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Strategy and Synergy in Healthcare

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By Dr Jeremy Lim, Editorial Board Member

"All men can see these tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved."
– Sun Tze

Strategy, traditionally confined to the military, really came of age in the business world with the publication of Prof Michael Porter's seminal tomes *Competitive Strategy: Techniques for Analysing Industries and Competitors*, and *Competitive Advantage: Creating and Sustaining Superior Performance*. In many senses, Porter was one of the leaders in management thinking to frame strategy as a systematic, logical process of examining the internal and external business environment to determine an organisation's plans and actions. In *Competitive Strategy*, Porter highlights the two generic strategies of cost leadership and differentiation. Meanwhile, in *Competitive Advantage*, which the *Financial Times* described as the "most influential management book of the past quarter century", Porter introduces the concept of the value chain and exhorts managers to focus on strategy, highlighting that only a careful analysis of the industry and a firm's relative position in the industry can give rise to a sustainable competitive advantage, ie, a "winning strategy".

But what is strategy really? There are many competing definitions and frameworks to develop and analyse strategies, but the most succinct and plain speaking is probably former General Electric Chief Executive Officer (CEO) Jack Welch's pithy insight, "You pick a general direction and implement like hell."

In my experience, of the many analytical tools available in the business press, the four most useful for the healthcare sector, given its unique structure, are:

1. Porter's concept of competitive advantage;
2. Clayton Christensen's depiction of healthcare comprising three very different "jobs";
3. Recognition of healthcare as an ecosystem and the importance of thinking in terms of systems and interacting loops, rather than discrete single "key success factors"; and finally
4. Daniel Kim's focus on strategic coherence through the "Hierarchy of Choices" pyramid.

1. Competitive advantage

"Strategy is about setting yourself apart from the competition."
– Michael Porter

Porter defines competitive advantage in two generic strategies: cost leadership or differentiation. In cost leadership, products or services must at least achieve parity or near-parity with the competition and offer to customers the benefit of lower prices. Cost leadership is, however, a "lonely" strategy: firms must be the ONLY cost leader, and to such an extent that others are persuaded to abandon the competition on pricing. Cost leadership also requires a heightened sense of preemption and always watching over one's shoulders as it is an advantage that is particularly prone to being disrupted by newcomers and technological advances.

Differentiation occurs when a firm seeks to be unique in its industry in some characteristics that customers find valuable. These characteristics are selected as a source of competitive advantage, and the firm positions itself in its chosen niche which, if done well, allows pricing at a premium. Costs are still crucial, as it goes without saying – the cost of this differentiation must be lower than the premium in pricing for profits to ensue. Differentiation, in many senses, is a more inclusive strategy as more than one firm can be differentiated as there are multiple dimensions to elect to be different.

A final axis of competitive advantage is "focus" and this simply means that firms deliberately choose to remain within a narrow industry segment. Porter gives the example of Hammermill Paper, which focuses in low-volume, high-quality specialty paper, whereas the larger paper companies with higher volume machines "face a stiff cost penalty for short production runs". Modern day examples can be found in Germany's Mittelstand companies, which typically

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What Makes Healthcare and Healthcare Strategy Special?

Peter Drucker, the late management guru, described healthcare as the "most difficult, chaotic and complex industry to manage", and it is not surprising once we pause to consider the nature of healthcare.

People, people, people

Stanford professor Victor Fuchs' observation that "Hospitals don't have patients. Doctors have patients and hospitals have doctors" captures succinctly the often difficult and unequal relationship between hospitals (or healthcare facilities) and physicians. Unlike many other sectors, in healthcare, the doctors hold the aces, not the hospitals. And doctors (and other professionals in healthcare services) epitomise "knowledge workers", who need more than money. Compensation is important but not as important as challenges, fulfilment and balancing between family, work and other often related professional interests. For example, many doctors would classify themselves first and foremost by specialty and then by employer, and many deem it important to contribute to the advancement of their specialty and profession through active participation in professional societies. Staff management is probably the biggest challenge facing managers in healthcare; employees must be engaged professionally and emotionally. CEOs report spending more of their time on physician relations than any other role, and rightly so.

What a mess!

Healthcare is a classic example of a "mess" which, believe it or not, is a technical term coined by Russell Ackoff when he eschewed the "Machine Age" reductionist models of problem solving (Figure A).[1] Instead, he advocated for thinking of "messes", such as healthcare, in terms of "purposeful systems", where "members are also purposeful individuals who intentionally and collectively formulate objectives and are parts of larger purposeful systems".[2]

Figure A

In the Machine Age, messy problematic situations were approached analytically. They were broken down into simpler discrete problems that were often believed to be capable of being solved independently of one another. We are learning that such a procedure not only usually fails to solve the individual problems that are involved, but often intensifies the mess. The solution to a mess can seldom be obtained by independently solving each of the problems of which it is composed. This appears to be the case, for example, in our current handling of the urban mess. Efforts to deal separately with such aspects of urban life as transportation, health, crime and education seem to aggravate the total situation.

These systems are complicated with thousands of interconnected parts, and woes betide the manager who underestimates the "butterfly effect" in healthcare. Many years of careful and deliberate study, and deep understanding of healthcare systems are needed before managers can confidently navigate in such complexity.

Unique yet ubiquitous

Every patient is unique, and yet virtually, every human being would have some prior experience with the healthcare system, making for non-naive customers or consumers. Hence, structuring for uniformity, so important in many other sectors, is necessary and yet fraught with challenges for balancing a customised and caring experience with brutal efficiency and streamlining.

Implications of the above considerations discussed

1. Healthcare is a business, especially in our Singapore market economy. As with any business, competition is to be expected, and what matters is how one differentiates oneself from the competition. This competition is intense, dynamic, ever-present and fast-paced, and commercially, the one thing that really matters is the customer and fulfilling what the customer wants.
2. "Messes" like healthcare need an ecosystem approach akin to how clinicians are taught to conceptualise biological systems, where principles like homeostasis and positive feedback/cascades are key to understanding.
3. Knowledge workers, like doctors and nurses, can unleash their fullest potential when they are crystal clear about organisational goals, and how their actions fit into and contribute to the larger picture. Failure to recognise this has been and will continue to be fatal for many healthcare managers. SMA

References

1. Ackoff RL. Systems, messes and interactive planning. Available at http://www.moderntimesworkplace.com/archives/ericsess/sessvol3/Ackoffp417.opd.pdf. Accessed 11 October 2012.

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are medium-sized family owned businesses which focus on high-value manufactured products to serve businesses rather than consumers, and have worldwide niche leadership positions.

Putting these three together gives a matrix as below (Figure 1), which simply but elegantly illustrates the various sources of competitive advantage which companies must strive towards. A final note, before we end this section: being stuck in the middle is the worst place to be. Being cheap but not the cheapest, being okay quality-wise but not the best are recipes for commercial disaster.

Figure 1

	Cost	Differentiation
Industry-wide	Lower costs across the industry	Better products/ services across the industry
Focus	Lower costs within an industry segment	Better products/ services within an industry segment

2. What is the "job"?

Harvard professor Clayton Christensen describes the notion of a "job" which customers hire products or services for. Hence, the milkshake which, in the morning, serves to alleviate the boredom of a long drive to work without messing up the car, is also the milkshake which, in the afternoon, is the balm to soothe the guilty father's conscience when he purchases one for his children. The job the milkshake is hired for impacts on what the milkshake should be – the morning milkshake needs to be thicker and punctuated by bits of fruit or nuts to increase the excitement quotient, while the afternoon milkshake is a convenient penance and should be less viscid so that the gleeful child can gulp it down as quickly as possible and spare the father an agonising wait. Truly understanding the job the customer wants done, Christensen says, can increase "success" by as much as 30% to 70%.

Bringing this insight into healthcare, Christensen argues that the job that patients hire the healthcare system for can be conceptualised into three main categories: to find out what is wrong (**diagnosis**), to get it fixed (**treatment**) and to live as normally as possible with a chronic disease (**disease management**). He further stresses the point that hospitals and healthcare providers today try to do all three simultaneously in the same structure, and this is responsible for much of the inefficiencies and consequent high costs. Christensen hence encourages healthcare providers to disaggregate their resources and reassemble them into three groupings to do the three jobs, that patients hire healthcare systems for, separately. Finding out what is wrong is a "solution shop" business model, conceptually not dissimilar to management consultancy, and requires the best and most innovative minds from multiple disciplines working together. Fixing the identified problem (usually surgically) is then a role that "value adding" providers should embrace using modern management tools, such as Lean and Six Sigma, to drive out inefficiencies and minimise expensive variance. Finally, "disease management" is best done by a "network" of providers, actively involving the patients themselves. The analogy would be what happens in most pregnancies – the doctor's real role is to simply ascertain a healthy stereotypical pregnancy and monitor the patient periodically. The clinic nurses may offer the patient some advice on diet, preparation for labour, etc, but the real support comes from other mothers and family. This model of care has served expectant mothers well since time immemorial, and a little less "medicalisation" of chronic conditions, such as diabetes, and a lot more "socialisation" would bring us closer to the "network" care Christensen advocates.

3. Key success loops and not factors

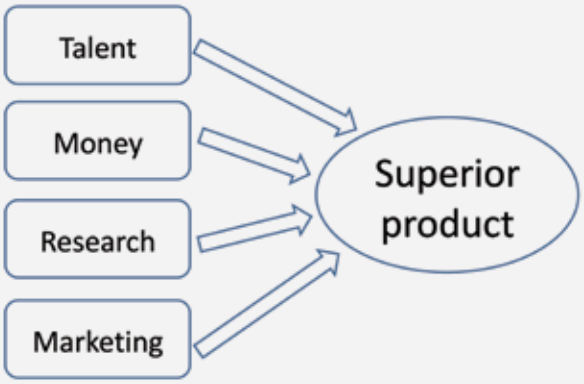
How many times have we been asked to drill down to that one key success factor? Managers rationalise that resources are limited and it is therefore essential to focus on just those one or two initiatives that give the "biggest bang for buck". In Western healthcare systems, where a

reductionist mindset is the dogma and where we conduct clinical trials keeping everything the "same" except for one crucial difference, it is especially difficult to move our mental models away from key success factors to key success loops.

However, life is not linear or straightforward as systems thinking pioneer Russell Ackoff's description of the "messes" demonstrates. Healthcare, as a sector, is extremely complex with multiple moving parts and interrelations. It is a "complex adaptive system",[1] much like the human body, and clinicians with sound grounding in Physiology should be able to intuitively understand how challenges in healthcare should be approached.

Consider this very simple example. What drives business success? A linear thinker may identify just key success factors (Figure 2).

Figure 2



A systems thinker, on the other hand, would see the relationships between the key success factors and organise them into a series of loops, which perhaps look something like this. And further reflection would highlight more factors as well as include the additional dimensions of time and human dynamics (Figure 3).

The world as a series of loops

What are the benefits of thinking in loops? There are at least two major benefits.

Figure 3

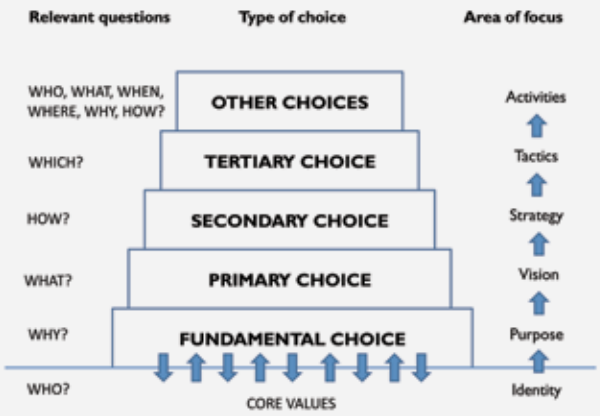
Firstly, loops allow one to see the interconnectedness of various "critical factors" and how one without the others is insufficient. Infusion of only one factor creates unhappy bottlenecks further down or distal to the factor, and success remains elusive.

Secondly, loops represent a "theory of success". Despite the business world scorning theories as "academic" and "theoretical", and considering it a disdained word in commerce, leaders actually have a crucial role as theory builders. The organisational "theory of success" concretely captures the underlying mental models of the decision makers and makes explicit the assumptions, thus enabling those further down the hierarchy to understand the rationale behind decisions, and feel empowered and even emboldened to take the initiative and make courageous business decisions down the ranks. This is crucial in healthcare and very much aligned to our later discussions on strategic coherence.

4. Strategic coherence

Daniel Kim of the Massachusetts Institute of Technology's Centre for Organizational Learning illustrates the necessity of strategic coherence very nicely using the framework "Hierarchy of Choices" (Figure 4). In this model, "strategy" is clearly understood as second-order and driven to a large extent by choices already made in defining vision, mission and values. The coherence up and down the hierarchy is exceptionally important in healthcare organisations, where individual actions define so explicitly the final product or outcome. Every patient is different, every disease in every patient is different – the degree of professional autonomy is often staggering to the novice in healthcare. This autonomy necessitates strong alignment, which can only arise if every member of the team understands the mission, vision, guiding values, and how strategy and ground-level tactics are derived from these.

Figure 4



A Mayo Clinic anecdote, which is almost mythical now, is illustrative. When asked what his job was, a janitor working there proudly proclaimed, "My job is to reduce hospital-acquired infections!" How many of our janitors in healthcare organisations would be able to say likewise? Far more likely, they would stare at the questioner in astonishment and wonder aloud why the answer was not obvious from the pail and mop…

If, from the top to the bottom, from the front end to the back room, every member of the team can articulate the mission, vision, and how their individual jobs and departmental strategies fit nicely back into the mission and vision, there will be organisational alignment and strategic coherence. This is easier said than done, especially when two very different worlds, the world of commerce and business, and the world of patient care, collide. Managers are exhorted to read political theorist Niccolo Machiavelli's *The Prince*, and being conniving and just "honest enough" are considered to be sound business approaches. For example, Machiavelli advises: "A wise ruler ought never to keep faith when by doing so it would be against his interests."[2]

Healthcare organisations run into difficulties because many managers cannot reconcile themselves with the realities that decisions about vision, mission, and core values, reverberate into strategy and tactics with "unintended" (at least to them) consequences.

There is a tale told of Deng Xiaoping during the heady years of China's opening up. Once, when approaching a T-junction, Deng's driver called out to him, "Comrade Deng, there is a fork ahead. The signs say 'left' for communism and 'right' for capitalism. Which way should I turn?" Deng considered for a while and then sagely replied, "Signal left but turn right!"

In Singapore, government-owned hospitals (termed "restructured hospitals" as they have all been corporatised with independent boards and management but remain 100% owned by the Government through a holding company) have a mission to care for every Singaporean, regardless of their ability to pay. However, for some restructured hospitals, over half of their revenues are derived from patient fees with private full-paying patients accounting for substantial amounts, resulting in hospitals actively pursuing full-paying patients and offering services like aesthetic surgery and executive health screenings. Once, in a closed-door meeting, a senior physician exasperatedly asked the Health Minister, "Tell me, Minister, are the restructured hospitals public or private hospitals?" The Minister's response? "A restructured hospital is… a restructured hospital."

The "strategic ambiguity" that sophisticated managers consider to be the norm in today's business world and their raison d'etre is often anathema to the coherence that a healthcare services organisation needs. And ironically, the most successful organisations, whether public or private, in healthcare or otherwise, have no need for such ambiguity.

The renowned author of *Good to Great*, Jim Collins writes: "Every truly great organisation demonstrates the characteristics of preserve the core, yet stimulate progress." On the one hand, it is **guided by a set of core values and fundamental purpose – a core mission that changes little or not at all over time** (emphasis mine), and on the other hand, it stimulates progress – change, improvement, innovation and renewal. The core mission remains fixed while operating practices, cultural norms, strategies, tactics, processes, structures and methods continually change in response to changing realities."

Consider academic medical centres. It is very trendy to aspire to be an academic medical centre and embrace "innovation" as a core value. But embracing innovation and clinging on to tight "command and control" hierarchical structures present in the typical government hospital may be mutually incompatible! How many managers realise and accept that being an academic medical centre commits

an organisation to a defined human resource strategy which should set out to recruit and retain innovators? Well, innovators are mavericks and, more often than not, extremely troublesome to managers. The rules never seem to fit the needs or the ambitions of these innovators, and they just never seem to listen. In fact, a Harvard Medical School professor once announced at a conference that being the head of an academic medical centre was like being a graveyard supervisor: "You're on top of everyone, but nobody's listening!"

Organisational design for academic medical centres then need to factor in these individuals who will be par for the course, and human resource, business expansion strategies, etc, all need to take into account the personality types. In Singapore's push to become a biomedical hub, one of the earliest, somewhat painful lessons involved Johns Hopkins and the realisation of the different organisational dynamics of academic medical centres. Dr Beh Swan Gin, former Managing Director of the Economic Development Board, wistfully shared, "I have to say, Hopkins was a personal lesson. We worked on the assumption that big name universities run like large multinational companies. You assume that when the leadership of a university is very committed to doing something, things will work out. I mean, Bill Brody, then President of Johns Hopkins is on the record for saying, 'If you want to be a world class university, you have to be a global university.' He was very determined to take Hopkins global. It was on that vision that we decided to partner Hopkins. Yet, when it comes to execution, universities are run by faculty members, and faculty members can have very different views and agendas."

At leading healthcare organisations where arguably most employees are smarter than oneself and success depends heavily on employees' individual decision making, clarity is key. The "flow" from vision, mission and values to strategy and tactics needs to be explicit.

Strategy is an essential part of healthcare management, but not for the final product alone. The journey is as much the destination in much of healthcare strategy formulation, and the strategic development process provides an opportunity for managers to be democratic and inclusive, and not only tap on the wisdom of their knowledge workers, but also align everyone to the vision and mission. Through the brainstorming and prioritisation, the doctors (and other healthcare professionals) who have patients can understand the complexities of the ecosystem we operate in, articulate the competitive advantage the organisation possesses and the job the patients want it to perform. With these insights internalised, the healthcare manager can breathe easy, knowing that the decisions made every day in the clinics, wards, operating theatres and clinical committees, are congruent and aligned to organisational strategies.

In my view, there are four crucial interlinked parts to the strategic process:

1. The process of planning;
2. The leadership in planning guided by values, vision and mission;
3. The collective learning in planning; and finally
4. The execution of planning and implementing as a dynamic evolving iterative journey.

The "walking man" analogy is appropriate here. With a strong torso representing sound values, a clear mission and vision, one leg depicting the organisational strategy and the other, the day-to-day ground decisions made by thousands of healthcare professionals, the congruent organisation can not only stand tall, but also walk proud into the future. SMA

Notes

1. Complex adaptive systems are special cases of complex systems, often defined as a "complex macroscopic collection" of relatively "similar and partially connected micro structures" – formed in order to adapt to the changing environment, and increase its survivability as a macrostructure.

2. The Prince *("Il Principe" in Italian) is a political treatise written by the Italian diplomat, historian and political theorist Niccolo Machiavelli in 1532. It has since become a classic text in modern political philosophy.*

Dr Jeremy Lim (jeremyfylim@yahoo.com.sg) is an independent consultant specialising in health policy and systems. He is currently writing a book on the Singapore healthcare system.