

Good to Great: What's Your Hedgehog?

by Wendy Green

In his best-seller, *Good to Great*, Jim Collins studied a group of organizations that had moved from being merely “good” to truly “great,” and went on to maintain that level for many years. This article is the fourth in a series examining the principles of *Good to Great*, as seen through the prism of aging services providers who have adopted them. The focus is on how to develop a “hedgehog concept” that aligns all of an organization’s work behind one central idea.

The cornerstone of Jim Collins’ *Good to Great* framework is the “hedgehog concept.” Collins is alluding to philosopher Isaiah Berlin’s essay “The Hedgehog and the Fox,” which divides people into foxes, who know many things, and hedgehogs, who know “one big thing.” In the world of organizations (whether for-profit or not-for-profit), Collins argues that hedgehogs have an advantage because they’re able to simplify the world into a single organizing idea, and hence are more likely to achieve greatness.

More than a strategic plan, a hedgehog is an organization’s very simple, very clear concept that emerges from a deep understanding about the intersection of three core questions, which translate into circles (see the diagram on page 35):

- What can you be best in the world at?
- What drives your economic engine?
- What are you most passionate about?

Great organizations, Collins explains, rely on their hedgehog as a frame of reference for all decisions and efforts, because it simplifies today’s complex environment down to one core concept that drives their path and makes it easier to say “no” to projects, people or new business lines that aren’t aligned with that central idea.

Connecting Passion to Mission

For providers who have implemented the *Good to Great* framework, determining what they are most passionate about was the easiest part of the process—a trend, Collins notes, that is often the case within the not-for-profit sector, since it ties directly to an organization’s mission.

Cathy Bergland, chief operating officer of Presbyterian Homes and Services (PHS), Roseville, Minn., connects the organization’s passion to its Christian heritage. “Our passion is for a Biblically based, Christ-centered ministry. By serving in this way, we will develop a strong culture, provide exceptional quality, exhibit great employee relations and be the provider of choice.” Bergland notes that they’ve been challenged by stakeholders over their unwavering valuing of Biblical principles, but that, in the long run, she and CEO Dan Lindh believe consistent adherence to those principles will lead them in the right direction. “For PHS,” says Bergland, “It’s a long-term view that allows us to overcome the small hurdles we encounter.”

Rick Fisk, CEO of Chicago-based Covenant Retirement Communities (CRC) and his team have taken a similar, faith-based approach. “Our passion is our Christian mission—it’s what sets us apart and makes us unique. Without it, there is not a lot of distinction between CRC and other not-for-profit [providers], or, for that matter, for-profits.”

King of the World!

Identifying what you can be best in the world at is more difficult than it first sounds, because our tendency is to identify what we would *want to be* best in the world at. A hedgehog is not a goal, strategy or intention to be the best at anything; rather, it is an understanding of what you *can* be best at. The distinction is critical.

For PHS, the second, “best in the world” circle is identifying the right service needs and developing the right project within the defined market area on a fast-track basis.”

“We receive positive feedback from external stakeholders at the speed, quality and ease of coordination [with] which we take a project from concept to opening,” Bergland says. Making that happen requires a nimble governance, development and operating structure. “We have the board’s trust to work within defined parameters, and we’ve empowered our Senior Housing Partners division [the project development arm] to do what they’re good at doing without being inhibited by our operating structure. So we’re able to move quickly and not lose our competitive advantage because of wasted time spent on checking in with each other.”

Completing this circle wasn’t particularly difficult for Bergland and her colleagues, although they did get hung up on being “best in the world” at anything. Their solution? They modified the circle slightly to say “best in *our* world.”

CRC took a different approach, identifying “providing services” as what they’re best in the world at. “We know we can’t compete with some of the high-end providers on the level of physical facility,” says Fisk. “What we can do, because of our mission, is provide exceptional services our community needs. We pay close attention to what our residents tell us they need and expect, and we provide these services in a manner which is not only consistent with our mission, but which assures residents that we are being fiscally responsible.”

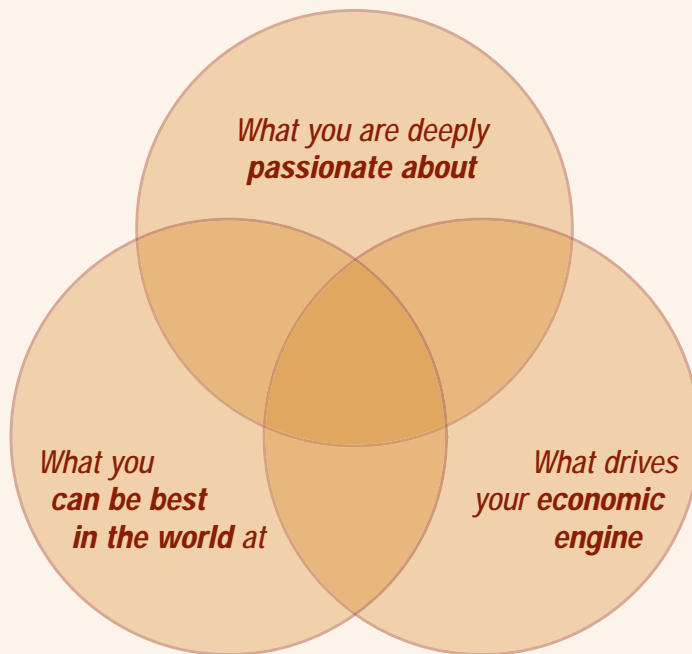
Money Matters

What drives your economic or resource engine? (See the sidebar on page 37.) That’s a tough question for not-for-profits, and the most challenging part of applying the hedgehog framework.

Bergland, Lindh and their team identified three drivers: earnings before interest, taxes, depreciation and amortization (EBITDA) per month; debt-coverage ratio; and fund development as a percent of revenue, measured annually.

“We’ve been measuring EBITDA per unit per month for years with operations. With so many facilities, we had to find one financial measure that could cut across all of the differences in our campuses,” explains Bergland. “We chose EBITDA and that measure has served us well. But when we look at the


Three Circles of the Hedgehog Concept



	Presbyterian Homes and Services	Covenant Retirement Communities
What you are deeply passionate about	Passion for a Biblically based, Christ-centered ministry. By serving in this way we will develop a strong culture, provide exceptional quality, exhibit great employee relations and be the provider and employer of choice.	Mission
What you can be the best in the world at	Could become the best in our world [at] identifying the right service needs and developing the right project within the defined market area on a fast-track basis. We will achieve this by having nimble governance, development and operating structures.	Providing services
What drives your economic engine	Economic denominator: earnings before interest, taxes, depreciation and amortization (EBITDA) per unit per month, and debt coverage ratio. Secondarily, fund development as a percentage of revenue measured annually.	<ul style="list-style-type: none"> • Cost per resident day • Census • Entrance fees
Intersection	“Mini-continuum” of independent housing, congregate housing, traditional assisted living and memory care assisted living	Maximizing the resident experience

“Economic Engines” Adapted to the Not-for-Profit World

In his recently-released monograph, *Good to Great and the Social Sectors*, Jim Collins presents a new twist to the economic circle of the hedgehog model, which he admits is difficult for those in the not-for-profit or social sector to identify. The core question shifts from “What drives your economic engine” to, “What drives your resource engine?” In other words, how can you develop a sustainable resource engine to deliver superior performance relative to your mission? Collins points out that the resource circle is made up of three components: time, which refers to how well you attract people willing to contribute to your efforts; money, which refers to cash flow; and brand, which refers to how well your organization can cultivate the goodwill of supporters.

Key to the success of not-for-profits, Collins notes, is the discipline to say, “no thank you” to resources that drive the organization away from the connection of all three circles. But, says Collins, “Those who have the discipline to attract and channel resources directed solely at their hedgehog, and to reject resources that drive them away from the center of their three circles, will be of greater service to the world.” 

health of the organization, we felt we also needed to pay attention to the debt coverage and fund raising dollars.” She notes, however, that while this definition works for them at present, the PHS team may in the future challenge themselves to simplify the economic denominator circle or come up with a measure that encapsulates all that is important.

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Fisk, as well, identified multiple economic drivers: cost per resident day, census and entrance fees. “Cost per resident day drives decisions at the operational level; this is a new model we are working on,” says Fisk, noting that “we have moved beyond just measuring profitability at our residential, assisted and skilled facilities. As such, maintaining census to budget [i.e., making sure the actual census matches the budgeted census] is an economic driver, as are entrance fees, which are applied toward capital and health care costs. Both are essential to driving Covenant’s operations.”

Connecting the Circles

The final, critical step involved in identifying a hedgehog is determining how to connect all three circles so they reinforce one another. For CRC, the intersection is simply “maximizing the resident experience.”

For PHS, it's a bit more specific. Bergland, Lindh and their team have identified "mini-continuums" at the center of the three circles, meaning 140 to 275 units with a blend of independent housing, congregate housing, traditional assisted living and memory care assisted living.

"The residents live in those respective units or parts of the building (as opposed to a mixed-use building), joined by a town center that contains amenities including dining rooms, a café, a wellness studio, libraries, community rooms, computer labs, a general store and more. Additional components include services such as subacute, long-term care, adult day care, child day care and transportation," Bergland explains. "Our strategic plan is built on the premise of operating in this hub-and-spoke model in geographically defined areas. But when it really comes to our hedgehog, we do the mini-continuums best."

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It's All in the Process

Sounds simple, right? Map out your three circles and you're on the path toward greatness. Not so, says Collins. On average, it takes an organization about four years to clarify its hedgehog, and the process by which it gets there plays a huge role in the outcome. Collins describes it as an inherently iterative process—not just an event—that demands the right people be engaged in vigorous dialogue and sometimes heated debate.

After reading *Good to Great*, PHS' 13-member senior management team discussed the three circles of the hedgehog concept for over six months. They were each asked to complete the circles based on their current best thinking, and then met repeatedly to share their respective answers—staying engaged until they reached consensus.

An interesting point of discussion focused on ancillary business and activities—specifically whether PHS should be engaged in such activities. "For example," says Bergland, "we own a market-rate apartment building adjacent to one of our campuses. We bought it to help with an employee housing shortage. We talked about whether apartment ownership and management was really something we should be doing. The key question came down to whether we felt [it] helped to support our hedgehog. It could be argued that, while our core competency isn't in general apartment management, we need this apartment to support our hedgehog at that particular site. Similarly, we are part owners in a business that helps Philippine nurses come to the United States to assist us and others with the nursing shortage. While this is not our hedgehog, it does support our hedgehog."

Resources

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Keeping to the Core

Clearly, both PHS and CRC have adapted the hedgehog framework to work for their needs. In both cases, working with their hedgehogs is a work in progress, with occasional challenges. "We realized we need to access better and more timely information to help us monitor our hedgehog," says CRC's Jack Harriff, vice president of employee development and training. "This has resulted in time-consuming and costly development of new data systems and new cost-accounting systems, as well as the purchase of new integrated financial software. We have tried to be patient in getting the quality information we seek while these systems are created and investments made."

But the payoff is powerful. As a result of its hedgehog work, CRC made major strides: creating 20-year repositioning plans for all campuses, developing a project management company (Covenant Solutions), adopting a change management process and new payroll system, restructuring its operations team and revamping its marketing department.

In the bigger picture, Harriff explains, identifying and working with the hedgehog has helped them become better managers and planners of resources. "We have even more credibility with external investors. Our board has a high degree of confidence in the information they are receiving, and this makes their job of high-level discernment more comfortable." And the greatest benefit one could hope for, he says, is that "Residents have increased confidence in the stability and integrity of CRC."

For PHS, working on its hedgehog allowed it to clarify what they are all about and helped others understand why they say "yes" to certain projects and "no" to others—saying "no thanks," for example, when it is suggested they become consultants to help others with project development. Bergland concludes: "The hedgehog has helped us clarify and confirm who we are and what we're about. We know our core. Let's keep improving, improving, improving—but let's keep to our core."

Today's environment requires integrated strategic planning to ensure all organizational endeavors are mission-driven, on-target with core values and sustainable. The hedgehog concept affords an approach for aging services providers to cultivate a valuable strategic compass, consistent with element two of AAHSA Quality First: governance and accountability. A good hedgehog ensures that organizational goals, time, talent and funds are in productive alignment with mission, values, passion, capabilities and available resources. 

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