STRATEGIC MANAGEMENT
OF HEALTH CARE
ORGANIZATIONS
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More than two decades ago, the three of us agreed that health care was experiencing evolutionary, and in some segments revolutionary, change. At that time, we wrote in the Preface of the first edition that clearly health care organizations have “had difficulty in dealing with a dynamic environment, holding down costs, diversifying wisely, and balancing capacity and demand.” Our conclusion was that only a structured strategic management approach that recognized the value of emergent thinking could make sense of such a rapidly changing environment. Our only surprise has been that the rate of change in the health care environment has been even greater than we imagined.

Today, health care organizations have almost universally embraced strategic management as first developed in the business sector and now have developed strategic management processes that are uniquely their own. Health care leaders have found that strategic thinking, planning, and managing strategic momentum are essential for coping with the dynamics of the health care industry and strategic management has become the single clearest manifestation of effective leadership in health care organizations.

In the broadest terms, this text is about leadership; more narrowly, it concerns the essential strategic tasks of leading and managing health care organizations. As a result, the seventh edition continues to advocate the importance of strategic thinking and clearly differentiates strategic thinking, strategic planning, and managing strategic momentum. These concepts represent the central elements of a complete strategic management process that we believe reflects the realities of conceptualizing, developing, and managing strategies.

Specifically, our approach depicts strategic management as the processes of strategic thinking, consensus building and documentation of that thinking into a strategic plan, and managing strategic momentum. Through the management of the strategic plan, new insights and perspectives emerge and strategic thinking, planning, and managing are reinitiated. Therefore, strategic managers must become strategic thinkers with the ability to evaluate the changing environment, analyze data, question assumptions, and develop new ideas. Additionally, strategic managers must be able to develop and document a plan of action through strategic planning. Once a strategic plan is developed, managers maintain the strategic momentum of the organization. As strategic managers attempt to carry out the strategic plan, they evaluate its success, learn more about what works, and incorporate new strategic thinking.

It is our view that strategic control is integral to managing strategic momentum and cannot be thought of or taught as a separate process. Therefore, traditional strategic control concepts are integrated into the strategy development chapters under the heading of “Managing Strategic Momentum.” We believe that
this approach better reflects how strategic control works in organizations – as a part of managing the strategy, not as an afterthought or add on.

Although we present a structured strategic management process, we believe that strategic management is highly subjective, often requiring significant intuition and even well-informed guesswork. However, intuition and the development of well-informed opinions are not easily learned (or taught). Therefore, a major task of the future strategic thinker is to first develop a thorough understanding of analytic strategic management processes and then – through experience – develop the intuition, perspective, and insight to consider previously uncharted strategic issues. Our map and compass metaphor provides a framework for blending rational, analytical planning with learning and responsiveness to new realities. We believe this text provides that foundation for effective strategic thinking, planning, and managing strategic momentum.

Features of the Text

Feedback from users of previous editions of *Strategic Management of Health Care Organizations* has reinforced our belief that these features aid in providing an informative, interesting, and pedagogically sound foundation for understanding and embracing strategic management of health care organizations.

- Each chapter begins with an *Introductory Incident* to provide a practical example of the concepts discussed in the chapter.
- *Learning Objectives* direct attention to the important points or skills introduced in the chapter.
- *Models, examples, and exhibits* are included to assist in learning chapter material.
- *The Map and Compass* provides a useful metaphor for conveying the view that strategic leaders must both plan as best they can but also learn, adjust, and establish new direction (develop a new plan) as they progress.
- *Perspectives* in each chapter are drawn from actual health care organizations’ experiences or emphasize recurring themes and abiding truths and are useful to augment the content of each chapter. These sidebars are designed to enable the student to relate to particular concepts presented in the chapter.
- *Lessons for Health Care Managers* serve as chapter summaries and highlight the most important lessons to be taken away from each chapter.
- *Health Care Manager’s Bookshelf* introduces classic and popular books that have particular relevance to the strategy topic discussed in the text. Books were selected on the basis of their importance to present and future health care managers and included because they either represent a “classic contribution” to the field or provide potentially trend-setting information for strategic health care managers.
- *Key Terms and Concepts* present the essential vocabulary and terminology relative to the chapter's material.
● Questions for Class Discussion aid the reader in reviewing the important material and thinking about the implications of the ideas presented.
● Notes contain the references used in development of the chapter materials.
● Three Appendices to assist readers – Analyzing Strategic Health Care Cases, Health Care Organization Accounting, Finance, and Performance Analysis, and Health Care Acronyms.
● A Web-based Instructor’s Support site is available to verified course instructors using the text. The support material includes PowerPoint slides for each chapter, chapter lecture notes that include suggestions for effective teaching, and answers to the end-of-chapter questions. The Instructor’s Support also contains a true/false, multiple choice, and discussion question test bank and can be found at www.wiley.com/go/ginter7e.

Through our own teaching, research, and consulting in the health care field, we have applied the process outlined in this text to physician practices, hospitals, local and state public health departments, long-term care facilities, social service organizations, and physical therapy practices. We have students who report back to us saying that they lead strategic planning in their organizations using the process with great success. The process works.

Organization of the Text

The text contains 10 chapters and three appendices addressing the philosophy and activities of strategic management. Chapter 1 introduces definitions for strategic management and its activities – strategic thinking, strategic planning, and managing strategic momentum. The chapter discusses the need and rationale for strategic management in today’s turbulent health care environment and briefly traces its historical foundations. In addition, Chapter 1 presents a conceptual model or map that guides strategic thinking, focuses on important areas for strategic planning, and provides the constructs for managing strategic momentum.

Chapter 2 contains strategic thinking and planning maps for investigating the external environment – both the general environment and the health care industry environment. Chapter 3 narrows the external environmental focus by providing strategic thinking maps for conducting service area and competitor analysis for a specific health care organization. Assessment of the internal environment is accomplished through strategic thinking maps for a health care value chain and analysis of the organization’s resources, capabilities, and competencies, as examined in Chapter 4.

The directional strategies – mission, vision, values, and strategic goals – are examined in Chapter 5. Developing a mission asks members of an organization to strategically think about its distinctiveness; developing a vision allows them to think about their hopes for the organization’s future; and building awareness of organizational values makes members aware of the principles that should be cherished and not compromised as the mission and vision are pursued. Strategic goals establish clear targets and help focus activities. Chapters 2–5 collectively constitute situation analysis.
Strategy formulation is concerned with making strategic decisions using the information gathered during situational analysis. Chapter 6 provides the decision logic for strategy formulation and demonstrates that strategic decisions are connected in an “ends–means” chain. Each decision along the decision chain more explicitly defines the strategy and must be consistent with upstream and downstream decisions. Chapter 7 discusses how to evaluate the strategic alternatives within each strategy type in the decision chain. These evaluation methods do not make the strategy decision. Rather, they are constructs or maps for helping strategists to think about the organization and its relative situation, thus enabling them to understand the potential risks and rewards of their strategic choices.

Managing strategic momentum entails putting strategies to work (managerial actions that accomplish the strategy), incorporating strategy evaluation and control, and building strategic awareness. Implementation requires that strategic managers shape and coordinate the value chain components and ensure that the organization’s action plans are directly tied to selected strategies. Chapter 8 addresses the development of implementation plans through either maintaining or changing the pre-service, point-of-service, and after-service strategies. Strategic managers should determine the essential characteristics of service delivery to ensure it best contributes to accomplishment of the strategy. Chapter 9 examines the role of organizational culture, organizational structure, and strategic resources in implementing strategy. These value chain components determine the organizational context and are vital in effective strategy implementation. Chapter 10 demonstrates how strategy may be translated into organizational unit objectives and action plans. It is the organizational units that must carry out strategy and strategic managers must review objectives and action plans to ensure that they are coordinated and make best use of human, physical, and financial resources. Each of these chapters points out the need to manage strategic momentum by thinking, planning, and doing, and then rethinking, new planning, and doing.

Finally there are three appendices as a reference for users of the text. Appendix A, Analyzing Strategic Health Care Cases, presents a methodology for case analysis for those using case studies to “practice” strategic thinking and planning; Appendix B, Health Care Organization Accounting, Finance, and Performance Analysis, as an accounting and finance refresher and reference; and finally, Appendix C, Health Care Acronyms, is a quick source for definitions of the “short-hand” language of health care.

The Author Team

In developing and writing this book, as with all our collaborative projects, we have created a team in its truest sense. Recognizing that each of us makes a unique contribution and provides leadership, we have changed the order in which the authors are listed every two editions. For the first and second editions, the authors were listed as Duncan, Ginter, and Swayne; for the third and fourth editions, the authors were listed as Ginter, Swayne, and Duncan. In the fifth and sixth editions, the order was Swayne, Duncan, and Ginter.
Acknowledgments

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Finally, but most importantly, we thank our families who have supported and encouraged us as we worked on still another writing project. Thank you all for your understanding.
1 The Nature of Strategic Management

“*It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.*”

— Charles Darwin

Introductory Incident

*It Can Be Done: Premier Healthcare Alliance Accountable Care Collaboratives Are Saving Lives and Saving Costs*

Statistics show that health care costs have been growing at an unsustainable rate, reaching an estimated 17.3 percent of gross domestic product (GDP) in 2009, according to the Centers for Medicare and Medicaid Services (CMS), representing the largest one-year increase in history when the nation itself was in the midst of the “great recession.” Predictions are for health care costs to be 19.3 percent of GDP in 2019 (four times the 5.1 percent of GDP in 1960). Despite the high cost of health care, gaps and inequities persisted, leading to health care reform. The 2010 Patient Protection and Affordable Care Act (PPACA), or commonly Affordable Care Act (ACA) is attempting to change the US health care system from a volume-based to a value-based model.
Premier Healthcare Alliance believes that accountable care organizations (ACOs) are the way to better align the incentives and needs of all stakeholders. Premier’s components to the ACO model include:

- People-centered health homes that deliver primary care and coordinate with other providers as needed.
- New approaches to primary, specialty, and hospital care that reward care coordination, efficiency, and productivity.
- Tightly integrated relationships with specialists, ancillary providers, and hospitals to provide focus and alignment on achieving high-value outcomes.
- Provider/payer partnerships and reimbursement models that reward improved outcomes (value over volume).
- Population health information infrastructure, including health information exchanges to enable care across a designated population.

The goal is to incentivize health and wellness, rather than paying for treating disease. ACOs actually began in 2005, when CMS began the Physician Group Practice demonstration. Its success in developing incentives based on the quality of care provided and the estimated savings generated for the Medicare population served, led to the formation of the Medicare Payment Advisory Commission (MedPAC) to begin looking for real ways to reduce costs, while improving quality of care and patient satisfaction. ACOs were incorporated into the Affordable Care Act legislated in March 2010.

Premier Healthcare Alliance has developed a proven model for ACOs based on the following key elements:

- Establish goals and mission – create a definition of areas to address and what the collaborative will do to fulfill its mission.
- Define consistent measures of success – common measures that will be used to improve defined outcomes.
- Data collection and normalization – use standardized data sets to meaningfully compare results across participants.
- Transparency – participants commit to open sharing of performance data across the collaborative to identify the top performers and learn from them.
- Driver analysis and collaborative execution – using transparent data, the collaborative can set performance targets, identify opportunities for improvement, and establish areas of focus.
- Share best practices – share across the collaborative to realize improvement gains.
- Performance improvement analysis – analyze data from the cohort and individuals to highlight trends/opportunities that will drive performance and achieve goals.
Premier established QUEST®: High-Performing Hospitals collaborative (200 not-for-profit hospitals in 31 states) for hospitals to learn from the top performers and develop and implement systemic improvements across their organizations. Three goals drove the process: save lives, safely reduce the cost of care, and deliver the most reliable and effective care. In three years, QUEST hospitals saved an estimated 22,164 lives and reduced health care spending by $2.13 billion (national translation would be more than 86,000 lives and $25 billion saved).

Source: Premier Healthcare Alliance, Inc.

Learning Objectives

After completing the chapter you will be able to:
1. Explain why strategic management has become crucial in today’s dynamic health care environment.
2. Trace the evolution of strategic management and discuss its conceptual foundations.
3. Describe and explain the concept of strategic thinking maps.
4. Define and differentiate between strategic management, strategic thinking, strategic planning, and managing strategic momentum.
5. Understand the necessity for both the analytic and emergent models of strategic management.
6. Understand how an organization may realize a strategy that it never intended.
7. Understand the benefits of strategic management for health care organizations.
8. Understand the importance of systems approaches.
9. Explain the links between the different levels of strategy within an organization.
10. Describe the various leadership roles of strategic management.

Managing in a Dynamic Environment

The dramatic changes in the health care industry that began in the 1980s, marked by the implementation of Medicare’s prospective payment system in 1983, continue today (see Perspective 1–1 for an overview of the Patient Protection and Affordable Care Act – the most significant change for health care since the passage of Medicare and Medicaid in the 1960s, and still changing as components are tested in courts and in its phased-in implementation). As a result, health care institutions continue to face a turbulent, confusing, and often threatening
environment. Significant change comes from many sources, including: legislative and policy initiatives; international as well as domestic economic and market forces; demographic shifts and lifestyle changes; technological advances; and fundamental health care delivery changes. Certainly, health care systems, as well as other domestic and international health care organizations, have had to continuously adapt to these and other changes. As suggested in the introductory quote, health care organizations will have to be responsive to and effectively manage change in this dynamic environment.

PERSPECTIVE 1–1

The Patient Protection and Affordable Care Act (PPACA)

The PPACA was enacted in March of 2010; most of its provisions go into effect in 2014. This complex law has many provisions; some of the more important ones are summarized here.

First, the law requires most US citizens and legal residents under age 65 to have health insurance; this is the “insurance mandate.” The law provides financial penalties, if one does not obtain coverage, and it provides subsidies, if one has sufficiently low household income.

Second, the law requires large employers, those with 50 or more employees, to provide health insurance to their workers who work 30 or more hours per week. Failure to do so results in financial penalties on the employer. The most significant of these is a fine of $2,000 per uninsured worker. Firms with less than 50 workers are not required to offer coverage, but receive short-term (two-year) subsidies if they choose to do so.

Third, the law requires the establishment of “health insurance exchanges” in each state. The states have discretion in how these organizations operate, but if a state fails to establish an exchange, the federal government will operate one in the state. Exchanges are virtual marketplaces where individuals and small employers can compare coverage from different insurers, obtain subsidies if they are eligible, and buy insurance. The state exchange has to be self-sufficient, covering the administrative costs by taxes or fees.

Fourth, within the exchanges individuals and small firms may buy “platinum,” “gold,” “silver,” and “bronze” coverage. Each of these tiers reflects coverage of the same “essential health benefits” at a different expenditure level. A silver plan, for example, must cover 70 percent of the costs of the benefit package, with the subscriber paying the other 30 percent out of pocket. Each insurer may offer several combinations of deductibles, copays, and coinsurance features to meet the spending level in each tier. The states, with strong guidance from the federal government, determine what constitutes “essential health benefits.”

Fifth, the law required the states to expand the Medicaid programs to include citizens and legal residents between ages 19 and 64, inclusive, if their income was below 139 percent of the federal poverty line. The Supreme Court found the provision enforcing this expansion to be unconstitutional. As a result, the states now have the option to expand Medicaid. If they do so, the federal government will initially pay 100 percent of the costs of the expansion, declining to 90 percent by 2019.
This legislation poses a number of issues for states, for employers, and for health care providers. The challenges include:

- Should a state undertake the Medicaid expansion? The expansion provides coverage to many uninsured people in the state and is largely paid for with federal dollars. However, state Medicaid budgets are already strapped.
- Should the state create an insurance exchange tailored, to the extent possible, to the preferences of the state, or should it simply let the federal government do it? Exchanges are to be “self-sustaining”; how will the administrative functions be funded?
- Should a smaller employer who currently offers coverage, drop the coverage, raise wages, and encourage her employees to buy coverage through the exchange?
- Large employers are required to offer coverage or pay a fine. Should they drop coverage, forget the headaches of employer-sponsored coverage, and just pay the fine?
- How is a hospital affected by PPACA? There will be fewer uninsured, but patient copays and deductibles may be larger and government payments (i.e., Disproportionate Share payments) to care for the poor and uninsured will be reduced.

SUGGESTED READING


Sources: Michael A. Morrisey, PhD, Director, Lister Hill Center for Health Policy and Department of Health Care Organization and Policy, University of Alabama at Birmingham.

Coping with Change

How can health care leaders deal with change? Which issues are most important or most pressing? Furthermore, what new issues will emerge? It is likely that there will be new issues for health care organizations that have yet to be identified or fully assessed. Even more sobering, it seems certain that there will be more change in the health care industry in the next 10 years than there has been in the past 10 years.

Dealing with rapid, complex, and often discontinuous change requires leadership. Successful health care organizations have leaders who understand the nature and implications of external change, the ability to develop effective strategies that account for change, and the will as well as the ability to actively manage the momentum of the organization. These activities are collectively referred to as “strategic management.” The clearest manifestation of leadership in organizations is the presence of strategic management and its activities. Strategic management is fundamental in leading organizations in dynamic environments. Strategic management provides direction and momentum for change.

Organizational change is a fundamental part of success. As health care leaders chart new courses into the future, in effect, they create new beginnings, new
chances for success, new challenges for employees, and new hopes for patients. Therefore, it is imperative that health care managers understand the changes taking place in their environment; they should not simply be responsive to them, they must create the future. Health care leaders must see into the future, create new visions for success, and be prepared to make significant improvements.

The Foundations of Strategic Management

In political and military contexts, the concept of strategy has a long history. For instance, the underlying principles of strategy were discussed by Sun Tzu, Homer, Euripides, and many other early strategists and writers. The English word strategy comes from the Greek *stratēgōs*, meaning “a general,” which in turn comes from roots meaning “army” and “lead.”¹ The Greek verb *stratēgeō* means “to plan the destruction of one’s enemies through effective use of resources.”² Similarly, many of the terms commonly used in relation to strategy – objectives, strategy, mission, strengths, weaknesses – were developed by the military.

Long-Range Planning to Strategic Planning

The development of strategic management began with much of the business sector adopting long-range planning. Long-range planning was developed in the 1950s in many organizations because operating budgets were difficult to prepare without some idea of future sales and the flow of funds. Post-WWII economies were growing and the demand for many products and services was accelerating. Long-range forecasts of demand enabled managers to develop detailed marketing and distribution, production, human resources, and financial plans for their growing organizations. The objective of long-range planning is to predict for some specified time in the future the size of demand for an organization’s products and services and to determine where demand will occur. Many organizations have used long-range planning to determine facilities expansion, hiring forecasts, capital needs, and so on.

As industries became more volatile, long-range planning was replaced by strategic planning because the assumption underlying long-range planning is that the organization will continue to produce its present products and services – thus, matching production capacity to demand is the critical issue. However, the assumption underlying strategic planning is that there is so much economic, social, political, technological, and competitive change taking place that the leadership of the organization must periodically evaluate whether it should even be offering its present products and services, whether it should start offering different products and services, or whether it should be operating and marketing in a fundamentally different way.

Although strategies typically take considerable time to implement, and thus are generally long range in nature, the time span is not the principal focus of strategic planning. In fact, strategic planning, supported by the management of the strategy, compresses time. Competitive shifts that might take generations to evolve instead occur in a few short years.³ In a survey of senior executives, 80 percent indicated that the productive lives of their strategies were getting shorter and 75 percent believed that their leading competitor would be different within
five years. Therefore, it is preferable to use “long range” and “short range” to describe the time it will take to accomplish a strategy rather than to indicate a type of planning.

**Strategic Planning to Strategic Management**

The 1960s and 1970s were decades of major growth for strategic planning in business organizations. Leading companies such as General Electric were not only engaged in strategic planning but also actively promoted its merits in the business press. The process provided these firms with a more systematic approach to managing business units and extended the planning and budgeting horizon beyond the traditional 12-month operating period. In addition, business managers learned that financial planning alone was not an adequate framework. In the 1980s the concept of strategic planning was broadened to strategic management. This evolution acknowledged not only the importance of the dynamics of the environment and that organizations may have to totally reinvent themselves, but also that continuously managing and evaluating the strategy are keys to success. Thus, strategic management was established as an approach or philosophy for managing complex enterprises and, as discussed in Perspective 1–2, should not be viewed as a passing fad.

**Strategic Management in the Health Care Industry**

Strategic management concepts have been employed within health care organizations only in the past 30 to 35 years. Prior to this time, individual health care organizations had few incentives to employ strategic management because typically they were independent, freestanding, not-for-profit institutions, and health services reimbursement was on a cost-plus basis. In many respects health care has become a complex business using many of the same processes and much of the same language as the most sophisticated business corporations. Certainly, in the late 1980s and 1990s many health care organizations had much to learn from strategically managed businesses. As a result, many of the management methods adopted by health care organizations, both public and private, initially were developed in the business sector.

**PERSPECTIVE 1–2**

Are the Following Management Approaches Fads?

Management fads? Management techniques? Management fads is usually the flippant answer. However, each of these management approaches was a genuine attempt to change and improve the organization – to focus efforts, to improve the quality of the products and services, to improve employee morale, to do more with less, to put meaning into work, and so on. Some of the approaches worked better than others; some stood the test of time and others did not. Yet, it would be too harsh to simply dismiss them as fads or techniques. The goals
for all of these management approaches were to manage and shape the organization – to make it better, to make it an excellent organization. One of the things that has distinguished all of these “fads” is the enthusiasm and commitment they have engendered among managers and workers. For many, these approaches have significantly increased the meaning of work – no small accomplishment in an era in which people are increasingly hungry for meaning. And certainly organizations need to create meaning.¹

When management approaches such as these fail, it is usually because they become an end in themselves. Managers lose sight of the real purpose of the approach and the process becomes more important than the product. Managers start working for the approach rather than letting the approach work for them.

What will be the “management fads” of the next decade?² Will you be a part of these or past attempts to make the organization better or will you simply dismiss them as fads? Perhaps benchmarking, quality improvement, the learning organization, or LEAN Six Sigma will turn your organization around. One of these approaches may help to make your organization truly excellent or save it from decline.

Is strategic management just another fad? Will it stand the test of time? If strategic management becomes an end in itself, if its activities do not foster and facilitate thinking, it will not be useful. However, if strategic management helps managers to think about the future and guide their organizations through turbulent environments, strategic management will have succeeded.

### REFERENCES


Although the values and practices of for-profit business enterprises in the private sector have been advocated as the appropriate model of managing health care organizations, a legitimate question arises concerning the appropriateness of the assumption that business practices may always be relevant to the health care industry. Certainly, not all the “big ideas” have delivered what was promised, even in business.\(^6\) It has been pointed out that:

1. Some strategic alternatives available to non-health care organizations may not be realistic for many health care organizations.
2. Health care organizations have unique cultures that influence the style of and participation in strategic planning.
3. Health care has always been subject to considerable outside control.
4. Society and its values place special demands on health care organizations.\(^7\)

However, strategic management, especially when customized to health care, does seem to provide the necessary processes for health care organizations to cope with the vast changes that have been occurring. Over time these business approaches increasingly have been modified to fit the unique aspects of health care organizations.

**Strategic Management Versus Health Policy Planning**

There has been and continues to be substantial health planning (policy) in the United States. Efforts at health planning are initiated by either state or local governments and the resulting health policies are implemented through legislation or private or non-governmental agencies. Many of these planning efforts are disease specific; that is, they are categorical approaches directed toward specific health problems (e.g., the work of the National Tuberculosis Association that stimulated the development of state and local government tuberculosis prevention and treatment programs).\(^8\) As a result, a variety of state and federal health planning or policy initiatives have been designed to: (1) enhance quality of care and reduce medical errors; (2) provide or control access to care; and (3) contain costs.

These health-planning efforts are not strategic management. Health planning is the implementation of local, state, and federal health policy and affects a variety of health care organizations. As explained in Perspective 1–3, the intent of health policy is to provide the context for the development of the health care infrastructure as a whole. In contrast, strategic management is organization specific. Strategic management helps an individual organization to respond to state and federal policy and planning efforts, as well as to a variety of other external forces.
Health policy determines the rules of the game that apply to all consumers and providers in the field. It is the development and maintenance of an infrastructure to efficiently enhance the health of the public.

An infrastructure need not imply a governmentally financed health care system nor the delivery of services by a governmental entity. What it does imply is a set of institutions that meet the preferences of most of the society. These institutions can take many forms, ranging from unfettered markets to the provision of services by governments.

The role of health policy is to determine the preferences of the society and to develop and fine tune institutions that can efficiently meet those preferences. Meeting preferences may mean defining the ground rules under which insurers and providers compete. It may mean defining those services that will be provided by only a single provider, and then deciding whether that provider will be a public or private organization. It will certainly mean revisiting these decisions as new ways of doing things and new problems emerge.

The Congress and the state legislatures set health policy. In addition, the administrative authority given to executive branches and their agencies sets policy. Therefore, the Center for Medicare and Medicaid Services determines much of the health policy for federal Medicare and Medicaid. The Centers for Disease Control and Prevention, the Food and Drug Administration, and the Occupational Health and Safety Administration set and enforce health and safety standards. State departments of health, insurance, and environmental quality set health policy within their own spheres of influence.

There are many analytic tools that come into play in helping to determine the rules that are adopted. These include economics, law, political science, epidemiology, medicine, and health services research. Health policy questions are sometimes very broad and at other times very specific. Some important questions include:

- Is health care a right or an individual responsibility?
- Can the human costs of poor health be quantified?
- Can higher taxes on saturated fats reduce the prevalence of obesity?
- Would a refundable tax credit encourage the uninsured to buy coverage?
- Would higher incomes or more health services do more to improve health status?
- Who pays if employers are required to provide health insurance?

Source: Michael A. Morrisey, PhD, Director, Lister Hill Center for Health Policy and Department of Health Care Organization and Policy, University of Alabama at Birmingham.

The Dimensions of Strategic Management

There are many ways to think about strategic management in organizations. In fact, Henry Mintzberg identified ten distinct schools of thought concerning organizational strategy.9 Three of these approaches were prescriptive and analytical:
the design school, the planning school, and the positioning school. Six schools of thought were descriptive and emergent: the entrepreneurial school, the cognitive school, the learning school, the political school, the cultural school, and the environmental school. The final school of thought, the configurational school, specifies the stages and sequence of the process and attempts to place the findings of the other schools in context.\(^\text{10}\)

**Analytical Versus Emergent Approaches**

Given the careful reasoning of the proponents of these various approaches to strategic management, it is safe to assume that there is no one best way to think or learn about strategy making in complex organizations. *Analytical or rational approaches* to strategic management rely on the development of a logical sequence of steps or processes (linear thinking). Emergent models, on the other hand, rely on intuitive thinking, leadership, and learning and are viewed as being a part of managing. Both approaches are valid and useful in explaining an organization’s strategy. However, neither the analytical approach nor the emergent view, by itself, is enough. David K. Hurst explains:

“The key question is not which of these approaches of action is right, or even which is better, but when and under what circumstances they are useful to understand what managers should do. Modern organizational life is characterized by oscillations between periods of calm, when prospective rationality seems to work, and periods of turmoil, when nothing seems to work. At some times, analysis is possible; at other times, only on-the-ground experiences will do.”\(^\text{11}\)

As a result, both approaches are required. It is difficult to initiate and sustain organizational action without some predetermined logical plan. Yet in a dynamic environment, such as health care, managers must expect to learn and establish new directions as they progress. The analytical approach is similar to a map, whereas the emergent model is similar to a compass. Both may be used to guide one to a destination. *Maps* are better in known worlds – worlds that have been charted before. *Compasses* are helpful when leaders are not sure where they are and have only a general sense of direction.\(^\text{12}\)

Managers may use the analytical approach to develop a strategy (map) as best they can from their understanding of the external environment and by interpreting the capabilities of the organization. Once they begin pursuing the strategy, new understandings and strategies may emerge and old maps (plans) must be modified. Harvard Professor Rosabeth Moss Kanter concluded from her research that pacesetter organizations “did not wait to act until they had a perfectly conceived plan; instead, they create the plan by acting.”\(^\text{13}\) Therefore, managers must remain flexible and responsive to new realities – they must learn. However, the direction must not be random or haphazard. It must be guided by some form of strategic sense – an intuitive, entrepreneurial sensing of the “shape of the future” that transcends ordinary logic. The concept of the compass provides a unique blend of thinking, performance, analysis, and intuition.\(^\text{14}\)
What is needed is some type of model that provides guidance or direction to strategic managers, yet incorporates learning and change. If strategy making can be approached in a disciplined way, then there will be an increased likelihood of its successful implementation. A model or map of how strategy may be developed will help organizations to view their strategies in a cohesive, integrated, and systematic way. Without a model or map, managers run the risk of becoming totally incoherent, confused in perception, and muddled in practice.

Combining the Analytical and Emergent Views

In this text, a series of “strategic thinking maps” are presented. These maps are designed to ignite strategic thinking as well as strategic planning and foster new thinking and planning when required. The strategic thinking maps will start the journey to develop a comprehensive strategy for the organization, yet the maps cannot anticipate every contingency. Managers will learn a great deal about their strategic plans as they manage them. Therefore, strategic managers will have to think, analyze, use intuition, and reinvent the strategy as they go. As the physicist David Bohm observed, the purpose of science is not the “accumulation of knowledge” but rather the creation of “mental maps” that guide and shape our perception and action.

A model or map that accounts for both the analytical and the emergent views of strategic management is presented in Exhibit 1–1. This strategic thinking map serves as a general model for health care strategic managers, illustrates the interrelationships and organizes the major components, and provides the framework for much of the discussion in this book. As illustrated in Exhibit 1–1, strategic management has three elements – strategic thinking, strategic planning, and managing strategic momentum. These activities are interdependent; activities in each element affect, and are affected by, the others.

EXHIBIT 1–1 Strategic Thinking Map of Strategic Management
Strategic managers must become strategic thinkers with the ability to evaluate the changing environment, analyze data, question assumptions, and develop new ideas. Additionally, they must be able to develop and document a plan of action through strategic planning. Strategic planning is a decision-making and documentation process that creates the strategic plan. Once a strategic plan is developed, strategic managers must manage the strategic momentum of the organization. As strategic managers attempt to carry out the strategic plan they evaluate its success, learn more about what works, and incorporate new strategic thinking. As indicated by the double-headed arrows in Exhibit 1–1, any one element of the model may initiate a rethinking of another element. For example, planning the implementation may provide new information that necessitates taking another look at strategy formulation. Similarly, managing strategic momentum may provide new insights for implementation planning, strategy formulation, or the situational analysis.

The distinction among the terms strategic thinking, strategic planning, and managing strategic momentum is important and all three activities must occur in truly strategically managed organizations. Therefore, each stage of the model is explored in more depth.

**Strategic Thinking**

The first stage depicted in Exhibit 1–1 is strategic thinking and is the fundamental intellectual activity underlying strategic management. It has been observed that leaders, similar to great athletes, must simultaneously play the game and observe it as a whole. Mired in a complex situation, the leader must rise above it to understand it. Preserving distance may be the only way to see the full picture. This skill is similar to leaving the playing field and going to the press box to observe the game and see its broader context. Thus, strategic managers must be able to keep perspective and see the big picture — not get lost in the action. But to truly understand the big picture, one must not only go to the press box to observe the “game,” but must also have a “quiet room” to periodically think about it, to understand it, and perhaps to change the strategy or players.

*Strategic thinking* is an individual intellectual process, a mindset, or method of intellectual analysis that asks people to position themselves as leaders and see the “big picture.” Vision and a sense of the future are inherent parts of strategic thinking. Strategic thinkers are constantly reinventing the future — creating windows on the world of tomorrow. James Kouzes and Barry Posner in *The Leadership Challenge* have indicated: “All enterprises or projects, big or small, begin in the mind’s eye; they begin with imagination and with the belief that what is merely an image can one day be made real.” Strategic thinkers draw upon the past, understand the present, and envision an even better future. Strategic thinking requires a mindset — a way of thinking or intellectual process that accepts change, analyzes the causes and outcomes of change, and attempts to direct an organization’s future to capitalize on the changes. More specifically, strategic thinking:

- acknowledges the reality of change,
- questions current assumptions and activities,
 Strategic thinking generates ideas about the future of an organization and ways to make it more relevant – more in tune with the world. Strategic thinking assesses the changing needs of the organization’s stakeholders and the changing technological, social and demographic, economic, legislative/political, and competitive demands of its world.

Strategic thinkers are always questioning: “What are we doing now that we should stop doing?” “What are we not doing now, but should start doing?” and “What are we doing now that we should continue to do but perhaps in a fundamentally different way?” For the strategic thinker, these questions are applicable to everything the organization does – its products and services, internal processes, policies and procedures, strategies, and so on. Successful strategies often require being what you haven’t been, thinking as you haven’t thought, and acting as you haven’t acted. Strategic thinkers examine assumptions, understand systems and their interrelationships, and develop alternative scenarios of the future. Strategic thinkers forecast external technological, social and demographic changes, as well as critical changes in the legislative and political arenas. Strategic thinking is very much a leadership activity and quite different from what subject matter experts do. For example, strategic thinkers specialize in relationships and context whereas expert thinkers specialize in well-defined disciplines and functions. Strategic thinkers act on intuition and “gut feel” when data is incomplete – focus on action and moving forward whereas experts pay rigorous attention to knowledge, evidence, and data – focus on understanding.

**Everyone a Strategic Thinker**  Strategic thinking provides the foundation for strategic management. However, strategic thinking is not just the task of the CEO, health officer, or top administrator of the organization. For strategic management to be successful, everyone must be encouraged to think strategically – think as a leader. *Leadership* is a performing art – a collection of practices and behaviors – not a position. Everyone, even the lowest paid employees, should be encouraged to think strategically and consider how to reinvent what he or she does. For example, understanding that a nursing home’s image is based on the customers’ perception of cleanliness can motivate custodians to think strategically and reinvent the way the nursing home is cleaned. Strategic thinking is supported by the continuous management of the strategy and documented through the periodic process of strategic planning.

**Strategic Planning**

Strategic planning is the next activity in the general model of strategic management illustrated in Exhibit 1–1. *Strategic planning* is the periodic process of developing a set of steps for an organization to accomplish its mission and vision using strategic thinking. Therefore, periodically, strategic thinkers come together
to reach consensus on the desired future of the organization and develop decision rules for achieving that future. The result of the strategic planning process is a plan or strategy. More specifically, strategic planning:

- provides a sequential, step-by-step process for creating a strategy,
- involves periodic group strategic thinking (brainstorming) sessions,
- requires data/information, but incorporates consensus and judgment,
- establishes organizational focus,
- facilitates consistent decision making,
- reaches consensus on what is required to fit the organization with the external environment, and
- results in a documented strategic plan.

The process of strategic planning defines where the organization is going, sometimes where it is not going, and provides focus. The plan sets direction for the organization and – through a common understanding of the vision and broad strategic goals – provides a template for everyone in the organization to make consistent decisions that move the organization toward its envisioned future.

Strategic planning, in large part, is a decision-making activity. Although these decisions are often supported by a great deal of quantifiable data, strategic decisions are fundamental judgments. Because strategic decisions cannot always be quantified, managers must rely on “informed judgment” in making this type of decision. As in our own lives, generally the more important the decision, the less quantifiable it is and the more we will have to rely on the opinions of others and our own best judgment. For example, our most important personal decisions – where to attend college, whether or not to get married, where to live, and so on – are largely informed judgments. Similarly, the most important organizational decisions, such as entering a market, introducing a new service, or acquiring a competitor, although based on information and analysis, are essentially judgments.

Decision consistency is central to strategy; when an organization exhibits a consistent behavior it has a strategy. **Strategy** is the set of guidelines or plan an organization chooses to ensure decision consistency and move it from where it is today to a desired state some time in the future – it is the road map to that future. Developing the road map (strategic plan) requires situational analysis, strategy formulation, and planning the implementation of the strategy.

Analyzing and understanding the situation is accomplished by three separate strategic thinking activities: (1) external environmental analysis; (2) internal environmental analysis; and (3) the development or refinement of the organization's directional strategies. The interaction and results of these activities form the basis for the development of strategy. These three interrelated activities drive the strategy. Forces in the external environment suggest “what the organization should do.” That is, success is a matter of being effective in the environment – doing the “right” thing. Strategy is additionally influenced by the internal resources, competencies, and capabilities of the organization and represents “what the organization can do.” Finally, strategy is driven by a
common mission, common vision, and common set of organizational values and goals – the directional strategies.

The directional strategies are the result of considerable thought and analysis by top management and indicate “what the organization wants to do.” Together, these forces are the essential input to strategy formulation. They are not completely distinct and separate; they overlap, interact with, and influence one another. Chapter 2 provides strategic thinking maps for examining the general and health care external environment and Chapter 3 addresses service area competitor analysis. Chapter 4 discusses the internal environment and provides strategic thinking maps for evaluating the organization’s strengths and weaknesses and the creation of competitive advantage. The development of the directional strategies through strategic thinking maps is explored in more detail in Chapter 5.

Whereas situational analysis involves a great deal of strategic thinking – gathering, classifying, and understanding information – strategy formulation involves decision making that uses the information to create a plan. Hence, strategy formulation involves directional, adaptive, market entry, and competitive strategy decisions and, typically, these decisions are made in strategic planning sessions. Strategic maps for strategy formulation are presented in Chapters 6 and 7.

Once the strategy for the organization has been formulated (including directional, adaptive, market entry, and competitive), implementation plans that accomplish the organizational strategy are developed. These implementation plans are made up of strategies developed in the key areas that create value for an organization – service delivery and support activities – and are typically discussed as part of strategic planning. Strategies must be developed that best deliver the products or services to the customers through pre-service, point-of-service, and after-service activities. In addition to service delivery strategies, strategies must be developed for value-adding support areas such as the organization’s culture, structure, and strategic resources. Strategy implementation is discussed further in Chapters 8 through 10.

A Group Process of Key Players   The CEO can develop a strategy. A separate planning department can develop a strategy. However, such approaches run into trouble during implementation, as there is no common “ownership” of the plan or the tasks associated with it. Therefore, strategic planning for organizations is typically a group process. It involves a number of key participants working together to develop a strategy. Although strategic planning provides the structure for thinking about strategic issues, effective strategic planning also requires an exchange of ideas, sharing perspectives, developing new insights, critical analysis, as well as give-and-take discussion. Strategic planning efforts will be diminished without future-oriented highly provocative thinking and dialog.  

For most organizations, it is not possible for everyone to be a full participant in the strategic planning process. Decision making is protracted if everyone must have a say – and a consensus may never be reached. A few key players – senior staff, top management, or a leadership team – are needed to provide balanced and informed points of view. Often, representatives of important functional areas are included as well. An effective leader will incorporate a variety of individuals with different backgrounds and perspectives to provide input to the process. Some