staff caused by leaders not making choices to just a few “breakthrough” initiatives for the organization to undertake and not deferring other initiatives. The staffs are already struggling to learn a new way of thinking as they tackle lean systems and processes.
- Organizations that essentially pursue only operational effectiveness activities create no relevant differentiation among competitors. This is occurring at a time when the healthcare market is seeking and rewarding unique value propositions.
- The pace of deployment, improvement, and organizational learning is painstakingly slow in existing organizations compared to the pace of new entrants in the competitive space. The new entrants are using their retail experience and web-based technology to understand and solve customers’ problems much more rapidly than traditional healthcare organizations.

These problems result in healthcare systems experiencing diminished operating performance, losing patience with lean implementation due to unrealized benefits, facing declining market share to specialized, retail-oriented providers, increasingly feeling the pressure to consolidate with other similar organizations, and ultimately not fulfilling their role in improving community health.

Healthcare systems can learn methods of strategy formulation and deployment from other industries that use a more focused and nimble strategic thinking process, and that produce

unique value for customers. These methods involve making informed strategic choices, viewing such choices as hypothetical solutions, and deploying these choices through controlled experimentation using rapid learning cycles. The result is a reduction in overburdened staffs, creation of meaningful differentiation, and more rapid organizational learning, which is the true source of competitive advantage.

What is Strategy?

The good news is that many healthcare organizations are adopting lean thinking to remove waste that frustrates both customers and providers. Strategy deployment can make the organization's purpose and vision clear, so employees at all levels see how they can contribute; it creates an atmosphere where employees can align their personal beliefs, behaviors, and actions with those of their co-workers to produce breakthrough results. But as the Japanese term for strategy deployment was translated into English the very concept of strategy was lost in translation.

Michael Porter, in his classic 1996 article "What is Strategy?" in the *Harvard Business Review* said, "Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value." He gave examples of industries where the major competitors all improved their operational effectiveness, but the lack of differentiation created a commodity market that drove margins out of the business and caused waves of consolidation. His points:

1. Strategic planning is about making *choices*
2. While operational effectiveness is important, it is *not* strategy
3. Strategy deployment creates *new and different processes* that produce a unique value.

In addition to confusion over the idea of what strategy deployment means, strategic planning is often treated as an *event* produced by consultants every few years, rather than a continuous process that builds organizational capability for strategic thinking. And fed into these planning events were market research studies that relied on what customers said they *might* do if offered a different value proposition. Unfortunately, these plans have a tendency to grow rust and

become irrelevant within six months of their final formulation, but result in large expenditures of capital and talent on “strategies” that do not fulfill their promise.

Serial entrepreneur Steve Blank describes in his book, *The Four Steps to the Epiphany*, the pitfalls of relying solely on information culled from statistical samples such as phone calls, questionnaires, or focus groups. He argues for the benefits of “customer management” where deep insights are gained through immersion and observation of customer reactions to new value propositions. In *The Lean Startup*, entrepreneur Eric Ries builds on this argument by showing how rapidly-changing industries such as software development start with a “minimum viable product”, develop an innovative value proposition through rapid experimentation, and then learn when to “pivot or persevere” in the design phase.

These newer planning methods are being used in healthcare by tech-savvy, retail-experienced, narrow-niche providers such as pharmaceutical chains, free-standing imaging centers, and “tele-doc” services to take market share from physicians and hospital organizations. These new providers are focused and they learn quickly. Their methods are built on the chassis of Plan-Do-Study-Act thinking which is at the core of a lean transformation.

The Urgency of Reconsidering How We Plan and Deploy

Besides learning from non-traditional entrants how to transform their organizations, healthcare systems can gain insights into their own situation from the experience of the deposit side of the banking business. Starting in the early 1990s, there was a shift from defined-benefit to defined-contribution pension plans. This altered the financial services industry. In this new environment, consumers had to make investment decisions that had previously been made for them. New financial service competitors developed to serve these segments, armed, like the health care entrants, with technology interfaces and relationship management skills that enabled them to help consumers navigate choices and manage risk.

Unable to rapidly adapt their business model to this new paradigm, banks remained competitive in high-volume, low-margin transactions, but the new entrants were successful in taking away higher-margin, relationship-based business. Today, banking institutions remain relevant and

significant in the financial services industry largely as the result of consolidation. This is one of several reasons there are half the number of banks than twenty years ago and their combined share of the financial services industry has declined significantly.

As health insurance shows signs of transitioning from a defined-benefit to a defined-contribution paradigm, similar trends are impacting healthcare systems. Consumers are at greater risk for the decisions they make and they find the decision-making process scary and confusing, creating the space for new value propositions. As market share and margins decline, the remaining organizations are caught up in waves of consolidation.

Differentiation from competitors may not have been critical when increasing demand and prices fueled industry expansion. But as both flatten, competitive strategy has become ever more important.

Lack of Strategy - A Challenging Context for CEO's

There are many factors and forces that make it very difficult for the C-suite to create focused, nimble healthcare enterprises that use rapid-cycle improvement. By their very nature and structure, these healthcare organizations are “professional bureaucracies.” Patient care delivery processes are designed around concerns about the healthcare organization’s autonomy and preferences, not by value creation from the customer perspective. Current payment systems reinforce this “silo” behavior by “paying for parts” rather than paying for the value produced by the entire episode of care. And each profession wants to be at the top of the priority list in strategic plans.

Healthcare has long been known as a “cottage industry” dominated by these professional guilds. There has been a general lack of process orientation supported by adequate knowledge management systems that deliver timely information at the point of decision. This makes systemic value creation slow and difficult.

Decades of growing demand and price increases have bred a complacency and inertia among industry incumbents. The strategic plans of most have focused on providing additional capacity and assets to keep up with that demand. The historic structure of third-party insurance

reimbursement removed much of the risk for bad business decisions. The cost of excess capacity has been carried by the customer rather than doctors and hospitals.

Healthcare systems are highly regulated, quasi-public organizations that are influenced by many stakeholders in the process of generating demand and setting expectations for outcomes. Regulation can provide barriers to innovation, often to a greater degree for traditional organizations. For example, standardized quality improvement metrics for physicians and hospitals are dominated by hundreds of third party-generated process measures, rather than those which will create unique value for patients.

Conflicting goals can create dilemmas for senior leaders. While they may hear expectations from others to improve the health of a population, reduce demand for clinical care, and slow the community's expenditures for healthcare, pre-occupation with revenue growth occupies Board agendas and executive compensation formulas.

Putting Strategy Back in Strategy Deployment

Lean healthcare systems can improve the focus, speed, and effectiveness of their strategic planning and execution by thinking of it as a Plan-Do-Study-Act (PDSA) cycle. PDSA is the basic method for transforming organizations. It is similar to the approach practiced by clinicians when they diagnose and treat patients and by nurses when they do daily improvement.

The PDSA process should also be at the heart of the C-suite's strategic planning. In the "Plan" phase, you start with understanding where you are (current condition), how you got there, and the strategic issue (problem or opportunity) that exists in your current condition. Keeping your eye on the vision, you aim for the next target state, and see the gap that must be closed between the two states. Once you agree on the strategic issue, you then generate possible actions, or countermeasures, to close that gap through a critical few initiatives.

The first key point to improve your strategic thinking is to apply PDSA to strategic planning. When you pick a strategy (countermeasure), you are choosing a hypothesis to be tested. You are making assumptions, as the former dean of the Rotman School of Management at the University

of Toronto Roger Martin says, about “What must be true?” When you deploy your chosen strategy, you progress through the “Do” (Perform the experiment), “Study” (What did we learn?), and “Adjust” (What should we try next?) phases. The objective is to rapidly learn what is working and to build out your solution in the most effective and efficient manner without “betting the ranch” on your original hypothesis.

The second key point is to put *strategy* back in your thinking when you do *strategic* planning. You must identify and implement areas of sustainable differentiation from your competitors that are relevant to your customers. This is the essence of strategy as Porter explains it-- to build *different* processes that create a *unique*, relevant value.

This why lean is so helpful to strategic planning--lean is about developing people to *improve process to serve purpose*. While you constantly become more operationally effective through incremental and stepwise improvement of existing processes, you must also build new and different processes that create relevant customer advantage.

When you are formulating and deploying strategy you are bringing into existence competitive advantage through different processes that create a unique, relevant value. But your proposed solution is a *hypothesis* that makes assumptions about what your customers value, your ability to execute, and your competitors’ capabilities and reactions. You must build out your solution using rapid PDSA cycles to learn quickly what is working and what is not. Moreover, this strategic approach removes personal conflicts generated by “I’m right, you’re wrong” thinking and places conversations into a framework of learning based on results. In some cases, all parties might be right. If not, progress is measured by the truth, not by feelings.

A Strategic Management System for Healthcare

This system develops the capability in a leadership team to keep the strategic plan alive and up-to-date. You always set a vision--your North Star—then you rapidly learn how to get closer to that North Star.

How specifically does the system work? The steps include:

1. Generate agreement on the strategic issue. This starts with an understanding of the factors and forces impacting the industry in which you exist, the competitive environment in which you operate, and your current business model. Don't be limited by a SWOT (Strength, Weakness, Opportunities, Threats) analysis; it keeps you in the box you already know. Rather, develop the capability to understand customers' latent and emerging needs, and constantly ask "What is it that we need to know that we *don't* know?" Use these insights to look at the world differently.
2. Develop potential countermeasures (*process innovation* initiatives), and select the few that you believe have the highest potential. The cascade of questions posed by A.G. Lafley and Roger Martin in their book *Playing to Win* is extremely helpful in this phase. They urge leaders to solve the strategic issue by first identifying a Winning Aspiration—what does winning look like and how would you know? Then they need to make *choices* of target segments (where to win), sources of competitive advantage (how to win), and the unique capabilities and critical management systems to create that competitive advantage in the chosen market space.
3. Because the chosen solution is a hypothesis to be tested, the next step is to reverse-engineer your logic by asking "What must be true?" Matthew E. May has developed highly-effective visual tools and interactive methods to facilitate strategic choices, reverse-engineering, and the "What must be true?" question and then rapidly deploy experiments the use lean learning loops.
4. Finally, establish a visual management system with which the leadership team regularly studies and adjusts the breakthrough initiatives, and supervises the flow of new ideas so that they don't overwhelm those already in progress.

Treat Strategy Deployment as Rapid Cycle Experimentation

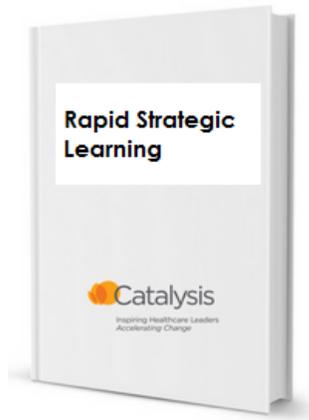
Your historical method of strategy deployment may have been to create huge, over-arching themes of activities that often involve large scale expenditures of human and capital assets. Then you have attempted to codify what people at each level in the organization will be doing to execute the plan over three to five years. Since you didn't want to leave any idea behind for risk of offending a key stakeholder, and you didn't want to list an overwhelming number of ideas separately, you developed broad labels for your initiatives.

The lean method of strategy deployment recognizes that you are deploying hypotheses, based on assumptions of how your customers will respond, what your competitors will do, and your own ability to execute. This is where you can learn from lean-thinking innovators like Matthew E. May, Eric Ries, Steve Blank, IDEO's Tim Brown and a host of others.

As you begin experimenting with a hypothetical solution, you start with a "minimum viable product" and build it out using lean learning loops. With each iteration of your experiment, you determine if you should, as Eric Ries says, "pivot or persevere" with your original hypothesis. This is complementary with the principles and methods of lean product development.

Recognizing it is often difficult for the C-suite in a large healthcare system to change decades of old strategic thinking, this method is the "elegant solution", using Matthew E. May's term, to strategic planning and deployment. Build from deep customer insights, make strategic choices, and then use PDSA thinking to craft a lasting solution through rapid experimentation. As a result, healthcare systems will have more focus, reduce overburden, create differentiation, and learn faster. And as many insightful business thinkers have said, the only remaining source of competitive advantage is the ability to learn faster than your competitors.

More new information on strategic management will be available in a new book coming from Catalysis in 2018.



**Rapid Strategic Learning:
A Strategic Management System for Healthcare**

by Jeff Hunter

To learn more about finding your strategy in strategy deployment please contact:

Catalysis

Marta Karlov, Director of Education

mkarlov@createvalue.org

Catalysis Faculty:

Jeff Hunter

Jeff Hunter Strategy LLC

jeffhunterstrategy@outlook.com