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About FYA

FYA - *For Your Advantage*, is a free twice - monthly newsletter published by TrendLeader Connections.

With every issue, FYA provides insights into the topics that concern healthcare leaders today and the challenges that will be faced in the near future.

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Exploitative, Exploratory or Adaptive? How is Your Organization Aligned?

By John Kenagy, MD, MPA, ScD

It's an "innovator's dilemma." Why do established organizations innovate effectively around their core capabilities, but struggle, and often fail, when they need to work differently?

My last two FYA columns developed this solution to the dilemma - established organizations have "exploitative" business alignments, while companies that create fundamentally new ways to work have an "exploratory" alignment. To innovate, established companies need to stop working harder -- and start working differently. The most successful, tried and true way to work differently is to set up a new "exploratory" organization separate, but still under senior management control, to develop new ways to solve intractable problems.

Companies as diverse as Intel and USA Today have successfully executed this tactic, but it begs this question -- Do you always have to create something separate? The answer is yes, except for a very few companies that have a third business alignment:

Alignment	Advantage	Disadvantage
1. Exploitative	Great at doing what the organization knows and understands	Poor at doing what it does not know how to do
2. Exploratory	Develops fundamentally new approaches to current problems that create new opportunities	Requires organizational separation from the parent, but remains under senior management control
3. Adaptive	<i>Designed to adapt as part of everyday work</i>	<i>Although simple, it is very different from traditional management methods</i>

"Designed to Adapt" - The Power of Adaptive Design[®]

In biology, adaptation is defined as "an alteration or adjustment in structure or habits by which a species or individual improves its condition in relationship to its environment."

Adaptation is fundamental to survival. And thus far, the human species has proven to be infinitely adaptable.

What is sometimes overlooked is that the process of adaptation is fundamental to human innovation.

Continued...

Exploitative, Exploratory or Adaptive? How is Your Organization Aligned? (Continued...)

Consider the example of a simple, weekend home-improvement project: hanging wallpaper in a small downstairs powder room. Maybe you begin the project by consulting a "how-to" book or manual and later discuss the best way to do the job with someone at the local hardware supply store where you purchase the materials needed to complete the project.

As you proceed with the work, however, you find that not everything you have read or been told helps with every problem encountered in actually doing the wallpapering in the confined space of the small washroom. Perhaps you make a few mistakes and have to redo the initial sections, but eventually you begin to adapt to the job at hand—subtly (or perhaps not so subtly) altering your methods and technique to improve the quality and efficiency of your work. Maybe a spouse or friend joins you in your struggle with the task, offering additional suggestions that further improve your approach. But by the end of the project, your natural adaptational ability has taught you a lot more about hanging wallpaper than you knew at the outset.

The power of Adaptive Design[®], which has been the secret behind the phenomenal success of the Toyota Production System (TPS), is that it harnesses the insights of management and staff engaged in the work process and turns their continuous ability to adapt into a set of potent productivity enhancement skills and tools.

In healthcare, we struggle with innovation, knowing intuitively that it holds the keys to improved clinical and economic outcomes, greater patient and staff satisfaction

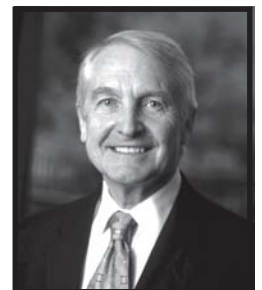
and quality improvements in services at every level.

Studies have shown that the systems that are most likely to respond quickly to innovation are the ones that have a culture of creativity and innovation; flexible, evidence-based, responsive people and methods directed by strong leadership that is committed to effective change.

By contrast, the healthcare system is hierarchical in nature and driven by separate organizational structures and cultures that represent various, and sometimes conflicting, businesses and professional groups. The system is exploitative and bureaucratic, with a culture of entrenched procedures and social norms that hinder rapid change. Nevertheless, it is possible to change the culture by enabling constructive innovation when those who encounter problems firsthand are developed and encouraged to design and implement the improvements themselves as part of everyday work. It is possible, using Adaptive Design tools and skills, to revitalize environments so that stability, trust and optimism are built into the workaday culture and innovation is encouraged to flourish.

What are your thoughts? How have you adapted in the past? Send me your comments at jkenagy@kenagyassociates.com. Next month's column will develop the first steps that your organization can take to be "designed to adapt."

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**About**

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Evaluating Your Board

By: Rick Kneipper, Chief Administrative Officer and Co-Founder of PHNS

As the CEO or an executive officer of your hospital system you're used to being evaluated by your board. But have you evaluated your board lately or has your board evaluated itself lately? As immense operational, financial and competitive pressures continue to make it increasingly difficult to manage hospitals, it's critical that your hospital or hospital system has a qualified, dedicated and effective board.

A recent study of 130 large U.S. and international organizations (see the August 2006 edition of *Internal Auditor*) found some alarming comments from CEOs about their boards:

- o "I can't actually recall many instances when the board changed anything."
- o "I constantly have to teach our directors. They really don't understand the business."
- o "If a board sets itself up as a policeman, the CEO won't be forthcoming with information."

If you haven't done an evaluation of your board and board members, the article sets forth the following helpful list of the key fiduciary duties of board members, which could be used to evaluate each of your board members:

- "Approving the organization's strategic plans and budgets; monitoring performance.
- Approving major capital expenditures and the disposal or acquisition of major businesses.
- Approving...the accuracy and transparency of financial statements.
- Ensuring that major risks to the organization are identified and managed.
- Appointing and evaluating the CEO; ensuring that succession is planned.
- Approving senior executive compensation.
- Ensuring compliance with legal and community requirements; establishing ethical standards."

The article also proffers the following list of other critical attributes of board members that you could use for your evaluation:

- "Possessing knowledge of key areas in which the organization does business.
- Have experience and know-how in the organization's industry.
- Be able to articulate business challenges effectively.
- Be well connected within the organization's strategic environment.

- Have a reputation for independence and integrity.
- Be good listeners and believe strongly in the concept of staff mentoring.
- Be capable of disagreeing without being disagreeable.
- Ask probing and follow-up questions.
- Possess emotional intelligence."

How do you think each of your board members measures up against those standards? How do your board members think each of the other board members measures up? And, perhaps most interestingly, how does your evaluation compare with the board members' evaluations?

Yes, I recognize that these types of evaluations can be extremely sensitive and controversial, but they are necessary. The future governance and success of your hospital or hospital system depends in significant part on assuring that you have board members who are qualified, dedicated and effective.



I would like to hear your comments.

Send them to:

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About

TrendLeader
Connections

FYA - For Your Advantage is brought to you by TrendLeader Connections. The function of TrendLeader Connections is producing educational materials and seminars that help healthcare executives differentiate between fads and trends; and making connections with "Trend Leaders" within the healthcare industry.

We are committed to delivering new perspectives and ideas, creative and innovative healthcare solutions, provocative concepts and quality educational materials to today's healthcare leaders. We want to concentrate on "what comes after what comes next."

END PIECE: Vacationing

Most hospital executives take their vacations seriously. It's usually time for the family to do something together or go someplace together. The thought of spending part of their vacation in a classroom seems far-fetched. But that is exactly what some hospital leaders are starting to consider. They're joining top executives from other industries in expanding their horizons.

The Wall Street Journal recently reported on top leaders who aren't satisfied with just staying focused on their businesses.

The CEO of Deutsche Bank spent a week of his vacation last month studying Spanish six hours every day. He said learning Spanish was a high priority because his company does a thriving business in Spain and across Latin America.

Besides this business imperative, the bank executive notes, "There was something very inspiring about tackling a new skill -- and being able to chart my progress ... up the learning curve each day."

And then there are executives who aren't satisfied staying focused only on business. They want to learn about a variety of things besides finance and marketing. While these renaissance men and women don't always perform better than executives who are single-minded about business, it does lead them to a deeper knowledge of the world beyond their headquarters. That, in turn, can translate into more risk-taking, more understanding of themselves and others -- or simply personal satisfaction.

The CEO of Office Depot, spent his vacation this year, as he and his family have for the past 11 years, at Chautauqua Institution in upstate New York. Chautauqua, which has been called an "intergenerational college," offers arts performances, participation in sports, classes for adults and children and daily lectures on topics that range from world religion to governance.

"When I'm at a Chautauqua lecture with 1,000 people who are intellectually curious, that opens my mind to a breadth of issues and points of view," he says.

The chairman of Behavioral Science Technology, a

California consulting firm, also runs a great-books seminar several weekends every year for executives. Participants, who read and discuss such writers as Dostoevsky, Shakespeare and Plato, learn to question their deepest assumptions and to have a dialogue, rather than a debate, with others, which is what managers need to do to bring out ideas and illuminate business issues, he believes. "Aristotle's *Ethics*," for example, "raises questions about whether organizations simply need to follow rules and avoid getting in trouble or to establish principles of justice and fairness," he adds.

Other executives seek courses geared more toward unleashing their creativity. A female senior vice president at Wachovia Bank spent six Fridays spread over three months working with artists at the Innovation Institute, an offshoot of the McColl Center for Visual Arts, in Charlotte, NC.

When she silk-screened, she learned to work quickly and flood the screen with color -- and not worry about the exact final results. "As business leaders, we're taught to predict outcomes and try to know it all, which can be a trap," she says. The course helped her trust her intuitions, try new ideas at work and urge employees to risk being creative.

The CEO of Autodesk, the San Rafael, CA, software company, thinks "lifelong learning is only possible if you're open to new experiences." He prefers teaching himself new things over formal instruction. "I'll get curious about something, then read a lot about it -- and then learn more by doing it," he says.

A software engineer who likes to build things, he taught himself how to make furniture out of concrete and wood. "Now I've got a coffee table, two night stands and a bench -- and my kids have done experiments with concrete," he says.

He has little patience for executives who say they have no time for anything but business. "Problem-solving is the primary job of CEOs," he says, "and you aren't going to be effective at this if you're still at your desk at 10 p.m., and you started at six in the morning."