I. Importance of Environmental Influences.

A. Significant changes are taking place in the health care environment. (Refer to the Introductory Incident as an excellent example.)

B. Effectiveness – doing the right things. Although the “right” thing is a judgement, monitoring the external environment and thinking about the critical factors for success will help managers evolve their organizations to meet the demands of the environment. For example, in the 1990s, building health care networks designed to create a continuum of care seemed to be the “right” thing to do. By 2002, many health care organizations were rethinking these decisions and began engaging in “disintegration.”

C. Efficiency – doing things right. Because of an emphasis on cost containment, there is increasing pressure for increased efficiency. (see Perspective 2-1.)

D. In order for health care providers to be effective (doing the right thing), they must have an understanding of the external environment in which they operate and anticipate as well as respond to significant shifts. The organization must respond to the threats and be prepared to take advantage of the opportunities.

II. The Need for Environmental Analysis.

A. Eliminate surprises in the external environment.
B. Position the organization within its environment.
C. Identify current strategic issues.
D. Detect weak signals of change in order to prepare for the future.
E. Mesch’s seven questions to determine the need for external environmental assessment – most HSO’s would easily fall into the “imperative” group.

III. The Goals of Environmental Analysis.

A. The overall goal of environmental analysis is to position the organization within its environment. Specific objectives include:
   1. To classify information.
   2. To identify and analyze current issues.
   3. To detect weak signals of emerging issues.
   4. To speculate on likely future issues.
   5. To provide organized information.
   6. To foster strategic thinking.

IV. Limitations of Environmental Analysis.

A. Cannot foretell the future.
B. Cannot enable managers to see everything.
C. Cannot always obtain pertinent and timely information.
D. Cannot eliminate the gap between external events as they occur and the interpretation of the meaning and importance of those events.
E. Cannot ensure prompt response to take advantage of opportunities.
F. Cannot change strongly held management beliefs that inhibit strategic responses.

V. Description of the External Environment. (Exhibit 2-1)

A. General environment.
   1. Government institutions (legislature, courts, police).
   2. Business institutions (Kellogg, IBM, McDonald’s).
   3. Educational institutions (Johns Hopkins, UAB, public schools).
   4. Religious institutions (Baptist, Catholic, Jewish).
   5. Research organizations and foundations (American Cancer Society, CDC, American Institutes of Health).
6. Individuals and consumers (Refer to Perspective 2-3 for views on our aging society.)

B. Health care environment. (Refer to Exhibit 2-2.)
1. Organizations that plan and regulate primary and secondary providers.
   a) Federal (DHHS, CMS).
   b) State (CON, Public Health Departments).
   c) Accreditation groups (JCAHO).
2. Organizations that provide health services (primary providers) e.g. hospitals, HMOs, physician offices.
3. Organizations that provide resources for the health care system (secondary providers) e.g. laboratories, insurance companies, pharmaceutical and medical supply companies.
4. Organizations that represent primary and secondary providers, e.g. AMA, AHA.
5. Individuals involved in health care and patients, e.g. physicians, nurses, people needing treatment for injury or disease, or preventive care, consumer groups such as AARP.

VI. Process of Environmental Analysis.
A. Scanning to identify signals of environmental change. (Exhibit 2-4.)
   It involves the periodic surveillance of the relevant environments in order to detect early signs of emerging change and to identify change already under way. In addition, it includes viewing and organizing internal information in order to direct attention to the relevant issues that will affect the organization.
   1. Sources of information for planners outside the organization.
      (Exhibit 2-5.)
      a) Personal (university expert).
      b) Impersonal (library).
   2. Inside the organization.
      a) Personal (inside technical experts).
      b) Impersonal (company surveys and studies).
B. Monitoring identified issues (tracking trends, developments, dilemmas, and possible events). A process of searching for additional information to confirm or disprove the trend, development, or dilemma and the likelihood of the occurrence of an event. It involves tracking the environmental issues identified in the scanning process.
C. Forecasting future direction of issues. A process concerned with developing plausible projections of the direction, scope, speed, and intensity of environmental change.
D. Assessing organizational implications of issues. Involves determining what the projected trend means for the organization in terms of its relationship with the external environment. This process is largely non-quantifiable and, therefore, judgmental (not an exact science). Usually a result of this activity is labeling the issues as opportunities or threats.

VII. Environmental Analysis Tools.
A. Simple trend identification and extrapolation (plot incidence of disease, teen pregnancy, and so on).
   1. Use trend/issue identification charts. (Exhibit 2-6.)
   2. Use issue plotting. (Exhibit 2-7.)
B. Solicitation of expert opinion.
   1. Delphi technique (a panel of experts to evaluate and predict health care industry consolidation trends and impact).
2. Nominal group technique, brainstorming, and focus groups. (Perspective 2-7).

B. Solicitation of expert opinion
3. Dialectic inquiry (competing management teams presenting positive and negative arguments on the probable impact of proposed legislation).

C. Stakeholder analysis. (Exhibit 2-8.)

D. Scenario writing and future studies. (Exhibit 2-9.)

E. Exhibit 2-10 provides a summary of the primary focus, advantages, and disadvantages of the various environmental analysis techniques.

VIII. Examples of External Environment Analysis Issues for HSO’s

A. Technological – high cost of technology, DNA mapping, non-intrusive imaging, laser technology, continual change is required to keep current.

B. Social – demand for access to health care, demand for quality care, AIDS, the aging population, focus on women’s health, death with dignity, abortion.

C. Political/Regulatory -- third-party payers’ increasing share of health care costs, physician payment reform, IRS regulations, COBRA, national budget deficit, the Balanced Budget Act and Medicare reimbursement cuts such as the phasing in of the resource based relative value system (RBRVS) as a mechanism to decrease Medicare part B payments to physicians, means to provide health care to the 44 million uninsured.

D. Economic – increased pressures to reduce health care costs, shortages of nurses and other non-professional personnel.

E. Competitive -- growth of managed care, continued health care industry restructuring, failures/ closures continuing, entrance of the hotel industry into long term care.