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Learning from the Turnaround Experience

Futurescan 2001 *urges all healthcare leaders to "think like a turnaround manager. . . . Don't wait for a financial crisis to strike before taking across-the-board action." Spectrum asked Michael Scavotto, a consultant who specializes in turnaround management, to share what can be learned from organizations that have gone through turnarounds.*

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Turnarounds are a tough business. When bad decisions are made, everyone suffers and the mission of service is compromised. People struggle to do the right things and get frustrated when nothing seems to work. Re-building a distressed organization takes time, determination, and a fierce dedication to some basic management principles.

Although each turnaround has unique characteristics and challenges, there are some common, powerful lessons that can be drawn from them to improve management in all healthcare organizations. These lessons are deceptively simple and, perhaps, are not taken seriously by the very organizations that could benefit most from them.

Leading At The Board Level

In the typical turnaround situation, the Board has moved out of its leadership role and into management. The Directors become mired in detail. The relationship between the Board and the CEO is weakened and the organization loses its direction. Leadership is the responsibility of both the Board and the Chief Executive. In turnaround situations, both parties usually have abdicated this responsibility, albeit with good intentions.

Boards don't belong in operations, but that's usually where they can be found in distressed organizations. It's an easy trap to fall into; things aren't going well and Directors feel compelled to fulfill their fiduciary responsibilities by reversing their hospital's decline. Boards justify their involvement in operations as assisting management. Most Directors in this scenario admit that

they wouldn't want the Board involved in that way in their own businesses but—somehow—"our hospital is different."

As the Board becomes immersed in minutiae, management becomes less effective; decision-making is encumbered by the Board's involvement and the organization suffers from analysis paralysis. The Board's committee structure proliferates, consuming more of management's time, requiring still more analyses, and ensuring that the deck chairs on the Titanic are rearranged yet again. Most Directors tell us that their involvement in operations is tedious and unproductive, yet they find it difficult to return to leadership.

The proper role for the Board is to concentrate on mission and strategy. It is the responsibility of the Board Chair and CEO to keep the Board current with best governance practices. Any Board can get a good start on this orientation by focusing on four primary functions and by organizing its meeting agendas around them: quality of services, planning, policy, and finance.

Balancing Strategy and Operations

There should be a balance between strategy and operational effectiveness. Even though they are two distinct disciplines, an organization must have both to succeed. In a distressed organization, chances are that the operating position isn't looking too good or that it's headed South at an alarming rate. It is unlikely that a struggling organization will get an infusion of cash on reasonable terms from outside investors. Accordingly, if the organization is going to turn the corner, it must do so on its own — and that means making money from operations. The mission of service and, indeed, the very survival of the business, depend on reliable cash flow.

Historical trend data can be very revealing. For example, if a hospital's expenses have been increasing at a faster rate than its net operating revenues for several years, it's very clear that the organization is headed for trouble. The organization's leadership has failed to reverse a negative operating indicator and has compromised its financial position.

While there is a synergy between strategy and operational effectiveness, they should remain separate functions. The cash for strategy and program development comes from operations. In the early stages of a turnaround, there is little choice but to focus on operational effectiveness, to identify and serve customers better, to start generating cash on a routine basis. However, once a turnaround has regained a cash flow, the organization's leaders – the Chief Executive and the Board – must identify the key moves that will improve position. Funds for these key moves need to be set aside and management must move forcefully to take the organization to a stronger standing.

In the dysfunctional organization, strategy is not stated in clear terms, lacks rigorous financial targets, is far too complex for the available resources, and has no measurement devices to track progress against the plan. To avoid this malaise, the CEO must view strategy and the planning activities that go along with it as the most important Board-level communication process. Moreover, the CEO must maintain Board consensus on the assumptions underlying the

strategy.

Once a direction is set, implementation is management's job. Specific programs represent implementation tactics, not strategies. Management must keep the Board apprised of progress against the planned strategy, of adjustments made along the way, and of the changing industry and market dynamics. Meanwhile, back at the core business, management must keep the cash flowing.

Setting Appropriate Priorities

The service mix has to be realistic. At some point in their careers, a good many healthcare professionals will provide below-cost services because they are committed to serving others. For most, this is a conscious, mission-driven decision. Those dedicated to service may say that a program is needed in the community. Those dedicated to operational effectiveness point out that, if a program truly were needed, the community would support it. The answer is most likely somewhere in between. It is highly unlikely that any healthcare organization will be able to meet all of its community's needs; the demand is always greater than the supply. Yet, ways must be found to serve the communities within organizational resources. No healthcare organization advances its mission by going out of business.

Limiting services is an uncomfortable, but necessary, discipline. In turnarounds, the mission statements often have been unrealistic and hopelessly out of step with the available resources. There's no point trying to become something that you can't sustain; it's far better to live within your means and limit your commitments to what you can support. Mission statements need to be simple and directive, keeping in mind the organization's capabilities. Not only must they tell what an organization will do, but they also must set limits.

Financial performance is a critical measure of success in any organization and it's true that turnarounds must hit the numbers. Numbers are a standard way of keeping score, of measuring what the people are doing. Yet the lessons here aren't just about numbers. Good numbers are the result of a concerted, well-conceived effort to organize the work around key strategic moves. A strong financial position is a foundation for a balanced organization that is serving its community well.

So, how can you learn to think like a turnaround manager? Make sure you have a functioning governing body, strike a balance between strategy and operations, and cultivate the skill of setting sensible priorities. In a dysfunctional organization, these elements are always at odds. The turnaround lessons point the way toward management assessment and renewal, where the excitement that comes from practicing solid leadership and strategy can rejuvenate an organization and keep it on track.

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