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HEALTH INNOVATION CENTER

EXECUTIVE CONVERSATIONS

CHANGE BEFORE YOU HAVE TO

AN EXCLUSIVE INTERVIEW WITH DR. STEPHEN LOCKHART AND LINDA KHACHADOURIAN OF SUTTER HEALTH

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"Change before you have to." So goes one of Jack Welch's most memorable business aphorisms. The logic is obvious: If you address a problem before its ill effects become a burden, you have more time, money, and attention to devote to solving it. You can get your solution right instead of just getting it done before disaster strikes. You know that your working world never stays the same. Why not act quickly and get ahead of it?

Welch's advice makes sense, but it is notoriously difficult to put into practice. It requires vision, a strong sense of where the market is moving, and the ability to motivate people to take uncomfortable, difficult steps that look like they could easily be put off until another day.

That is why we were eager to talk with the leaders of Sutter Health about their recent, sweeping reorganization. Sutter was feeling no great pressure to change. The California not-for-profit has 24 hospitals, 5,000 physicians, and more than 4,000 licensed acute care beds. In 2014, it conducted more than 11 million outpatient visits—and it invested more than $750,000,000 in programs to benefit the community.

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>
> — Dr. Stephen Lockhart
> **CMO, Sutter Health**

But leadership thought it was time to move, and ambitiously. Over the course of a little more than a year, Sutter shifted its geographic structure from five regions to two, then built patient-centricity into the organizational chart by installing physician leaders in key roles and creating leadership "dyads" linking key clinical and administrative personnel. It put a new focus on patient experience and engaging with the market, structuring its organization to allow for greater innovation, collaboration, responsiveness, and affordability.

How did Sutter keep the transformation on target? What did its leaders learn? My colleague, Rachel Zeldin, sat down with Dr. Stephen Lockhart, the new chief medical officer for the system, and Linda Khachadourian, Sutter's first chief enterprise transformation officer, to find out. What follows is a transcript of their conversation, edited for length and clarity.

RACHEL ZELDIN Sutter has performed quite well in the last couple of years. Why choose now as a time to redesign?

LINDA KHACHADOURIAN We're always looking to the future. On several previous occasions, we undertook major organizational changes when we weren't under pressure to do so, and that decision served us well. This opportunity was no different. We have a commitment to our mission and vision. We have a strong strategy. We're doing well financially, but we wanted to step back and look at what was going on in the environment—the diverse needs of patients, the changing payer environment, the competitor environment, the accelerating pace of innovation and change. Then we asked: how can we can act more responsively to those circumstances, move faster, work more efficiently?

RZ As you thought about the environment, I'm sure you heard a great deal about the move toward value-based reimbursement, population health management, and consumers taking on more of the decisions regarding their healthcare. How much did those ideas influence you?

STEPHEN LOCKHART The focus on patient experience was a critical part of what we wanted to accomplish. Our mission is to engage patients and provide for their needs. We weren't just thinking about patient satisfaction, but about the whole experience: How do patients access care, is it personalized, is it safe, is it high quality, is it seamless? In part, that means moving from episodic care to a more continuous type of care. And as we looked at our organizational structure, it was clear that patients must be at the center.

RZ How did you build that into your new design?

SL The most obvious step was creating the Office of Patient Experience, which looks at every point at which the patient touches our system—access, quality, safety, and to some extent affordability. Our "dyad" relationships ensure the focus remains on the patient. Outcomes improve when leaders who have vested interests in the patient experience work closely together, whether that's a dyad including

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administrative and physician leaders, such as the COO and the senior vice president of patient experience, or any collaborative pairing of clinical to administrative, clinical to clinical or administrative to administrative.

RZ You're also currently creating a series of councils and delegating authority to them. How will that work?

SL Councils are bodies created to tackle issues that require cross-system, multidisciplinary participation. Councils address issues that need strategic prioritization, alignment, or buy-in so we can accomplish more. They push decision-making down in the organization, allowing subject-matter experts to make decisions collaboratively under guidelines set by senior executives. So, for example, in the Research Council, we might talk about what types of research we would do, and make decisions about priorities without having to go to our senior executive team with every item. Another example is our forthcoming Innovation Council, which will prioritize the funnel of potential projects that we might pursue.

LK Not every decision has to go to a council. We're not trying to replace the decision-making authority of existing organizations or functions or leadership teams. We want the councils for cases where there is a need to bring cross-functional disciplines together around something that crosses multiple lines. So one of the key things we need to do is make sure that the councils have very clear decision-making authority and that we're using them in the right way—so we're actually moving more quickly, rather than creating additional bureaucracy.

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A STRUCTURE FOR INNOVATION

We also created a position of chief innovation officer who can partner with the chief research officer to rapidly study and connect with the appropriate resources in the organization when innovative ideas emerge. I think of it as a sort of HOV lane for innovation.

— Dr. Stephen Lockhart
CMO, Sutter Health

I believe the physician community comes to this new organization with a mindset that's really aligned with what we're trying to do as an organization overall—that we need to move more quickly, empower those closest to the work, partner with those who need to be involved, and really focus our activities and measure results.

— Linda Khachadourian
CETO, Sutter Health

RZ In the beginning of this conversation, we talked about how the pace of change in healthcare and the need to innovate was a big driver. How does your new structure and the organizational behaviors implied in it allow Sutter to innovate better?

SL There should be a dynamic tension in innovation. As you drive toward enterprise solutions, you drive toward solutions that are robust and aren't subject to random or precipitous changes. By the same token, we have to innovate in a way that keeps us current and ahead of the curve for patient care. So it's important to strike a balance.

We formed an infrastructure that supports areas of our network—like legal and information services—that are not particularly subject to change. We also created a position of chief innovation officer who can partner with the chief research officer to rapidly study and connect with the appropriate resources in the organization when innovative ideas emerge. I think of it as a sort of HOV lane for innovation.

LK Previously, we weren't able to take advantage of partnerships with outside organizations in the way that we really should. We sit here in the middle of the Silicon Valley with so much innovation going on, and we have not been easy to interface with as an organization. So part of the idea behind [the chief innovation officer] is to have more of a single point of contact for the outside community, or at least a place where ideas can be prioritized and considered so we can take advantage of the new ideas that other really bright organizations and people can bring to the table.

RZ How does the new design incorporate physician leadership, and how is that different from the prior structure?

SL It's a concentrated powerhouse of physician leadership—with ambulatory and acute working together. We're talking about medical groups and independent physicians together who are able to do things around quality and safety because now we can engage physicians across the continuum.

LK I'm impressed with how engaged our clinical leaders are with all of our improvement work. I believe the physician community comes to this new organization with a mindset that's really aligned with what we're trying to do as an organization overall—that we need to move more quickly, empower those closest to the work, partner with those who need to be involved, and really focus our activities and measure results. It's a natural progression, and we're learning from each other in terms of how we can best work together as we move the company toward our strategy.

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SERVING PATIENTS IN A NEW WORLD AND AN OLD

We have to model the behavior. We need to be accountable. We need to empower those that should be doing the work. And we need to make things personal.

— Linda Khachadourian
CETO, Sutter Health

RZ Like many healthcare organizations today, Sutter needs to be ambidextrous: You're developing population health capabilities, but you're also trying to run your hospitals really, really well because that's what is supporting the current business model. So how are you bridging between those two things?

SL We're making certain investments in patient care that don't generate revenue. For example, we're making significant investments in our advanced illness management program because we believe it's the right thing to do for patients and families. But we haven't really dismantled the volume-based infrastructure.

LK The environment has not transitioned to value-based payment at the pace we expected. That's why our strategy has to go hand in hand with our affordability agenda and our efficiency work—because the more waste we take out of the system, the more flexibility we'll have to invest in doing the right thing around population health and care models, regardless of how quickly the broader market moves. All the pieces have to move together.

RZ We've talked about your strategy and what Sutter's new structure does. But there's also a large cultural element. How are you working to help your team embody a new culture and really live it in the new design?

LK It's not an initiative. It's something we have to infuse in all of our work—like our strategy, which is about where we're heading as an organization, and our structure, which builds platforms for authority, accountability and partnership. We need to look at all of our processes: How are we sharing information? How are we collaborating? How are we making decisions? We need to look at metrics and rewards so we motivate, reinforce, and track as appropriate.

As critical as anything are the people, so how are we really supporting positive leadership and behaviors or empowering those closest to the work? Only by touching all of those aspects are we going to move to the kind of culture that we are trying to create here, which is, again, about our patients and about doing the right thing for all of our patients, as consistently as possible across our organization, no matter where they connect with us.

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EXPANDING THE LEADERSHIP AGENDA

When the patients' needs are paramount, it's incumbent upon all of us to take the silos and barriers and take them down.

— Dr. Stephen Lockhart
CMO, Sutter Health

RZ As a leader, how do you actually get your team to live the culture?

LK First, we have to model the behavior. We need to be accountable. We need to empower those that should be doing the work. And we need to make things personal.

Sharing stories is powerful, whether they are patient or employee stories. We launched for the first time this year a new system-wide award program to shine a spotlight on innovative collaborations. Rather than recognizing a single affiliate or organization for dashboard performance, our new award recognizes teams that have come together across multiple organizations and partners. We had 78 applicants for the first round of awards and ended up identifying first-, second-, and third-place winners that received grants so they can spread their great work for patients more broadly.

RZ How has going through this transformation and putting yourself in this new operating model changed how you think of yourself as a leader?

LK One thing I'm excited about is helping us focus on our top priorities and goals, and create alignment so people really understand their role as an employee, caregiver, or physician in our broader transformation. I think creating that kind of clarity for the organization is important for us as we move forward.

SL I would say that it has expanded my leadership agenda. We're all responsible for patient experience. We're all responsible for using creative thinking to come up with innovative solutions. And we're all responsible for having a successful financial model that gets us to where we need to go.

Also, as Linda said, it has made accountability hugely important. If it's something that involves anything that I might have any control or influence over, it's my responsibility to provide some leadership. When the patients' needs are paramount, it's incumbent upon all of us to take the silos and barriers and take them down.

RZ Other organizations across the country are looking at where they need to go and finding that their structure is not well designed to get them there. What advice would you give their leaders?

LK There is no blueprint, and transformation is an ongoing thing. There are things that we are trying to accomplish in our new design that we would never have been able to even contemplate if we hadn't gone through some of our prior evolutions and structures. Also, an organizational change of this magnitude, where we're really reconfiguring so much of how we work across lines, is not for the faint of heart. It's a lot of hard work and we won't get everything right at the front end, and so we're going to have to change some things as we go.

You've got to keep reminding yourself why you started the journey in the first place and hold true to yourself and not retreat to the old ways when things get tough

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STEPHEN H. LOCKHART, MD, PhD

Chief Medical Officer, Sutter Health

Stephen H. Lockhart, MD, PhD, a board-certified anesthesiologist, is Chief Medical Officer for Sutter Health, a not for profit system of hospitals, physician organizations, and research institutions in Northern California. A Rhodes Scholar, he obtained his Masters degree in Economics from Oxford University, and M.D. and Ph.D. degrees from Cornell. As Chief Medical Officer, he has responsibility for quality, patient safety, research, and education.

LINDA KHACHADOURIAN

Chief Enterprise Transformation Officer, Sutter Health

Linda Khachadourian is the Chief Enterprise Transformation Officer for Sutter Health. Enterprise Transformation was created to align, improve, and enable Sutter Health to fulfill its mission and deliver unparalleled results. In this role, she is charged with driving operational excellence, strategy execution, the Sutter Improvement System (Lean), annual planning, performance management, and change management.

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Rachel Zeldin, PhD, is an Engagement Manager in Oliver Wyman's Health & Life Sciences practice group. She works with large hospital systems, physician groups, and biopharmaceutical companies, focusing on strategic planning and implementation, and organizational effectiveness. Rachel holds a B.S. in Chemistry from Stanford University and a Ph.D. in Synthetic Chemistry from the University of California, Berkeley. She lives with her husband and dog in San Francisco.

SAM GLICK

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Sam Glick is a Partner in Oliver Wyman's Health and Life Sciences practice, and the San Francisco Office Leader. He focuses on consumer-centric healthcare, working with leading providers, health plans, employers, enablement companies, retailers, and venture capital firms to find innovative, engaging ways to bend trend. Sam also leads many of Oliver Wyman's healthcare commercialization research and intellectual capital development efforts.

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ABOUT OLIVER WYMAN

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Oliver Wyman's Health & Life Sciences practice serves clients in the pharmaceutical, biotechnology, medical devices, provider, and payer sectors with strategic, operational, and organizational advice. Deep healthcare knowledge and capabilities allow the practice to deliver fact-based solutions.

The Oliver Wyman Health Innovation Center (OWHIC) was created to develop and promote market-driven solutions to the crisis of high cost and poor quality that afflicts the healthcare systems of the developed world. Based on the deep healthcare expertise of Oliver Wyman and drawing on a network of innovative leaders across industries, OWHIC identifies and disseminates the ideas and practices that will transform healthcare. Our goal is to create a healthcare system driven by innovation and the needs and desires of consumers, creating value for companies and the public alike.

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