

# Leaders As Combat Fighter Pilots

*Research project targets leaders who support money-losing business strategies*

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LEADERS OF ORGANIZATIONS are a lot like combat fighter pilots.

They are flying. They can choose to go in any direction. Their eyes are constantly on the horizon, looking for opportunities and threatening actions by competitors.

Their focus is to identify and follow key strategies and strategic initiatives, targets that will win success for their organization and themselves.

Combat fighters face a number of risks. One is "target fixation." They become so focused on the target that they lose perspective. They lose sight of the choices to be made. They fly right into the target.

The leader's world is not as precise as the world of the combat fighter pilot. Timing is not as critical. Bad decisions do not carry the risk of being shot down. But some leaders still fly into the target.

We see leaders of hospitals, health systems, and large physician groups pursuing strategies that lose more than a million dollars each year. Some examples:

- Hospitals invested millions to buy physician practices and hire physicians — and continue to operate these practices with annual, multimillion dollar operating losses.
- Physician groups hired physicians and staff and established satellites that were well beyond the ability of the practice to support.
- Hospitals and physician groups established health maintenance organizations and continued to underwrite multimillion-dollar operating losses.

## IN THIS ARTICLE...

*When strategic plans go awry and begin losing money, the smart thing to do is change course. But some leaders get so involved with the plan, they fail to navigate properly and fly right into the target. The organization can lose millions. Examine why this happens and what you can do to prevent it from happening in your organization.*

- Academic health centers merged with community hospitals, health systems and physician groups without seeing the turbulent cultural waters. They have lost millions of dollars also.

Leaders chose these strategies convinced that the short-term future of health care delivery was in capitated care, with integrated

systems and networks to provide and manage that care. The decisions were understandable.

But it's difficult to understand the continued support for the operating losses.

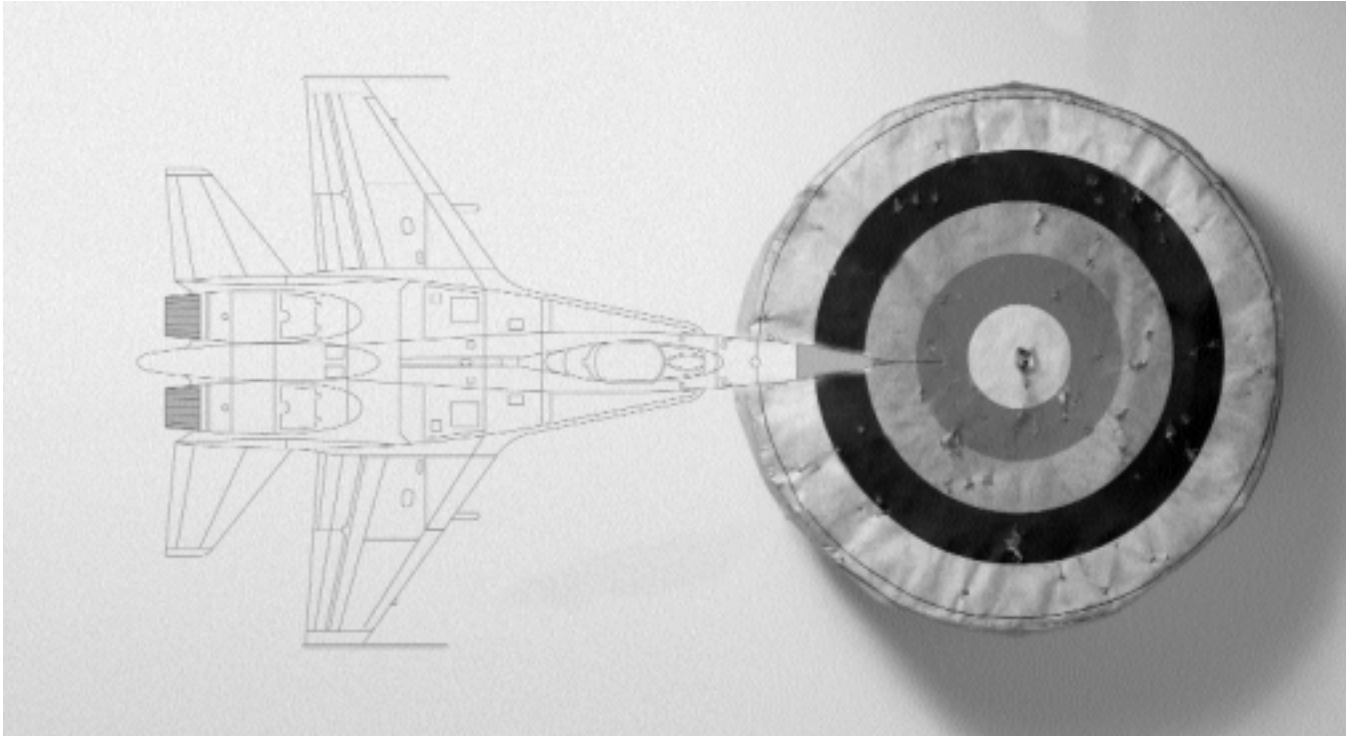
In the past five years, consumers showed little interest in the restrictions of capitated care. Integrated systems haven't demonstrated significant improvements in care delivery or cost advantage over hospitals and physicians in independent practice.

So how do leaders decide to modify or discard strategic initiatives that are no longer effective?

In a research project, this question was asked to try to determine why some leaders pursue strategies that continually produce substantial operating losses — sometimes to the point that their board takes control and the leader flies into the target.

## Research process

Interviews were conducted with 22 leaders of hospitals, health systems, and large medical groups.



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One interviewer with more than 20 years in hospital leadership interviewed 10 hospital CEOs and COOs. A second interviewer with more than 20 years in medical group leadership interviewed 10 leaders of large medical groups and two health system CEOs.

Net revenues of the hospitals and health systems surveyed ranged from \$6 million to \$522 million, with a median of \$207 million. The net revenues of the medical groups ranged from \$105 million to \$500 million, with a median of \$355 million.

## Hypothesis

The researchers hypothesized that leaders are unable to see and understand signals that a strategic initiative is not working.

Strategic initiatives involve change for the organization. The leader's conviction about the importance of that change is critical to its

success. The conviction of the leader grows out of a "mental model" of the organization and its environment — the leader's view of what the organization needs to do to be successful.

Research shows that people accept data that are consistent with their mental model. People ignore, minimize or literally do not see data that conflict with their mental model.<sup>1, 2</sup>

It is also difficult for people within the organization to question a leader's strategic initiatives. Those against an initiative will raise questions, but they risk being labeled as naysayers.

## Findings

The researchers found that failing to see the signals is indeed an issue. This was expected from the research on mental models. The finding that they did not expect came

from several of the hospital and health system interviews.

## A sense of personal loss

Several hospital and health system leaders cited the sense of personal loss they expect to experience in discontinuing a strategic initiative.

This included loss of support from:

- The board, when the leader reports that a strategy resulted in significant losses. This is especially true if the leader championed the strategy initially.
- Fellow physicians, as the salary dollars are eliminated and the physicians find themselves back in private practice.
- The community, as a service is discontinued or cut back. This is often accompanied by a public outcry: "All they are interested in is money."

Continuing the strategic initiative is a way to avoid the sense of personal loss. It carries the risk, however, of the board taking control and the leader “flying into the target” — as experienced by one participant in the research interviews.

### The signals

Not surprisingly, everyone cited operating losses as a signal. Operational difficulties are another signal.

Other signals include:

- Changes in the environment from what was expected
- Unexpected demands or lack of interest by a proposed partner
- A better opportunity and new legal restrictions

### Lessons learned

Here’s some advice from leaders who did cancel or change their strategic initiatives without experiencing a sense of personal loss.

*1. Set the stage for possible change at the time a strategic initiative is put in place.*

As one individual observed, “It is always easier to build something new than it is to take something away.”

One leadership team treats all strategic initiatives as “pilots.” Wherever possible, strategic initiatives are implemented on an incremental basis. Where a pilot is not possible, the implementation is monitored and fine-tuning is expected once the strategic initiative’s performance is known.

*2. Review performance of strategic initiatives as part of the annual planning process.*

**The leader’s job is to get those affected to review the strategic initiative, identify alternatives and develop recommendations for action**

Two other leaders noted that all strategic initiatives are formally reviewed as part of the annual strategic planning process.

People in their organizations know if performance is not satisfactory at any time, or if the environment changes, the strategic initiative can be modified. These organizations sold a health plan, closed offices and significantly

modified strategies related to home health, nursing homes, rehab and behavioral health.

Nothing in these organizations is on autopilot. There is no sense that a strategic initiative is an irrevocable, everlasting strategy.

*3. As part of the decision-making process, talk with those affected by a decision.*

One executive said the job of the leader is to, “Make a decision based on the facts before you weather the storm.” Others say talking with those affected is an inherent part of accomplishing change.

Large physician groups have an advantage in dealing with stakeholder interests. In a hospital or health system, the stakeholders include the community, the board members, the physicians and the hospital staff.

Leaders most comfortable with change understand that dealing with stakeholder interests is an inherent part of accomplishing change.

One hospital leader emphasized that he routinely talks with key staff, physicians or board members about initiatives. The process has significant benefits. It gathers the

ideas of others and paves the way for change. “You need to have a conversation with people you are going to impact,” he said.

*4. Consider using an outside consultant to assist leadership in reviewing politically charged strategic initiatives.*

The leader’s job is to get those affected to review the strategic initiative, identify alternatives and develop recommendations for action. There are four essential questions to ask.

- Why was the strategy good in the past?
- What has changed?
- What strategy changes should we consider?
- What should we do now?

An outside consultant with strong knowledge of the industry can help facilitate and legitimize this process. The consultant helps leaders analyze the first three questions. The leader and those affected tackle the last. ●



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