I. Why Health Care Organizations Need Strategic Management.

A. Many environmental changes are taking place. It should be noted that not only is there more change taking place than ever before, the rate of change is increasing. This phenomenon has been called “white water change.” The only way to cope with white water change is to strategically manage the organization. (Perspective 1-1 cites eight forces in the health care environment and Perspective 1-2 suggests the amount of change through the changing language of health care.) In addition, it seems certain that there will be more change in the health care industry in the next ten years than in the past ten years.

B. Health care organizations have increased substantially in size given the latest consolidations, mergers, and acquisitions taking place in health care.

C. The economy is more global – many new markets and competitors.

D. Many industries overlap (hotels operating nursing homes, hospitals offering home health care, and so on).

E. Competition has increased (from within as well as outside the traditional health care industry).

F. The bottom line is that in recent years the expansion of health care systems, fragmentation of markets, the growth of investor-owned hospital companies, and an emphasis on cost containment have induced individual health care organizations to adopt strategic management.

II. Defining Strategy and Strategic Management.

A. Strategic management is an externally oriented philosophy of managing an organization that links strategic thinking and analysis to organizational action. As an explicit philosophy of managing an organization, strategic management:

(1) Provides a framework for thinking about the “business”

(2) Creates a fit between the organization and its external environment

(3) Provides a process of coping with change and organizational renewal

(4) Fosters anticipation, innovation, and excellence

(5) Facilitates consistent decision making

(6) Creates organizational focus

(7) Is the process of organizational leadership.

B. Strategic management is a philosophy of managing that encourages leadership, is externally oriented, and provides a perspective or way of thinking (more than a technique). Strategic management attempts to achieve a fit between the organization’s external environment and its internal situation.

III. What Strategic Management Is Not.

A. Strategic management provides no guarantees for success.

B. Strategic management is not merely a technique – it is a philosophy of management.

C. Strategic management is not a process of completing paperwork nor a series of documents, but an attitude.

D. Strategic management is not a process of simply extending into the future what the organization is doing today. An attempt is made to identify issues that will be important tomorrow in order to begin to deal with them today.

IV. The Foundations of Strategic Management.
A. Strategic management has its origins within the military.
B. Business enterprises have successfully used strategic management for a number of years and must be credited with enhancing and promoting its concepts and methods.
C. There has been an evolution of the concept of strategic management. Initially it had a distinctly planning flavor – extending today’s operations and budgets into the future. However, over time strategic management became a system to identify and understand environmental changes that enabled the organization to be successful in its environment.
D. In the past twenty-five to thirty years, strategic management concepts have been employed within health care organizations.

V. Strategic Management Versus Health Planning Policy.
A. Although health care planning existed prior to 1970, these planning efforts tended to be federal, state, or local health policy planning. (See Perspective 1-4 for an explanation of health policy and Exhibit 1-2 for the major health care cost and control events.) Strategic planning, however, is organization specific and designed to help an individual organization cope with the changing environment (such as federal, state, and local health care policy).
B. The difference between strategic planning and other forms of health planning are that strategic planning:
1. Is directed toward defining the organization’s relationship to its environment
2. Takes the organization as the whole unit of analysis
3. Is a market-driven and market-based approach
4. Puts more emphasis on qualitative rather than quantitative analysis
5. Places the development of strategic plans under the direct control of the chief executive officer without delegation
6. Requires that the strategy be clearly stated and persuasively communicated throughout the institution
7. Creates final planning goals, objectives, and programs that must be vigorously implemented
8. Requires that middle management be carefully prepared to engage in strategic planning,
9. Emphasizes data collection and analysis for the “nuts and bolts” of the health institution’s business,
10. Requires that strategic planning be integrated with other management functions, and
11. Places a strong focus on gaining and sustaining a competitive advantage.

VI. Systems Perspectives.
A. Strategic management is a study of relationships between cooperating and competing systems. The use of the systems approach requires managers to define the organization in broad terms and attempt to identify the important variables and interrelationships that will affect a decision.
B. Within organizations, we can visualize interacting technical subsystems, social subsystems, informational subsystems, structural subsystems, and so on. In addition, management itself can be viewed as being made up of various subsystems such as planning, staffing, organizing, directing, and controlling.
C. Managers must be strategic thinkers. Managers may use systems concepts to better understand the relationship of the organization to its environment and the relationships within the organization. Successful managers see these relationships and create a vision for new relationships in the future. (Refer to Perspective 1-5 for another view
VII. Strategic Management Models.

A. Why we need a model of strategic management. A model is an organizing framework to conceptualize a complex process. Without some type of organizing framework, strategic management becomes an overwhelming task. A model shows relationships and the underlying logic of a phenomenon. Models are abstractions of reality (short-cuts to storing masses of data). Models draw upon “systems” thinking — they illustrate interrelationships. A model can clearly show the necessary steps in a process and become a means for communicating the steps.

B. There are many ways to think about the strategic management process in organizations. (Refer to Exhibit 1-3 for Mintzberg’s ten schools of thought.)

C. Analytical or rational approaches to strategic management rely on the development of a logical sequence of steps or processes (linear thinking). Emergent models rely on intuitive thinking, leadership, and learning (lateral thinking).

D. It is not a question of which model is right or better, but when and under what circumstances they are useful to understand what managers do or should do.

E. The methods are both complementary and contradictory — the analytical model is similar to a map whereas the emergent model is similar to a compass. Both may be used to plot a course to a defined destination but in some cases they may indicate different directions. Maps are better in known worlds, compasses are more helpful when there is less certainty and only a general sense of direction is indicated.

VIII. An Analytical Model of Strategic Management - The Map (Exhibit 1-4)

A. Situational analysis (Refer to Exhibit 1-5.)

1. External environmental analysis – What the organization should do.
2. Internal environmental analysis – What the organization can do.
3. Mission, vision, values, and objectives – What the organization wants to do.

B. Strategy formulation.

C. Strategic implementation.

D. Strategic control.

X. Strategic Management Lessons for Health Care Managers.

A. Strategic management is complex and difficult.
B. No single approach may be adequate.
C. Some logical approach is needed as a starting point.
D. Models should not be applied blindly.
E. Strategic management is not always a structured, well-thought-out exercise. Sometimes we learn by doing.

XI. Levels of Strategic Management. (Exhibit 1-7)

A. Corporate level – answers the question, “What business(es) are we in?” It implies multiple markets/products/technologies. In addition, it questions, “What business(es) should we be in?”

B. Division level – “How (or on what basis) do we compete?” Competition in a single market (single product line, well defined
C. Organizational unit level – strategies typically concern one organization competing within a specific well-defined service area such as a hospital or long-term care facility.

D. Functional level – delineates strategies within functional departments such as finance, marketing, clinical, administrative or support areas such as culture change, reorganization, upgrading facilities, and so on.

XII. Responsibility for Strategic Decisions. (Perspective 1-6)

A. Although the CEO has the ultimate responsibility, strategic management has become a line job with each manager responsible for the strategic implications of his or her decisions.

B. Over the past decade, many large formal planning staffs have been dissolved as organizations learned that strategy development cannot take place in relative isolation.

XIII. Benefits of Strategic Management for Health Care Organizations.

A. Strategic management is a way of managing that provides an organizational self concept and vision for the future – a philosophy of management.

B. Vertical and horizontal communication throughout the organization is enhanced.

C. Strategic management encourages innovation and change. Responding to change is the key to success.

D. It is possible that the strategically managed organization will experience increased revenues and reduced costs (greater profitability).