DEVELOPING A PRACTICE STRATEGY
A COMPONENT TO EFFECTIVE PRACTICE
AND RISK MANAGEMENT !

SPECIAL REPORT

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DEVELOPING A PRACTICE STRATEGY:
A KEY COMPONENT TO EFFECTIVE
PRACTICE AND RISK MANAGEMENT

Strategy generally focuses on the major, longer-term issues that a firm, (or orthodontic practice) faces. This can be distinguished from tactics or shorter-range issues. As the shorter-term issues take shape or diverge from the long-term plan, the firm may or may not need to change the strategic plan. As you might expect, there are many ways to approach strategy development. There are at least as many, if not more, ways to implement and re-evaluate strategic initiatives. Many successful firms have utilized a straightforward approach to strategy framework development, which includes four (4) categories: firm boundaries; market and competitive analysis; firm position, capabilities and dynamics; and organizational architecture (including incentive compensation issues). A brief description of the four categories may be helpful in deciding whether this type of approach can be beneficial for your orthodontic practice.

In reviewing a firm or practice's boundaries, a three-dimensional approach is helpful. The first boundary involves deciding what segment or segments of the services market the practice chooses to serve. This decision can involve some basic as well as sophisticated decisions such as treating children and/or adults, lower fee or higher fees, participating with insurance plans, functional or not, temporary anchorage or not, Invisalign, etc. The next step is more vertical decision-making, especially what services the practice will provide in-house, i.e. laboratory, imaging, direct vs. indirect bonding, diagnostics records, in general, etc. Lastly, a consideration should be given as to whether to combine with other types of practices, i.e.. pediatric dentists or general dentists, or even other completely unrelated businesses such as department stores, wholesale vendors, etc.

Analyzing competition and the markets in general is the second key factor. In this analysis the firm takes a look at itself in relation to the universe of businesses providing similar services. For an orthodontic practice, that may involve not only other orthodontic offices within the area of influence, but also pediatric dental offices offering the service or bringing in a part-time or independent contractor to provide the services, a general dental practice, dental school clinics, department stores, orthodontic franchises, and discount providers.

In discussing the practice position and its capabilities, it is important to understand how the practice competes. This differs from the specific market discussed above. In this factor, consideration is given to issues such as being a low cost provider or whether a differentiation takes place in key aspects adequate to achieve a premium fee for services. In addition, practice resources, staffing, capitalization, facilities, and equipment can all be a part of the practice positioning considerations. Reflection should also be given to the way in which the practice adapts over time or to change imposed upon it (insurance payment changes, industry advances, etc.). The main question here is: does the firm have or can it obtain a sustainable competitive advantage?

The final key element is organizational architecture and incentive compensation, which will be discussed, in a future article.

These foundational elements fit together seamlessly and require a unified approach since they are closely interrelated. A move in one category or component can have a significant effect on the others.

Once the strategy is formulated using the four categories described above, strategy management from the risk perspective is integrated. Planning is great, but execution or implementation is required to obtain the goals which are the reason for all of your efforts.

With the components discussed in the first two columns (organizational architecture, incentive compensation and the use of a balanced scorecard), the addition of the strategy piece enables the orthodontist to set the foundational framework upon which practice risk management, marketing and development of a sustainable competitive advantage can be achieved. These, in turn, drive a relaxed practice environment, longevity of assistants and other office personnel, reduced stress, increased net income and higher practice value, especially for transitions, including sale or associations.

The use of practice surveys and a balance scorecard system pinpoint the key drivers and inevitable areas of concern. The scorecard should be designed to show all employees in an organization, as well as the organization's leadership, how to integrate strategy into each stakeholder's thinking and daily job. Using a scorecard, including The Balanced Scorecard, as developed by Robert Kaplan and David Norton of Harvard, suggests a structured framework that: 1) communicates the strategy so that all employees understands the goals and the specific employee's role in accomplishing those goals; 2) focuses the practice's resources on the key drivers of the strategy; and, 3) monitors the execution of the strategy by measuring the objective as well as subjective results.

It is important to select the proper communication approaches so that each stakeholder understands how their tasks contribute or deter achieving the desired results. Also, communication permits open and frank discussions between the staff and the practitioner about needed financial returns, learning what the customer wants/needs, determining what is necessary, measuring the gap between what the customer wants and what the firm is delivering; and, learning how to develop the sustainable competitive advantage.

A significant body of information has been developed and tested on all sizes and types of organizations using The Balanced Scorecard to communicate strategic goals. The goals are communicated using "strategy maps" which define key tasks, sometimes called "action plans". Incorporated within the action plans are responsibilities, goals of the organization and how a breakdown in an individual action plan can cause the organization to miss its goals. Thus, for many employees, this is the first time that their participation is shown to be integral to the success of the organization. This fosters

teamwork and a sense of value and responsibility. These are presented as cause and effect relationships.

One frequently encountered problem is that many scorecards do not communicate clearly (or at all) the cause and effect linkages. That can be a fatal defect to the program. Without the employee fully understanding how their actions contribute to the enterprise goals and overall success, a serious disconnect occurs. The scorecard then merely becomes a data collection exercise from which a retrospective report is obtained, not a prospective, forward directed dynamic tool for practice positioning and competitive advantage is obtained.

To implement a strategy and not merely make tactical or short-term moves, the practice, organization or firm needs the optimal organizational architecture, a finely-tuned incentive compensation program, a multi-time period strategy and a scorecard system that maps and communicates the organization's goals and the individual employee's tasks necessary to accomplish those goals. Once these systems and frameworks are in place, the practice develops a sustainable competitive advantage, takes market share with less stress and a smooth and elegant integration of technology, knowledge, information and capital, especially human.

To begin the processes described, carefully and objectively evaluate current performance through a review or audit. This is truly a humbling experience for most practitioners. Learning how employees, patients and others interested in the organization view the practice can be a serious wake-up call. It can be discouraging. Better to learn early, while changes can be implemented and stop any negatives, than to let it go so long that when the relevant information is learned, irreparable harm may have been inflicted.