Achieve Competitive Advantage by Leveraging Strategic Investments

By Edward Hindin

Would you like to increase your investment capital without requesting more funds or cutting costs?

New research suggests that changing just one dimension of performance—the realized value of strategy and strategic investments—can have a significant bottom-line impact. **Closing the gap between projected returns and actual results provides real cash that companies can reinvest at no additional cost.**

A study published in the July-August 2005 issue of *Harvard Business Review*(1) clearly illustrates the potential gain companies can realize by improving the results promised in their strategic plans. The authors analyzed 197 companies with sales exceeding $500MM. On average, these firms realized only 63% of the financial value projected in their strategic plans.

Consider the hypothetical case of two organizations competing in the same market. Each invests $50MM in new strategic initiatives with an expected 2-to-1 return on their investment. Company A realizes the average return of 63%, while Company B realizes 80% of its expected return. By exceeding the average, Company B ends up with a $17MM premium that it can use to reward shareholders or that it can re-invest for further competitive advantage. This $17MM in found money can create substantial new opportunities—a critical assist in today's challenging and competitive business environment.

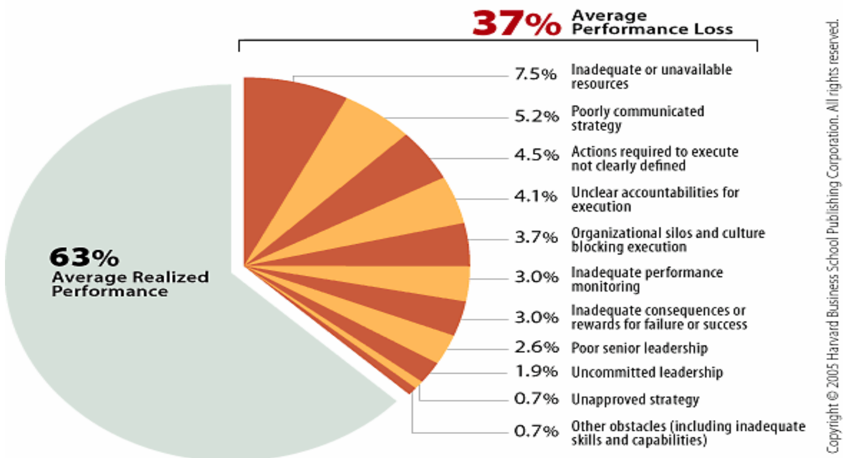
The study attributes this strategy-to-performance gap to failures in planning and execution. Those companies that excel at planning and executing—and link the two processes—close this gap. They realize a "premium" that becomes freely available for re-investment.

While we do not have comparable information about strategy-to-performance gaps for hospitals and health systems, experience suggests that these gaps do exist. Healthcare organizations, like their business counterparts, can also use the "premium" achieved by closing this gap to improve services and to create new programs *without additional investments.*

How much of the potential return on your strategic investments does your hospital or health system achieve?

What would you do with the "premium" gained by boosting the performance of your strategic investments?

Eleven factors accounted for the average 37% loss in performance or realized value. These factors appear in the chart below:



What would this list look like if the contributors to performance loss were identified for your organization?

Higher-performing companies like Cisco Systems, Dow Chemical, 3M and Roche realize more of their strategies' potential value by improving planning and execution and tightly linking both processes.

Seven rules emerged from the research. Though simple, they permit organizations to identify, correct and ultimately prevent performance shortfalls. Adhering to these rules can transform both the quality of a company's strategy and its ability to deliver results.

Rule 1: Keep it simple; make it concrete.
Rule 2: Debate assumptions, not forecasts.
Rule 3: Use a rigorous framework; speak a common language.
Rule 4: Discuss resource deployments early.
Rule 5: Clearly identify priorities.
Rule 6: Continuously monitor performance.
Rule 7: Reward and develop execution capabilities.

How do these rules apply to your hospital or health system's strategy formulation and execution processes?

The collateral benefit of reducing the strategy-to-performance gap far exceeds the immediate additional financial yield. Closing the gap produces cultural and behavioral changes that have a lasting impact on an organization's capabilities, strategies and competitiveness.

How would reducing the strategy-to-performance gap transform your hospital or health system?

To learn how we can help you master this and other challenges, call (201) 656-1004 or email us at ehindin@hhadvisors.com.

(1) "Turning Great Strategy into Great Performance" by Michael G. Mankins and Richard Steele HBR July-August 2005

Edward M. Hindin is President of Hindin Healthcare Advisors, LLC a management consulting and executive coaching firm located in Hoboken, NJ. He is an accomplished executive, consultant, and executive coach with more than 30 years experience assisting successful healthcare leaders create simple but powerful responses to changing business conditions. His clients range from small specialty hospitals to large national systems.