



Downsizing, Upsizing, Rightsizing and Strategic Alliances

Ronald N. Riner, MD

Prevailing thought in health care as well as other industries today is that all growth leads to bigger organizations and that "bigger is better", and while there is no direct connection between business organizations and biology, it is often useful to look at correlations in the biological community and compare them to the business world.

Drop a mouse down a thousand yard mine shaft, as the 19th century English physiologist, J.B.S. Haldane noted, and it will hit the bottom and walk away. Drop a little larger animal such as a rat and it won't get up. Drop a man and he will shatter every bone. Drop a horse and, as Haldane stated, it will "splash". These examples would suggest that bigger may not always be better. Yet for many organizations in the business world, as well as the biological community, that idea is counter-intuitive.¹ The bias toward large animals has a long and distinguished history. In 1871 the American paleontologist, Edward Cope

looked at the evolutionary history of horses, as well as other species, and induced a pattern: the longer the species evolves, the bigger it appears to get. For 125 years Cope's rule was dominant in scientific circles without major challenge. In the past year, however, two studies have made people take notice and begin to challenge previously held beliefs. In April of 1996, a study published in the *Journal Nature*, by Siemann et al. showed that among insects in the grasslands in the savannas of Minnesota, the most successful species come in enormous range of sizes. That study showed that medium sized insects tended to be not only the most abundant but also the most diverse. At the same time, peak sizes among the five insect orders varied more than hundred-fold. Another paper published in *Nature* in January, 1997, by David Jablonski of the University of Chicago, summarized the ten-year study of the evolutionary history of 191 mollusk lineages that occur at sites from New Jersey to Texas. That study concluded that in a period of 16 million years, the mollusk showed no overall tendency to get bigger. In fact, just as many lineages shrank during the time as expanded.¹

Whatever further studies may show, paleontologists accustomed to growth as progress may

Dr. Riner is President of the Riner Group, Inc., a professional advisory and healthcare management firm offering services to physicians, healthcare systems and industry. A clinical cardiologist, he is a graduate of Princeton University and Cornell University Medical College. He is a fellow of the American College of Cardiology. He can be reached at 1034 S. Brentwood Blvd., Suite 1605, St. Louis, MO 63117. Phone (314) 727-7098, Fax (314) 727-2735.

have failed to notice how often things get smaller. However, smaller in individual size did not mean less successful or less connected to the eco system by a myriad complex relationships.

Which leads me to the world that we inhabit, the world of medical practices, health systems and hospitals and the relationships resulting therefrom. At the present moment, there is considerable debate as to the merit of vertically integrated (own it all) systems vs. virtually integrated systems. By the latter, I suggest a series focused businesses with strategic affiliations or alliances.

It is the very important issue of strategic alliances upon which I wish to focus the remainder of my commentary. I would make a case that in today's complex health care environment, cross-cultural business alliances are becoming a necessity. You will note that I have used the term "cross-cultural" because I strongly feel that medical practice, universities, insurance, and hospitals are different businesses and indeed different "cultures".

Having said that these alliances may be absolutely necessary for successful and productive healthcare delivery as we approach the millennium, let me quickly add that the failure statistics regarding business alliances are, in general, significant. Professor Kathryn Harrigan of Columbia University discovered that 55% of all strategic alliances fell apart within three to five years of inception. In her cross-industry sample, the remaining 45%, the ones that were considered successful, had a further life expectancy of just 3.5 years.² If we extrapolate such data to our current experiences in healthcare, it becomes compelling for us to develop methodologies to manage the numerous new relationships that will ensure a better success rate. In my opinion, the key lies in understanding the processes unique to each business culture, and to understanding how those cultures can inter-relate with each other. Certainly, we are yet to see much of the major fallout from some of our initial efforts for, the honesty, integrity and will needed to bring about successful strategic alliances is frequently painful. Simply put, structural and organizational change does not come easily to most businesses.

Attempting to be more specific, let us try to define what is meant by an alliance:

"An alliance is a relationship that is strategic or tactical and is entered into for mutual benefit by two or more parties having compatible and complementary business interests and goals."³

I would emphasize some of the key words outlined in the definition.

- *Strategy*: a process of planning and directing operations into the most advantageous position before entering into operational issues or an engagement.
- *Tactics*: the process of organizing during an engagement. They are the methodologies utilized to accomplish the strategy.
- *Operations*: the process of being actively involved in business activities and transactions.

Strategy forces us to ask ourselves "where is this practice or business going? What business are we in? Where are we now and where do we want to be at some specific point in the future?"

It is important to note distinctions between issues that are strategic and issues that are tactical. In fact, for one party an alliance may be a tactical engagement, reflecting a relationship developed in the heat of battle. In another situation, one party may enter into a relationship from a strategic viewpoint, with the other party entering into the same relationship for tactical purposes. Indeed, many of the recent hospital-physician relationships formed over the past few years may fit into the strategic-tactical category with one party entering into the relationship for perceived tactical rather than strategic reasons.

Mutual benefit is the touchstone of any alliance, and is often the most fluid component. To the extent one can focus on this element and adhere successfully to a win-win situation there is hope of long-term success. However, one must realize that this "mutual benefit" may change with time due to evolving economics and market forces and this may affect the ongoing alliance. Certainly the alliance entered into that is one-sided at the outset is doomed for problems. A good example of inequality in alliances is the supplier-purchaser relationship. A problem that commonly occurs is that the purchaser of a product or service speaks the words of alliance but really is not interested in anything more than a low cost, quality supplier while the supplier prefers to see itself as a full alliance partner, gaining input and knowledge enabling it to develop its products and services, not only at a lower cost, but importantly in a collaborative fashion. (This should sound familiar in terms of hospitals buying primary care practices in an attempt to control the supply and distribution chain. Rapidly mounting disputes arise as physicians suddenly realize that they are not necessarily full collaborative partners with the hospi-

tal). How disappointed many suppliers have become when their executives realize that what was called an alliance was nothing more than the purchasing of a distribution chain or mechanism to control the supply chain.

Compatible or complementary has to do with the issue of strategic fit. The question to be asked is "does the partner organization have characteristics with which we can continue to work and grow?" The answer to that question is fundamental to the development of the alliance.

All too often I have seen discussions concerning alliances begin with a legal or structural footing. We need to form an "X" or "Y" organization or we need to form "this" to be able to do "that". Focusing on functions and structure misses the point of successful alliance formation. The strategy espoused by a given business is inter-related with the business's philosophy, vision, hope and plans for the future. Understanding the philosophy, vision, hope and plans for the future of a courting culture or business allows one to successfully engage in relationship building. More importantly, choices of structure follow as a consequence of the philosophical decisions made by a business. Understanding this facet and the importance of values, vision and philosophy allows the development of an infrastructure resulting in the crafting of real benefits to the alliance.

Importantly, incompatible personality characteristics of the leadership of various organizations appears to be a very crucial factor in the failure of most business alliances, and certainly, may be more important than any weaknesses in the business rationale for the formation of the alliance.

Key questions to ask as you contemplate forming strategic alliances for your practice or business would include:

- Why are we looking at an alliance now?
- What do we want to achieve from this alliance?
- Is the alliance or strategic relationship we are contemplating the best way for us to achieve our goals?
- What resources are we willing to commit to this relationship and likewise, what are the precise resources our strategic partner is contemplating committing?
- Is our practice or business comfortable creating an alliance with the individuals or other organizations involved?
- How much control are we willing to cede to our alliance or strategic relationship partner?

As stated, there have been numerous new and unusual relationships entered into over the past 4-5 years between hospitals, universities, insurers and clinical practices.⁴ We have had the privilege of participating in many of these and are now in a position to outline some of the lessons that have been learned in creating effective healthcare alliances. These may be summarized as follows:

- Recognize the diversity of models and structures that exist.
- Talk and talk significantly before you act. Make sure you are working from a common shared agenda.
- Be clear about your goals and objectives in forming the relationship or alliance.
- Recognize that it takes time to build relationships between cross-cultural businesses.
- Experiment and be willing to risk failure and try different approaches over time. One can make a case for pilot projects. Additionally, the benefits or failures of one relationship may not necessarily have bearing on another.
- Maintain close and ongoing relationships that are frequent and clear between the parties involved. And don't forget that there are different levels within an organization that are also critically important to the success of the undertaking. Developing communication with significant stakeholders throughout the organization becomes paramount importance.
- Establish a champion or facilitator as the key point of contact in each organization. And do insist on someone facilitating the discussion who understands the business of both cultures — a cross-cultural interpreter.
- Recognize that the relationships do not need to be relegated between large groups or businesses. Very successful relationships have been evolved with very small groups or portions of large organizations.
- Address the issue of incentives and make sure that the incentives are more than financial in nature, and are fairly distributed for the efforts involved.
- Establish a means of accountability and measurement to monitor the success of the relationship.

Finally, let me draw attention to the matter of a cross-cultural interpreter mentioned above. Medical practices, hospitals, universities and the insurance industry are different businesses and different cultures. Indeed, the profession of medicine may actually be a subculture, as are most

professions and professional service businesses. In this regard, many organizations and individuals underestimate the extra effort and time that cross-cultural alliances involving medical professionals and practices take to bring to fruition. Frankly, one effective tool that we have found for managing the unique challenges of such alliances is the cross-cultural interpreter or facilitator. By this we do not mean a specific language interpreter but rather someone who either comes from or has lived at length in both partners' cultures and will understand the verbal and non-verbal communication and perception of both cultures. It has been our experience that it is extremely helpful in negotiating these alliances to have someone who understands both businesses and has been a part of both businesses. Frankly, I am amazed at how frequently advisors or facilitators of these strategic alliances frequently have not been a part of either business and merely approach the formation of the alliance from the perspective of theory, having never practiced or actually been involved in the specifics of any of the businesses.

A cultural interpreter who possesses the proper educational background, experience base and connections can make substantial differences where relationships and status are more important than contract terms. Therefore, it behooves you to look frankly upon your approach to these undertakings and realize full well that structural considerations can be important. But if the decision making process used and the personality of the implementors, both individual and organizational, don't mesh and cannot work together in harmony and understand the viewpoints and concerns of both parties, the project may well be doomed to failure no matter what its legal structure or how well intentioned. In conclusion, the advice is not to shy away from forming alliances and strategic relationships. These alliances may be critically important to the ultimate benefactor — the patients we serve. The challenge is to work our alliances and relationships harder, manage them more effectively and build and grow them with intelligence and savvy — and maybe revisit some that have failed.

*"When shall we three meet again,
In thunder, lightning, or in rain?"
"When the hurly-burly's done,
When the battle's lost and won."*

– The Witches
MacBeth, William Shakespeare

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