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Connections

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Profiting From Healthcare Reform No Matter What

By John W. Kenagy, MD, MPA

The Healthcare Reform battle has waged back and forth over the last few months, and last week House Democrats narrowly passed their version. Now it's on to the Senate for more partisan battles. With Republicans offering their own proposal and deep differences to bridge, it is not clear what will eventually appear. But, some kind of major legislation is almost sure to pass this year.

What does that mean to you and your organization? I am not going to offer an answer based on some prediction of what the legislation will actually be. I believe in John Kenneth Galbraith's comment on the future: "There are two kinds of people who predict the future, those who don't know and those who don't know they don't know."

But, I can offer specific advice on what to do because I know the future is going to be different. The message is clear. The tattered fabric of business, insurance, finance, health care and government we inherited from the 20th Century is unraveling in the 21st.

These are challenging times. While the ultimate consequences are unknown, one thing is certain: The world in which medicine and surgery are practiced and healthcare institutions are managed is rapidly changing in complex and unpredictable ways.

But, challenging times also present great opportunities. History is clear that, in periods of rapid change, highly adaptive organizations have great competitive advantage. They do wonderful things. And they make a difference!

Doing wonderful things and making a difference are the subjects of my new book *Designed to Adapt – Leading Healthcare in Challenging Times*. The book is based on my research as a Visiting Scholar at Harvard Business School into highly adaptive organizations that prospered when others failed. Those great adaptive companies – like Toyota, Intel and Southwest Airlines – always followed three basic principles to success:

1. Future success was not dependent on what they had done in the past or were doing now, but rather on how they *adapted* what they were doing to a constantly changing environment.
2. The structures and systems of their current organizations and the mindsets of the people embedded within them *always* sought to slow, stall or stop adaptive change. It's a Law of Nature.
3. Being strategically and operationally "designed to adapt" has competitive advantage in a rapidly changing world. I call being designed to adapt in healthcare "Adaptive Design[®]." That's the opportunity!

Designed to Adapt is a guidebook for adapting in healthcare from the frontline to the C-Suite. Each chapter describes and translates real-life healthcare experiences that show how success in changing times is dependent on adapting. It's not just theory; it's practice.

But doing something new always seems risky because "we haven't done this before." So how does leadership decide it is safer to do something new than continue the status quo? The first safety lesson is to remember this admonition from Jim Collin's book, *Good to Great* – It's not *either/or*, it's *and*.

Great adaptive companies don't throw out the baby with the bath water. Intel didn't stop making Pentium chips when it started to develop new, low-end chips or flash memory. IBM didn't stop making mainframe computers when they developed the personal computer. What they did do was align small parts of their organizations with a different mindset.

Here's how you might think about aligning a new business "designed to adapt" to an unpredictable future¹. It is a different mindset. You eliminate the risk thinking differently when you remember it's not *either/or*, it's *and*.

(Continued...)

Profiting From Healthcare Reform No Matter What (Continued)

Alignment of:	Core Business Mindset	Adaptive Business Mindset
Strategic intent	Cost, profit	Innovation, growth
Critical tasks	Operations, efficiency, incremental innovation	Adaptability, new products, breakthrough innovation
Competencies	Operational, best practice	Creativity, new best practices
Structure	Formal, mechanistic	Adaptive, flexible
Controls, rewards	Margins, productivity	Milestones, growth, new value
Culture	Efficiency, low risk, quality, customers	Manage risk, responsiveness, speed, experimentation
Leadership role	Authoritative, top down, find and implement the solutions	Clear direction, develop people, ask hard questions

There is nothing negative about a good core business. Successful core businesses are not dead-ends. They are creative and great at doing and improving what they know how to do. They are profitable, confident and competitive. They create new business opportunities. Incremental solutions work because the core business can grow by extending what the organization knows how to do, sometimes to breakthrough proportions. It works and it feels good.

But "what got you here may not get you there." The current success of your core business may be part of the problem. Remember principle number one: your future success is not dependent on what you have done in the past or are doing now, but rather on how you *adapt* what you are doing to a constantly changing environment. No matter how successful you are now, if times are changing, you need to start thinking about developing an adaptive mindset.

Isn't starting something new risky? – Not if the time is right. Reviewing the experience of successful adaptive innovators makes it easy for leaders, management and the frontline to identify the right time.

In fact, there are times when doing something new is much *safer* than the status quo. My book has a questionnaire that you can use to assess your risk. Here is an abbreviated summary. Is the status quo really the safest place for your organization?

The Seven Warning Signs for Maintaining Core Business Status Quo

1. Profitability is increasingly challenging.
2. It is necessary to exit established, traditional lines of business because they are no longer profitable.
3. Consolidation and merger/acquisition strategies are necessary to maintain profitability by taking capacity out of the system and/or gaining market power.

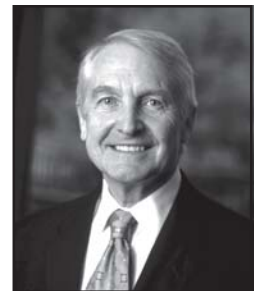
4. Rigorous cost cutting and downsizing become key business strategies.
5. Consultants emerge with more and more "big fixes."
6. New, expensive technology is increasingly touted as the answer.
7. People start to talk about "transforming the industry."

When faced with these signals, leaders need to think about creating an adaptive business mindset, not as an *either/or* but as an *and*. The book has many practical examples of how you can create innovation incubators inside your organization, as part of everyone's every day work.

In summary, I don't know what the Federal Government is going to do with healthcare reform. But I do know that what ever happens, we will not be able afford some of the solutions. That means that some currently successful core businesses are going to get stung.

Don't get stung! It's time to adapt. You will get out in front of healthcare reform if you apply the three principles on page one to your organization. If you're prepared to adapt, you're prepared for change no matter what Washington does. That's being designed to adapt. That's the future for healthcare.

*Dr. John Kenagy has been a physician, healthcare executive, Harvard Business School Visiting Scholar and, most importantly, a patient. He is available for speaking and workshops to help your organization adapt. His new book *Designed to Adapt: Leading Healthcare in Challenging Times* is available at www.johnkenagy.com*



¹ Adapted from O'Reilly C, Tushman M. "The Ambidextrous Organization." *Harvard Business Review*, April 2004.

Time to Reform Hospital Management?

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

While our leaders in Washington are busily trying to reform our healthcare system, perhaps this would be an opportune time for our hospital leaders to consider whether they should reform the way in which our hospitals are managed.

Hospitals are extraordinarily complex service delivery organizations that can deliver amazing results, but are not generally regarded as paragons of operational efficiency.

Congress has provided massive financial stimulus monies to encourage hospitals and physicians to find innovative ways to improve the patient care and quality. So with the advent of major reformations of the way in which our entire healthcare system operates, it might be worthwhile for our hospital leaders to consider whether they could significantly improve the effectiveness and efficiency of their hospitals amid these increasingly challenging times.

Cast aside your management predilections, methodologies and biases, however effective they have been in the past, and consider the following: a new way of seeing; a new way of leading. Consider this innovative yet disruptive approach to improve your hospital's patient care services and operation by opportunistically and relentlessly challenging the status quo and create a systematic organization change to constant innovation and improvement.

The heritage of this new hospital management philosophy is the "disruptive innovation" management approach that propelled Toyota into one of the leading business management organizations in the world, as chronicled through detailed analyses by Professor Clay Christensen of the Harvard Business School and his colleagues. It then was adaptively modified and improved to fit the world of hospitals by a vascular surgeon who had participated in Professor Christensen's analyses and thought that it could be applied to healthcare.

Welcome to the exciting world of "Adaptive Design," which is wonderfully described in a new book entitled "*Designed to Adapt*" by John Kenagy, MD,

(www.DesignedToAdapt.com) and in a front page column of this issue of FYA. In Dr. Kenagy's words: "In Adaptive Design, management's focus transitions from finding solutions to leading people and developing their knowledge, creativity and problem solving ability in an exceptionally disciplined, structured way, always focusing on meeting patient care needs ideally. It is very much a change of mindset." I strongly suggest that you take the time to read this mindset-changing book.

The approach is definitely "disruptive" – "Adaptive Design recruits the eyes and trains the brains of every person in the organization to identify and respond to problems in the course of everyday work, as problems arise." It's also a management process for continuous improvement – "Adaptive Design empowers an organizational 'automatic nervous system' that uses rules, feedback and accountability to modulate the response of the organization to its ever-changing environment. In fact, Adaptive Design creates *autonomic innovation*; you don't have to think about it, it just happens." What's truly exciting about Dr. Kenagy's "adaptive design" management approach is that it "develops people through discipline, structure and problem solving" and "captures and develops the knowledge, creativity and problem solving ability of every person in the organization toward a common purpose."

The book is intellectually challenging since it confronts many "tried and true" long-held management beliefs – but that of course is the point of "disruptive innovation" and "adaptive design." Give it a long, careful read and see whether it's time to join many other hospitals in following Dr. Kenagy's "adaptive design" approach to reforming hospital management that puts patients and patient care first and foremost.

I would like to hear your comments.
Send them to:
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Healthcare Reform Now Turns to the Senate

The House passed a healthcare reform bill. Now it's the Senate's turn. The resulting legislation may not be a mirror image. Different obstacles will gain importance. However, it appears that the focus on the ban on taxpayer funds for abortions looms large as it did in the House.

House Speaker Nancy Pelosi yielded at the 11th hour to Rep. Bart Stupak, a Democrat from Michigan, in order to get the House votes. Rep. Stupak led a group of antiabortion Democrats. He introduced an amendment blocking the bill's government-administered insurance plan from covering abortion and forbidding people who receive government subsidies from buying policies covering abortion through a new insurance exchange.

Even before a debate on a final bill begins, key Democratic Senators are announcing their opposition to healthcare reform that does not include tough antiabortion language.

Senators Ben Nelson of Nebraska and Robert Casey of Pennsylvania are the two strongest abortion foes among Senate Democrats. Their votes and those of every other Democrat and Independent are required to overcome an expected filibuster and the 40 Republicans who are likely to oppose the bill.

Abortion hasn't been a big issue in Senate health talks so far. But Democratic leaders expect that to change after it was introduced by House Democrats.

The center of attention now moves from Speaker Pelosi to Senate Majority Leader Harry Reid, a Democrat from Nevada. Sen. Reid opposes abortion and faces re-election next year in his conservative state. Once again he is placed in an awkward position over the issue. He leads a Democratic caucus that strongly supports abortion rights.

If Majority Leader Reid doesn't include the Stupak language

in his bill, proponents are expected to offer it as an amendment.

Both sides in the abortion debate have begun pressuring senators to vote their way. Abortion-rights advocates argue that opposition will grow as people understand the reach of Rep. Stupak's measure. "We're going to hold the Senate accountable and hold their feet to the fire," said Nancy Keenan, president of NARAL Pro-Choice America. "We are reaching out to every single United States senator on this issue."

On the other side, the U.S. Conference of Catholic Bishops – which was instrumental in forcing the change in the House bill – sent a message to churches, urging members to ask their senators to "correct the serious defects in their bills" by tightening insurance coverage for abortions.

As the Senate debate unfolds, *The Wall Street Journal* suggests four Democrats and an Independent will be key to passing healthcare legislation:

- Evan Bayh from Indiana who is most concerned about the bill's cost and proposed tax on medical-device makers.
- Mary Landrieu from Louisiana who has expressed concern for a government-run plan and favors a "trigger option" allowing a government plan if the private market fails to keep premiums down.
- Blanche Lincoln from Arkansas who is facing a tough re-election fight next year is concerned about costs.
- Ben Nelson opposes both a government run plan and taxing generous insurance plans; and opposes a provision that would end insurers' exemption from antitrust laws.
- Joe Lieberman, an Independent from Connecticut, opposes a government-run plan in any form.

About



PHNS provides IT services for hospitals, other healthcare providers and businesses. PHNS' IT services include application hosting, co-location and managed services; electronic off-site data back-up and data vaulting; business continuity solutions; disaster recovery services; and systems integration services. PHNS also provides comprehensive business process

solutions for hospitals including admitting, HIM (including medical record management and storage, transcription, coding, release of information and electronic medical record services) and revenue cycle services. PHNS creates business-healthy hospitals by improving operations, enhancing technology and increasing cash on hand, which allows hospitals to focus on their core competency – patient care. PHNS has approximately 1,670 customers, including approximately 400 hospital IT and business process customers and approximately 1,270 IT customers. PHNS is headquartered in Dallas, Texas. See www.phns.com for additional information about PHNS.