

**“YOU ARE READY FOR DISRUPTION...IS
EVERYBODY ELSE?”**

OR

**“HOW TO AVOID TRIGGERING THE
CORPORATE IMMUNE SYSTEM”**

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KNOWING THE ANSWER IS JUST THE BEGINNING

Imagine: You are the CEO of a large health system and you are at strategic crossroads. One road is a disruptive strategy that should lead to long term organizational health and continued relevance in an ever-changing healthcare environment. The other road is far less disruptive but could very likely lead to volume declines and diminished relevance; a situation serious enough that your organization could close or be acquired. There is enough ambiguity in the fact finding and in the competitive/political climate that you and you alone must make the decision. You choose the disruptive road and watch carefully over the next six months to see if your strategic call matches what you believe is unfolding before you in your market. The decision is weighing heavily on you. You wait, and...

You are right! You made a great strategic decision that will save you from being known as the leader who nosed the organizational airplane directly toward the ground. You breathe a sigh of relief and go to the next critical decision that awaits you.

Wait... Not so fast. While the decision was critical to the organization, even more important is your ability to align the organization to achieve the vision. When implementing any substantial change and especially when implementing disruptive change, you must **engage the organization carefully and deliberately or you will trigger the Corporate Immune System**. The following case study provides a vivid example of the Corporate Immune System in action.

A CASE STUDY DEMONSTRATING THE POWER OF THE CORPORATE IMMUNE SYSTEM

THE DECISION

The CEO of a large, regional Health System decided that his organization had to begin a more deliberate migration away from Fee For Service (FFS) to prepare for Fee For Value (FFV). It was absolutely the right strategic decision and critical to the System's long-term success. After testing this idea of strategic realignment with the C-Suite Executives, the group approved the purchase of a population health company, a company with a well-deserved national reputation for leadership and innovation in population health. The goal of the acquisition was to acquire a new set of skills

faster than would otherwise happen if the same capabilities were developed in-house. The CEO estimated that his System could shorten their FFV journey by two years or more through purchasing tested, successful expertise. This was another great decision since speed to market was also essential. The plan was to learn as much as possible, as quickly as possible from the acquired

A Critical Observation Regarding the Case

The case study focuses on one System's strategic decision on how to best navigate and operationalize the shift from Fee For Service (FFS) to Fee For Value (FFV). Because the case study addresses an issue that is top of mind for so many, the topic itself can be distracting. **Remember this case study is not about whether the System's CEO made the correct strategic decision. The case study is about recognizing and navigating the Corporate Immune Response; your organization's predictable reaction to any meaningful change in either strategy or operations.** As you read the case, think about how a Corporate Immune Response has been activated or may be activated in your organization. As you will learn, the Corporate Immune System can be triggered by a strategic shift, a challenging budget objective or any significant shift in strategic or tactical priorities.

company and use this knowledge a seed from which new organizational behavior would grow. All systems go!

SUCCESS! NO, WAIT A MINUTE...

Things were not going as planned and the CEO faced increasing organizational resistance. What happened? The CEO reflected on the steps leading up to what should have been a successful roll out. He reviewed the major steps and noted that he:

- Made an important and correct strategic decision
- Fully embraced the idea of a strategic realignment
- Presented the idea to the C-Suite Team for their agreement
- Believed the best way to disrupt and innovate was to buy a company with track record of success in FFV capabilities
- Successfully acquired a company with a national track record of success in population health
- Assembled the pieces and began integrating the new company into the larger organization.

Change and innovation were supposed to follow this seemingly logical sequence. After further examination, the CEO realized that the Population Health Company, while successful in its core mission, was losing a substantial amount of money, far more than was originally discovered in due diligence. The losses were significant enough to force other operational areas in the System to make up the deficits generated by the newly acquired company. No wonder System leaders were not eagerly embracing the new company! Aggravated by the misses in due diligence but encouraged by having a solvable problem, the CEO hired Galloway to turn the acquired company around. In addition to fixing the company, Galloway was asked to provide an Interim President to keep the company on course while the System recruited permanent leadership.

FIXING THE POPULATION HEALTH COMPANY

The Galloway consultant found many serious problems. The detailed story of the turnaround is a subject of another paper, but the high-level findings were that the Population Health Company had:

- Confusing strategic vision
- Intermingled functions with a major local medical group
- Top heavy and ineffective leadership
- Excessive cost structure
- Unstructured and undocumented Intellectual Property
- Financial losses for every year in operation

The turnaround was successful and at the end of the intervention the Population Health Company had:

- Focused strategy
- Functionally and legally separated from the medical group
- Lean and effective leadership
- Radically lowered cost structure

- Crisp, documented methodologies
- 10% profit margin

Problem solved! Now the CEO could proceed full speed ahead with the roll out, anticipating that his idea would be embraced now that the Population Health Company had moved from a financial drag to a financial contributor. All systems go!

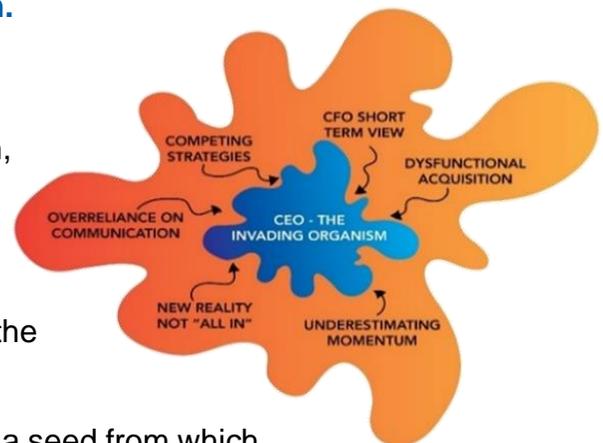
SUCCESS! NO, WAIT A MINUTE...

Now the CEO was getting aggravated. Even though the financial losses stopped and the Population Health Company was a healthy, financially contributing company within the System portfolio, he continued to experience systemic resistance to the new company. Strangely, **the healthier the Population Health company became, the stronger the resistance to the idea grew**. Why was this happening, and what was the problem?

The CEO had made an attribution error. The CEO believed that the resistance to the Population Health Company was because of its poor financial performance. It turns out that there was systemic organizational resistance to the CEO's change in strategy and that discontent with the Population Health Company was unrelated to the financial performance. In fact, when the Population Health Company was doing poorly, the staff who were resistant to the idea of pushing the System from FFS towards FFV **were secretly happy that the company was failing**. If the company failed, no one needed to have that difficult conversation with the CEO about his crazy idea. What really happened? How did the CEO get blindsided by this information? **The CEO inadvertently triggered the Corporate Immune System.**

THE CORPORATE IMMUNE SYSTEM

The Corporate Immune System lurks in every organization, including yours. There are no exceptions. The Corporate Immune System is an amorphous beast and it is hard to fight because it is hard to see. We will learn later that while sometimes a Corporate Immune Response is positive, most of the time leaders become aware of the Corporate Immune Response when it is a negative force.



The CEO viewed the new Population Health Company as a seed from which innovative ideas would grow. The organization viewed the Population Health Company like your body views an invading organism. What happens when you get a large splinter in your hand? It sets off various immune responses. What happened when the CEO rolled out the idea? There were various immune responses from the organization.

For example, the CFO never bought into the strategic commitment for the shift towards FFV. The CFO's FFS machine was working quite well, and from the CFO's perspective, if the Population Health Company was successful, it would reduce admissions into the hospital and decrease FFS revenue. The CFO was so concerned about the presence of this new company and the possibility that his FFS machine would be disrupted by the strategic shift that, in a remarkable display of an immune response, the CFO hired an investment banker to sell off the majority position of the

Population Health company. As the CEO encountered more resistance from the CFO and others, he began wavering around his commitment to the new strategic direction. **Wavering only encourages the immune response. Being “all in” reduces the immune response.** Note that **being “all in” does not mean** it is necessary to either be “all in” on a FFS or a FFV approach. The point is that you must be “all in” on your decision whatever it may be.

The CFO: Aberrant Behavior or Not?

While some hearing about this case example focus on the CFO’s apparently outrageous behavior, the CFO was acting consistently with their belief that this action was in the best interest of the System. This is not an illustration of aberrant executive behavior; instead it is an example of the power and momentum of the current operating structure.

THE MOST FREQUENT AND INEFFECTIVE RESPONSE TO THE CORPORATE IMMUNE SYSTEM

Many leaders believe that ongoing, frequent and thorough communication is the answer to organizational resistance. Is the organization too big to talk to everyone? Produce a slick video explaining the new strategic direction. Anyone and everyone will have access to the message in one form or another. If the message is inescapable, over time this level of communication will decrease resistance, right? Wrong!

The reality is that **passion and communication are necessary but not adequate to overcome the Corporate Immune Response.** Remember the example of the large splinter in your hand? Can you talk that splinter out of your hand or fix the situation by communicating with the splinter? Absolutely not. Just as you can’t talk a splinter out of your hand, **you can’t use communication alone** in an organization as a solution to an organizational immune response. In fact, over communication has the potential to drive resistance further underground. This is not to say that communication isn’t essential. Of course, communication is essential. **It just isn’t enough as a singular response** to overcome the monster that is the Corporate Immune System. So how in the world do you fight this monster? The first step is understanding what it looks like.

WHAT DOES THE CORPORATE IMMUNE SYSTEM LOOK LIKE?

The Corporate Immune System looks like the diagram below. You may recognize the 7S structure that for many years has been a staple of graduate level business schools since appearing in an article by Waterman, Peters and Phillips in 1980. This model remains relevant today because it elegantly and accurately describes the seven elements that must operate in harmony to achieve the highest level of organizational performance. The model is intuitive if you think about the need for all elements to be in balance.

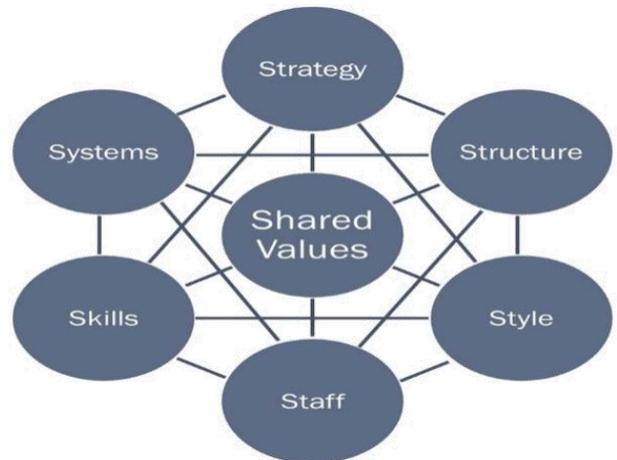
If you are a Health System that is driven primarily by FFS revenue and a FFS strategy, then you need to have revenue processing and analytic **systems** designed for FFS business and you need **staff** with the requisite FFS **skills** to use the systems in place. In highly functioning organizations, all seven elements are in line.

Think of a healthy, highly functioning body. A body in this state has reached a level of homeostasis that maintains equilibrium among the various interdependent systems. When there is an invading organism, different elements of the body will react until there is re-balancing among the various body systems. Organizations function in the same way. **If one element of the 7S is out of**

alignment, the 7S model will protect against this disruptive force until organizational homeostasis is reached.

WHAT SPECIFIC 7S ELEMENT WAS OUT OF BALANCE IN OUR CASE STUDY?

There was misalignment around the **Strategy** element of the 7S model. Without definitive agreement on the strategic shift among the CEO's Executive Team, the new FFV direction was **added** to the current FFS strategy. The problem? **You cannot have two competing strategies living within the same 7S model. Only one will survive!** Our case study CEO tried to support the new FFV strategy with a 7S organizational model optimized for a FFS strategy. This decision was destined to fail.



Our CEO is in excellent company. The Corporate Immune Response is stronger and more universal than you can even begin to imagine. The literature is filled with examples of company after company that underestimated or was unaware of the Corporate Immune System. Remember, the Corporate Immune System is sitting dormant in every organization, including yours, until the moment it is triggered. The classic example is Kodak. At one time Kodak had nearly 70% of the US film market on which it was making about 65% gross margin. Kodak was disrupted by the invention of digital photography and after 131 years in business, in January 2012 it filed for bankruptcy. **Question:** Who invented digital photography? **Answer:** Kodak.

What? It's true. An engineer in Kodak invented digital photography. Kodak could never reach agreement on a strategic shift from emphasizing film to emphasizing digital products. What happens when an organization tries to implement competing strategies within the same 7S model? The strategic dissonance created by trying to operate competing strategies becomes the triggering mechanism for the Corporate Immune System. Only one strategy will survive. In Kodak's case, the wrong imaging strategy survived.

In fact, in most case studies the wrong strategy survives. Why? Because the 7S model protects against disruption. This protection is great if your strategy is current and your 7S model is maximized for this strategy. This protective response is terrible if your 7S model and your current strategy are not aligned.

This is **not** to say that you must pick between FFS and FFV. We know that most organizations will live in both worlds. We **are** saying that if you are going to live in both worlds, you must recast your strategy so that it embraces both elements. Most importantly, you must **intentionally redesign your 7S model** to efficiently and effectively support that overarching strategy.

HOW DO YOU AND YOUR ORGANIZATION OVERCOME A CORPORATE IMMUNE RESPONSE?

There are four major categories of activities that must take place to prevent a Corporate Immune Response. You will find high level summaries of these categories below.

- **Create a climate of safety in your (C-Suite) Executive Team.** Remember that our case study CEO “tested” the idea of a strategic shift towards FFV and further “tested” the idea of purchasing advanced capabilities from outside of his institution. “Testing” by having a cursory conversation is not enough. There must also be a culture of safety to disagree or challenge ideas that are presented within the C-Suite Executive Team. Why is this so important? If group members cannot constructively and honestly disagree within the group, they may act out “underground” and activate the Corporate Immune System. Remember in our case study that “the staff resistant to the idea of pushing the System from FFS towards FFV were secretly happy that the company was failing.” This is a classic immune response. Staff may not actively engage in sabotaging a plan, although it can and does happen, but may instead passively watch as the new initiative heads directly towards a large and known organizational landmine. Passive resistance is not only as damaging as active resistance, it is much harder to find and correct.

Amazon is a notable example of a company that understands the value of safety. Much has been written about **Amazon’s 14 Leadership Principles**. Not surprisingly, one of these 14 principles require a climate of safety (see text box). Amazon leaders understand that a climate of safety in leadership teams is an absolute necessity.

Amazon Leadership Principle 14: Have Backbone; Disagree and Commit:

Leaders are obligated to respectfully challenge decisions when they disagree, even when doing so is uncomfortable or exhausting. Leaders have conviction and are tenacious. They do not compromise for the sake of social cohesion. Once a decision is determined, they commit wholly”.

- **Create a “you have no choice but to change” moment in your organization.** Change happens when people realize their current reality will not continue and **there is no choice but to change**. Think back to our case study CEO. As his strategic change unfolded and encountered increasing resistance, he began wavering around his commitment to the new strategic direction. **Any vacillation or uncertainty about the commitment to organizational change encourages the immune response.** Being “all in” is what mitigates the immune response.

If you reflect on the last time your organization made a significant change in strategic or operational direction, you will note that you created a “there is no choice but to change” moment. Remember when your organization switched from paper to electronic records? If you are like others across the country, you encountered resistance from various factions within the organization. Did you allow some of your organization to remain on paper records while the majority of the organization converted to an electronic record? Absolutely not. Now imagine if the staff in your organization who were marginally committed to an electronic record conversion heard that some in the organization were able to opt out. What would have happened? The ambivalence would have triggered the immune response against the implementation. Once you vacillate and staff understand that the you and your organization are not “all in”, you have created the climate for a full-fledged Corporate Immune Response. Creating a “you have no choice to

change” moment is part of the prescription for reducing the toxicity of the Corporate Immune Response.

- **Understand the financial, operational and behavioral consequences of your proposed change.** Imagine the work climate for William Biller, a financial analyst within our case study organization. Recall that the CEO effectively communicated the need for a strategic shift from FFS to FFV. What he did not do was to fully understand the operational implications of his decision. William intellectually understands the need for a strategic shift. William does not understand how this shift in organizational focus will be implemented and how it may impact his job. After several false starts, William was finally producing reliable and accurate reports to support the FFS model currently in place. He can barely keep up with his workload. When he heard about the CEO’s strategic shift, he had many questions. Was the organization going to invest in the analytic tools needed to successfully work in the FFV world? Would he be re-trained, or would he be asked to leave since his fluency was in FFS, not FFV? If tools and training were offered, would he be allowed the time to learn these new skills?

If William’s detailed and valid operational questions cannot be answered as the organizational shift begins, imagine asking him, “William, are you excited about and supportive of the organizational shift?” Despite understanding and supporting the strategic shift towards FFV, his anxieties about the unknown will overcome his support or excitement about the shift in strategy. He won’t be supportive. His resistance may be interpreted as “William is not a team player.” What will William do in this circumstance? He will keep quiet, keep his head down and wait for this organizational initiative to die a natural death. William already knows his Department Director is barely supportive of this new idea from the CEO. Why? Because his Department Director knows that the Vice President he reports to is barely supportive. Why? Because the Department Director and Vice President have the same concern that William has, except their concerns aren’t just about William’s area but about their entire area of responsibility. Why do the concerns continue? Because **there has not been a “safe container” or a climate of safety to get concerns addressed.**

- **Create a structured engagement strategy.** An organization that is “all in” with a new initiative or innovation will devote the necessary time and energy for an organization-wide engagement strategy. Galloway uses a proprietary methodology for structuring and engaging employees from the CEO to the housekeeping staff. There are three key elements in our methodology:
 - It is leader-led from the top down. This does not mean that a set of tablets from above is delivered downstream in the organization.
 - Leaders, starting from the top, translate the new corporate initiative into a relevant, personal objective at each level in the organization. (How would the CEO’s initiative translate into language and objectives that William Biller’s Vice President can speak to within his organization? Department Director? William?).
 - Commitments to Action around the initiative are created for everyone at all levels.

This engagement process looks deceptively simple but there is a lot of “behind the scenes” work that must take place for the process to be successful.

IMPORTANT IMPLICATIONS FOR SYSTEMS INVESTING IN INNOVATION

Nationally, there are increasing numbers of “Innovation Incubators” or similarly named divisions that are run separately from routine System operations. The theory is that innovations, or potentially disruptive ideas, need the opportunity to develop separate from the limiting operating paradigms of the current Systems. Within the purity of a separate environment, new thinking is not constrained. Once an innovation is tested and approved, the idea is that these solutions may be inserted into a current 7S model and the larger System will benefit from this new, innovative seed that has been planted. Sound familiar?

Innovation without a successful engagement strategy is like having a light bulb without an electrical grid.

Without a deliberate engagement of the organization, all innovations, no matter how appropriate or important for the health of the System will face formidable counter forces.

The reality is that **innovations, whether fully disruptive or narrowly focused, will face the same forces that our case study CEO faced.** Without a deliberate engagement of the organization, **all innovations, no matter how appropriate or important for the health of the System will face formidable counter forces.**

Organizations counting on successful implementation of innovations should spend as much time on engagement strategies as is spent on developing innovations. If organizations try to short cut this step, they may find that the possibilities created by their innovations may never survive outside the incubator.

GETTING STARTED

My experience presenting this topic to a variety of audiences is that that the concept of the Corporate Immune System and the behaviors exhibited after triggering a Corporate Immune Response is widely understood. Personal examples of the Corporate Immune Response abound. While the concept is easy to understand, many leaders either underestimate or misunderstand the complexity of implementing each of the four categories of intervention. For example, creating safety isn’t as simple as declaring “I want honest feedback starting today!” at your next C-Suite meeting. You need to assess and understand the current climate to tailor the specific tactical intervention. All the components described, not just “creating safety,” have deep domain detail.

If you are interested in learning more, please contact Jay Zerwekh at jzerwekh@gallowayconsulting.net or his colleagues at GallowayConsulting.net.

MEET OUR EXPERT



Jay Zerwekh is Executive Vice President at Galloway Consulting. He brings to his clients a broad range of senior management and consulting experiences from a variety of healthcare settings. Mr. Zerwekh has particular expertise in improving partnerships and increasing Health Systems’ alignment with independent physician practices, system/hospital owned medical groups and physician organizations. In his more than 25 years of operational experience as a healthcare executive in medical group, health

plan and hospital settings, both for-profit and not-for-profit, Mr. Zerwekh unfailingly achieved results; improved practice environment for physicians, increased profitability, improved customer service and increased staff satisfaction. His operational expertise, coupled with 12 years of consulting experience with health systems, hospitals, health plans, medical groups and physician organizations throughout the country, provides the foundation to guide clients to practical, effective and predictable solutions.

Mr. Zerwekh has a Master of Health Services Administration from the University of Michigan and a Bachelor of Arts from Clark University.