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## Strategizing

### Learning Objectives

- Understand the relationship of strategizing to systems theory
- Understand the relationship of planning to strategizing
- Define mission, vision, values, objectives, and policies
- Diagram and discuss the strategizing process
- Understand how to conduct a situational analysis, including external and internal environmental analyses
- Describe common strategies available to HSOs/HSs
- Discuss how managers select strategies
- Discuss the concept of strategic control

## Discussion Questions

### 1. Define strategizing.

Essentially, strategizing is achieving a “fit” or equilibrium between an organization and its external environment. The activities involved are future oriented and play a large role in how these entities establish and maintain sustainable relationships with their external environments. Of course, any equilibrium attained is at best temporary because of the constant flux (and growing complexity) of the environmental forces an organization must interact with and adapt to in order to survive and grow.

Strategizing can be viewed as providing the grand design and justification for the overall focus, direction, and operational management of HSOs/HSs. One useful perspective on strategizing is that it requires managers who “understand the implications of external change, [have] the ability to develop strategies that account for change, and [have] the will as well as the ability to actively manage the momentum of the organization.”<sup>1</sup>

### 2. How does systems theory relate to strategizing?

Strategizing is consistent with and presumes a systems theory perspective. Morgan provides the image of the “organization as organism,” building on the concept that organizations, like organisms, are open to and interact with their environment and must achieve an appropriate relation with that environment if they are to survive.<sup>2</sup>

The organization seen as an open system continuously interacts with various forces and entities within its environment while these environmental factors are themselves dynamically interrelated. The management model presented in Figure 5.7 illustrates this for organizations.

Systems theory is built on a set of core concepts. These are listed and briefly described in the text as follows:

- Input–conversion–output: the system dynamic in which resources are imported into the organization from its environment to sustain its core technologies, which convert inputs into desired outputs (see Figure 5.7)
- Feedback loops: channels of information that allow the system to monitor its outputs, measure against standards, and adjust inputs and throughput as needed
- Homeostasis: self-regulation using negative feedback
- Entropy: the tendency of systems to lose energy and become disorganized
- Negative entropy: the attempt to sustain the system (organism) and counteract entropy
- Differentiation and integration: the system dynamic that reflects the structural relationship of parts to the whole, in which units must be coordinated into subsystems and the latter into a unified whole for the system to be viable
- Requisite variety: the outcome of the organization’s mapping its environment to be able to respond to external forces and changes

### 3. All planning, whether strategic or operational, has three distinctive attributes no matter where it occurs. Briefly describe each attribute.

- Planning can be considered futuristic because it anticipates what will be required of the HSO/HS and its component parts in the future and how this will be accomplished. When

managers think systematically about the future and plan for contingencies, they greatly increase their organization's preparedness.

- Planning involves decision making because determining what is to be done and when, where, how, and for what purposes requires that alternatives be evaluated, decisions be made, and resources be allocated. All of this results in a clearer sense of organizational direction and enhanced effectiveness.
- Planning is dynamic and continuous—planned organizational activities are affected by future events and internal and external environmental forces. Consequently, continuous environmental surveillance and adaptive change are attributes of planning.

4. *Figure 9.2 illustrates the entire strategizing process and each of its component activities. Briefly describe the components of the strategizing process.*

The prevailing paradigm of strategizing, or as it is often called, strategic management, is that of a multilevel, iterative, and widely participatory process. It is an integrated set of planning, control, and decision making processes looking both outward to the HSO's/HS's environment, inward to its strengths, capabilities, and deficiencies and forward to its future. Figure 9.2 illustrates the entire strategizing process, and each of its component activities is discussed in the text, beginning with situational analysis.

## Situational Analysis

Situational analysis (see Figure 9.2) forms the basis for strategizing. It involves gathering and evaluating information about the past and present and making assumptions about the future. It is informed by external environmental analysis and internal environmental analysis. The results of assessment include identifying internal organizational strengths and weaknesses and external environmental opportunities and threats (hence the name *SWOT analysis*: strengths, weaknesses, opportunities, and threats), as well as risks, issues, and deficiencies. In essence, situational analysis is an ongoing review of strategic position and strategic alternatives.

## Strategy Formulation

Figure 9.2 indicates that strategizing includes formulation of strategies based on information and insight provided by situational analysis. This part of the overall process includes identifying strategic options and selecting strategies for implementation.

At any time, an array of strategies can be identified, evaluated, chosen, and implemented to achieve objectives. Alternative strategies are extensively discussed in the literature, and several are discussed in this chapter of the text (see Table 9.3 for a list). Those more specifically related to marketing are discussed in Chapter 10.

The range of alternative strategies considered, and of those eventually selected, is greatly influenced by the context in which the choice of strategies is made. The following aspects of the context in which strategic choices are made are relevant and are discussed in the text:

- Type of organization
- Strategic decision style
- Managerial philosophy

- Organizational culture and choice-maker values
- Portfolio analysis
- Organization life cycle
- Competitive position

In making their strategic choices, managers must answer the following questions: Will the organizational strategy accomplish objectives? Will the strategy address risks, issues, deficiencies, and gaps? Will the strategy take advantage of opportunities in the environment and capitalize on strengths and comparative advantage? Will the strategy lessen threats and overcome weaknesses? In addition, managers must consider the relationship between potential organizational strategies and the internal functional areas. That is, considering strengths and weaknesses, is it feasible? Does the organization have the capacity—financial resources, managerial systems and human resources, and productivity and conversion processes—necessary to implement the strategy successfully? If so, implementation is the next step in strategizing, as depicted in Figure 9.2.

## Strategic Implementation

Once organization-level strategies are selected, subsidiary entity strategies and operational plans are developed for the entire HSO/HS or for units or segments of the organization. As depicted in Figure 9.1, the subsidiary entity strategies, operational plans, and unit or department subobjectives are derived from the strategies and must be consistent with them. It is necessary to gather and allocate resources and make organizational design arrangements that will support implementation of strategies. Challenges involved in carrying out strategies can be very significant. No matter how carefully crafted, strategies do not implement themselves.

A cardinal rule of good strategizing is that the process cannot ignore the fact that strategies must be implemented. Inherent in the consideration of culture, strengths, and weaknesses, as part of the situational analysis that provides background for selecting strategies, is the fact that there is a direct connection between an HSO's/HS's capabilities to implement particular strategies and the appropriateness of such strategies for the organization or system. This connection is very important. Entities that are designed for implementing particular strategies are more likely to implement them well than organizations and systems that have been designed for different strategies.<sup>3</sup> Senior-level managers who have designed for stability and centralized decision making can have great difficulty implementing a corporate growth strategy of unrelated diversification, for example. Similarly, people who are experienced only in implementing growth strategies will have difficulty shifting to divestiture or retrenchment strategies.

Ideally, managers recognize the connection between strategy and implementation capability in the strategy formulation stage, and they factor this into strategy choices. Sometimes, however, they do not. Divestiture, retrenchment, and other degenerative strategies are often forced on HSOs/HSs by the realities of their external environments. In such cases, it does not matter that the governing body (GB) and senior-level managers prefer growth strategies. Consider what strategies have been forced on HSOs/HSs by public policies initiated to slow the rates of growth in the Medicare and Medicaid programs, for example. In other cases, the preference of managers for particular strategies overrides the fact that implementation capabilities are not well matched to the preferred strategies.

When mismatches occur between strategies and implementation capabilities, whether imposed by external policy or market changes or the result simply of poor judgment by managers, problems invariably arise in implementation. Such mismatches can be overcome in two ways: Strategies can be changed, or capabilities to implement a strategy can be changed. In the latter

case, resources can be redirected, people can be provided with additional training and education, and new people can be brought into the situation to support strategy implementation.

Even when there is a close match between strategies and implementation capabilities, strategy implementation requires that those responsible for strategic implementation establish appropriate organizational structures, assemble a workforce with the skills and abilities to carry out the implementation of strategies, and build and maintain well-coordinated relationships between organizational units, as crucial factors in successful implementation. Similarly, the ability of managers to motivate the necessary levels of effort on the part of many different organizational participants is vital to successful strategic implementation.

## Strategic Control

As managers are implementing strategies, it is necessary to control. Control is very important in strategizing, and, as discussed in Chapter 11, controlling is an important activity in managing. The discussion here is limited to control as an element of effective strategizing. Much more is said on this topic in the response to question 7.

In this context, results of strategies must be monitored and evaluated to determine whether objectives are being accomplished and whether resource allocation and use are effective. If not, adaptation must occur, including going back to the beginning of the strategic management process depicted in Figure 9.2. In fact, strategic management is a cyclical process. Even though present strategies may result in achieving objectives, strategic assessment must monitor internal and external environments with respect to whether and how they are changing and what the response should be.

The strategizing process is brought full circle through strategic control and subsequent adaptations and changes (see the response to question 8). In the control stage, implementation is monitored, and the resulting information is used to control ongoing decisions, actions, and behaviors affected by the organization's strategies. Figure 11.2 models the basic control process in which actual results are monitored and compared to previously established objectives and standards, and deviations are corrected. In effective strategic control, senior-level managers, who have overall responsibility for their entities' performance, evaluate that performance and make changes when they are indicated.

### *5. Compare adaptive, market entry, and positioning strategies in HSOs/HSs.*

- *Adaptive strategies* delineate how the HSO/HS will expand, contract, or stabilize operations, whether through diversification, vertical integration, market development, or product development. Contraction strategies include divestiture, liquidation, or retrenchment.
- *Market entry strategies* are formulated to provide the means by which strategies to expand or maintain the scope of an organization are carried out in the marketplace. These strategies include acquisitions and mergers, internal development, alliances and joint ventures, among others. These market entry strategies may be used to carry out an adaptive strategy.
- *Positioning strategies, sometimes called competitive strategies*, relate to how consumers view an HSO's/HS's services and products in the context of products and services available from competitors. Often called generic strategies, the competitive strategies include cost-leadership, differentiation, and focus strategies.

### *6. Discuss the influence of the context in which the choice of strategies is made.*

The range of alternative strategies considered and those eventually selected is greatly influenced by the context in which the choice of strategies is made. Although there are other aspects of the context in which strategic choices are made, key ones include the following:

- Type of organization
- Strategic decision style
- Managerial philosophy
- Organizational culture and choice-maker values
- Portfolio analysis
- Organization life cycle
- Competitive position

*Type of organization* refers to self-image and how the HSO/HS adapts to its external environment, competitors, and customers. A useful typology is that developed by Miles and Snow: prospector, analyzer, defender, and reactor.<sup>4</sup>

*Strategic decision style* describes the process by which strategic alternatives are formulated and evaluated and decisions are made. It can be classified as systematic, entrepreneurial, or incremental.<sup>5</sup>

*Managerial philosophy* in the context of choosing strategies is best described as a continuum that ranges from opportunity maximization to cost minimization. Organizations are never entirely at one end of the continuum, although they are usually closer to one end or the other. Similar descriptive terms are *aggressive–innovative* versus *lethargic–conservative* or *risk taking* versus *risk averse*.

*Organizational culture and the values of the strategic managers* who formulate strategies are contextual variables that often affect the selection of strategies from among options. Organizational culture is a continuum from harmonious to divisive, and the values of those formulating strategy can be consistent or inconsistent with culture. Cultural disarray—perhaps caused by splintered factions, internal hostility, and a lack of cohesion, mutual support, and shared beliefs—leads to divisiveness. Under such circumstances it may be impossible to gain the commitment of participants to implement complex strategies and weather the resulting changes required by the strategy. Mismatching culture and strategy causes implementation difficulties. This restricts the range of realistic strategies.

*Portfolio analysis* is borrowed from marketing and describes and categorizes resource-producing or resource-consuming services and products. The typical metaphor is that of cows, hogs, and stars.<sup>6</sup> Cows are services or product lines that yield more than they consume, hogs consume more than they yield, and stars, if nurtured, will evolve from embryonic resource consumers into cows. Portfolio analysis of services or product lines in an HSO, for example, might determine that pharmacy and radiology are cows, obstetrics is a hog, and sports medicine is a star.

*Organization life cycle* refers to the stage of development of an HSO/HS. Conceptually, organization life cycle borrows from theories of aging for human beings and product life cycle in marketing. All organizations, including all HSOs/HSs, go through stages of emergence, growth, maturity, decline, and perhaps regeneration, although time spans vary. Figure 9.4 presents this concept graphically.

### 7. Discuss the internal and external environmental analysis components identified in Figure 9.2.

Situational analysis (see Figure 9.2) forms the basis for strategizing. It involves gathering and evaluating information about the past and present and making assumptions about the future. It is informed by external environmental analysis and internal environmental analysis.

## External Environmental Analysis

Environmental scanning to identify external threats and opportunities is critical to strategy formulation and choice between strategic alternatives. Threats in the environment are events that may adversely affect the HSO/HS. Examples include competition and new forms and places of service delivery; change in third-party reimbursement; change in target market demographics and health status; new technologies; changes in accreditation, regulation, and licensure; and economic conditions.

Opportunities are favorable or advantageous circumstances in the external environment that may be beneficial. Examples include changes in demographics and service patterns; declines in the number of primary care physicians in a rural area, enabling a hospital to open a family practice center; and favorable changes in a Medicare or Medicaid reimbursement policy.

A well-conducted external environmental analysis includes all the variables outside the boundaries of an HSO/HS that can influence the decisions and actions of its GB and managers. This may include complementary or competitive entities, patients or customers, suppliers, regulators, insurers, accrediting agencies, and so forth. It also includes other, more general aspects of the external environment that can have a direct or indirect impact on the HSO/HS. Thus, for example, the general economy, the legal system, the physical environment, and community cultural norms and patterns are relevant.

The conduct of an external environmental analysis includes five interrelated steps: 1) scanning to identify relevant information (trends, developments, or possible events that represent opportunities or threats for the HSO/HS), 2) monitoring or tracking the relevant information identified through scanning, 3) forecasting or projecting the future directions of relevant information, 4) assessing the implications of the information, and 5) disseminating the information to those who can use it to guide decisions and actions.<sup>7</sup> Each step in the external environmental analysis process is described here.

### Scanning

Scanning the external environment involves acquiring information that can affect an entity's future. Determination of what is important to scan—that is, what has strategic importance to an HSO/HS—has been described variously as being largely judgmental, speculative, or conjectural. Obviously, this makes the quality of the judgments, speculations, and conjectures about which of the variables being scanned are of strategic significance quite important. For this reason, it is useful to have more than one person making these judgments.

One widely used approach to having multiple people involved in making these judgments is to rely on a task force or ad hoc committee of people from within the HSO/HS to render a collective opinion. For example, a CEO might rely on a group of senior- and middle-level managers for advice about what to scan. Another popular approach is to use outside consultants because managers can benefit from such expert opinions and judgments as to what is strategically important in their environments. It is also possible to use any of several more formal expert-based techniques.<sup>8</sup>

Although the determination of what is important to scan is specific to an HSO/HS, there are models designed to guide the conduct of situational analyses. For example, Figure 9.3 shows a focal HSO/HS at the center of a conceptualization of its external environment. The focal



entity is shown along with the other similar organizations with which it directly competes. These form an industry; the hospital, nursing facility, and HMO industries are examples.

The focal organization and the other organizations in its industry exist in a task environment, which extends to clients or customers, suppliers, regulators, insurers, accrediting agencies, and so forth, with which the organization has direct interactions. Finally, the external environment of an HSO/HS includes its macroenvironment, or general environment, as it is also called. This is composed of everything outside the industry's task environment. In total, a focal entity's industry, task environment, and macroenvironment produce biological, cultural, demographic, ecological, economic, ethical, legal, policy, political, psychological, social, and technological information that the entity should include in its external environmental analysis. The external environments of HSOs/HSs are so extensive and complex that it is useful to have some means to organize the external environmental analysis. Sector analysis is one such device.

## Sector Analysis

Sector analysis is one way to organize an external environmental assessment: Threats and opportunities are identified, and competitive position is assessed. Important sectors include the following:<sup>9</sup>

*Macroenvironment:* “includes major trends and events taking place outside the specific environment in which the organization operates, e.g., the global economy, industry trends, national economic indicators,” business cycle, unemployment (loss of third-party health insurance)

*Economic environment:* “includes trends, events, and economic indicators that are specific to the marketplace in which the organization operates; also included in this area is an assessment of the growth, strength, and impact of managed care arrangements in the delivery of healthcare services in the marketplace”

*Regulatory environment:* “includes recent or expected changes in the myriad regulations that directly affect the organization,” including those of local, state, and federal government

*Social environment or culture:* “includes issues such as public health status of the marketplace, [and] health impacts of generalized social behaviors such as poor diet, sexually transmitted disease, smoking, [and] substance and alcohol abuse”; also includes cultural factors such as respect or disrespect for authority, attitudes of employees about work, sexual mores, personal ethics, and societal attitudes such as those about abortion

*Political environment:* “includes factors such as recently enacted or pending legislation at the local, state, and federal levels”; healthcare as an actual or perceived right; public policy and federal responsibility for healthcare

*Demographics and market:* includes demographic changes and trends in the marketplace, such as changes in service area composition or target market; age (Medicare), income (Medicaid), location, and patient–payer mix; demand for services

*Competitive environment:* includes defining and assessing existing competitors who provide services similar to the HSO/HS; the extent of rivalry; and the HSO's/HS's competitive position in the marketplace, such as barriers to entry, threat of new entrants, potential for substitute services and products, and the strengths and weaknesses of other buyers or sellers and the organization's strength as a buyer or seller

*Technology environment:* “includes assessment of advances in pharmaceuticals, genetics, and high-tech equipment, and the knowledge base, skills, and talents of the organization's workforce”; also includes medical education and research and the cost and pace of technology infusion



*External stakeholders:* includes identifying and understanding stakeholder power and influence, their relative importance to the HSO/HS, and the demands they place on it

Each of these sectors is a relevant component of an HSO's/HS's external environment and should be included in the scanning step in a thorough external environmental analysis.

## Monitoring

Effectively scanning the external environment identifies specific information about trends, developments, and events that represent either opportunities or threats for continued attention through monitoring. Monitoring is more than scanning. It involves tracking or following important information over time.

Aspects of the external environment are monitored or tracked because they are thought to be relevant. Monitoring these aspects of the environment, especially when there is ambiguity as to their importance to the future, permits more information to be assembled about trends, developments, and events to clarify their importance or determine the rate at which they may be becoming important.

Monitoring has a much narrower focus than scanning because the purpose in monitoring is to build a base of data and information around the set of important or potentially important aspects of the external environment that were identified through scanning or verified through earlier monitoring. Usually far fewer aspects of the external environment are monitored than are scanned.

Monitoring is extremely important because it is so often difficult to determine whether information about trends, developments, or events actually represents either real opportunities or threats for an HSO/HS. Under conditions of certainty, managers would fully understand the information and all its consequences for their decisions and actions. However, uncertainty characterizes much about the external environments of HSOs/HSs, and it cannot be removed completely. Acquiring more detailed and sustained information through effective monitoring, however, will significantly reduce uncertainty. As with scanning, techniques that feature the acquisition of multiple perspectives and expert opinions can be helpful. Careful monitoring and tracking provide the background for the next step in analyzing an external environment: forecasting environmental changes.

## Forecasting

Scanning and monitoring cannot, in and of themselves, provide managers with all the information they need about the external environment. Often, if managers are to use this information effectively in strategizing, they need forecasts of future conditions or states. This may give them time to adjust strategies and objectives or to revise existing or formulate new operational plans and implement them successfully in response to the new conditions. Scanning and monitoring external environments involve searching for early signals that may indicate what will become strategically important information about trends, developments, and events. Forecasting involves extending information beyond its current state.

Forecasts of some types of information can be made by extending past trends or by applying a formula of some kind. In other situations, forecasting must rely on conjecture, speculation, and judgment. Sometimes, sophisticated simulations can be conducted to forecast the future. However, uncertainty characterizes the results of all of these methods. It is especially difficult to include in any of these approaches the fact that few strategically important pieces of

information exist in a vacuum. There are almost always many variables at work simultaneously, and no forecasting techniques or models that have been developed fully account for this fact.

Trend extrapolation is a widely used forecasting technique. When properly used, this technique can be remarkably effective and is simple to use. Trend extrapolation is nothing more than tracking information and then using the tracking results to predict future states. It works best in the prediction of general trends, such as the number of patients or customers predicted to be served by an HSO/HS or reimbursement rates for certain services from Medicare or Medicaid. For example, if the number of patients or customers has increased by 5% for each of the past 5 years, it may be reasonable to assume a 5% increase in the next year.

Another useful forecasting technique is scenario development.<sup>10</sup> A scenario is a plausible prediction about the future. This technique is especially appropriate for analyzing environments that include many uncertainties and imponderables, conditions that often characterize the external environments of HSOs/HSs.

The essence of scenario development is to define several alternative future states. These possibilities can be used as the basis for developing contingency strategies from which a choice is made; alternatively, the set of scenarios can be used to select what managers consider the most likely future, the one on which strategizing will be based.

Multiple scenarios permit several future possibilities to be explored. After a range of possibilities has been reflected in a set of scenarios, if managers want to choose one as the most likely scenario, they can do so. However, a common mistake in using scenarios for strategizing is to envision too early in the process one particular scenario as the correct picture of the future. The following is one example with four possible scenarios that a manager might imagine:

1. Our external environment will be mostly the same as today's, only better.
2. Our external environment will be much better than today's.
3. Our external environment will be mostly the same as today's, only worse.
4. Our external environment will be radically different from today's.

Each of these scenarios describes a different external environment that an entity might have to fit into. This effort would guide strategy choices.

## Assessing

Scanning and monitoring information that is relevant to strategizing are important steps in conducting an external environmental analysis. Another important step is making accurate forecasts of the future state reflected in the information. However, managers must also be concerned about the specific and relative strategic importance of the information they are analyzing. That is, they must assess the strategic importance and implications of the acquired information and forecasts for their HSOs/HSs.

Making these assessments is not an exact science. More than anything else, it relies on the judgment of the people making the assessments. Even so, there are several bases on which the strategic importance of information in an external environment can be considered. Prior experience with similar information is often a useful basis for assessing the importance of information. Other bases include intuition or best guesses about what particular information might mean, as well as advice and insight from others who are well informed and experienced. When possible, quantification, modeling, and simulation of the potential impacts can be useful.

Making accurate determinations of the relevance and importance of information to the future is rarely a simple task. Aside from the difficulties encountered in collecting and properly analyzing enough information to fully inform the assessment, problems sometimes derive from the influence of the personal preferences and biases of those conducting the environmental analysis. Such problems can force assessments that fit preconceived notions about what is strategically important rather than reflecting the realities of the impact of particular information. As with other steps in the external situational analysis, multiple judgments about the strategic importance of information can help avoid the bias problem.

## Using and Disseminating Information from Analysis

The final step in assessing an HSO's/HS's external environment uses the acquired information and forecasts in strategizing, which includes giving the information to those whose decisions and actions may be affected by it. This step is often undervalued as part of the conduct of an external environmental assessment; it may even be overlooked. Unless information is disseminated to and used by all who need it, however, it does not matter how well the other steps in the assessment are performed.

Managers must base their strategizing on valid information about the external environment if this core activity is to be properly performed. In many cases, they will need to share the information with others as well. For example, in a large HSO or an HS, there are component units and other subdivisions with managers of their own who must strategize for their domains of responsibility. There are three basic ways that managers can spread the strategically important information obtained through an environmental analysis:

1. Dictate use of the information. Use coercion or sanctions where necessary, to see that the information is used in all the appropriate places.
2. Persuade others to use the information by reasoning with them.
3. Educate others as to the importance and usefulness of the information in their strategizing activities.

In dictating use, managers simply rely on the power of their position to dictate that the information is to be used. Other participants are expected to carry out the dictates by using the information in their own strategizing. Such dictates have appropriate uses. For example, an abrupt change in a state's reimbursement policy for Medicaid services might necessitate an immediate operational shift, leaving little time for anything but an edict to ensure the use of this information in strategizing.

Dictates have the advantage of speed, although a major drawback is their disruptiveness and the sense they give to those who receive them of nonparticipation in the environmental assessment. The more participative persuasion and education approaches work better when time permits their use. These approaches are greatly facilitated when those who will use the information from an external environmental assessment participate in its conduct. Participation can be achieved through membership on committees or teams charged to conduct the scanning, monitoring, forecasting, and assessing aspects of the assessment.

Using and disseminating strategically important information about the external environment complete the process of analyzing the external environment. The level of comfort those responsible for any HSO/HS feel about its external environment depends very heavily on the thoroughness and care with which the external environmental analysis is conducted.

## Internal Environmental Analysis

An internal environmental analysis (see Figure 9.2) involves cataloging the strengths and weaknesses inherent in an HSO/HS. This analysis provides managers with an inventory of capability and a resource base for use in strategizing. It permits managers to draw inferences about their entities' comparative advantages or distinctive competencies. The analysis focuses on the functional areas and results in an organization profile.

Examples of potential organizational strengths are patient referral patterns, reputation for quality, cost efficiency, technology, qualifications and stature of clinical staff and other professionals, financial and other resources, range and types of services and products provided, a cohesive organizational culture, and proactive management. In addition, as summarized in Chapter 5, management skills (technical, human, and conceptual), roles (interpersonal, informational, and decisional as well as those of designer, strategist, and leader), and competencies (conceptual, technical managerial and clinical, interpersonal or collaborative, political, commercial, and governance)—or, using the National Center for Healthcare Leadership's framework, transformation, execution, and people—can be strengths. Weaknesses may include deficiencies in any of these elements, shortage of capital, outdated physical plant and equipment, hostile labor environment, poor quality or reputation, aging or decreasing numbers of physicians, or reactive management.

## Functional Area Analysis

Functional area analysis is one method by which systematic internal environmental analysis can be performed to identify strengths and weaknesses and to provide a comprehensive organization profile. The following are among the functional areas typically analyzed:<sup>11</sup>

*Marketing and service:* “includes analysis of the characteristics of current patients, such as payer source, acuity, demographics, origin and destination; referral sources; review of the current level of usage of services or product lines offered; channels or mechanisms for service delivery; promotional techniques; and success rate with each”; also includes target markets, reputation, specialization, image, barriers to market entry, breadth and depth of service, market share, access, and quality of clinical staff

*Clinical systems:* “includes evaluation of output measures of volume and quality; level of technology available; level of technology needed; and skills and knowledge base of clinicians”; also includes use of patient management protocols to guide clinical care; skills, age, and composition of medical staff; and status of clinical delivery continuous quality improvement (CQI) initiatives

*Production:* includes design of work processes and methods; cost of production; quality of outcomes; task–technology–people relationships; work scheduling and idle capacity; and equipment and facility size, capacity, and age

*Financial:* “includes evaluation of the availability and use of capital funds; use of operating revenues; ratio analysis; budget variances, and internal control mechanisms”; also includes patient–payer mix, leverage, financial reserves, accounting and billing systems, and earnings or residuals

*Human resources:* “includes evaluation of the skill levels in technical areas; availability of appropriately prepared personnel; recruitment and retention track record”; also includes quality of

personnel skills, attitudes, compensation, stability of employment, productivity, commitment to CQI, and labor relations

*Management*: “includes evaluation of the number of levels; strength of each level as a whole and the individuals in that level”; also includes organizational structure and linkages; assessment of skills, roles, competencies, leadership, and effectiveness of managers; and managers’ perspectives, experience, values, ethics, and philosophies

*Governing body*: includes the composition, strength, skills, knowledge, cohesiveness, commitment, oversight, and support to the HSO/HS and to the fulfillment of its mission

*Culture* (not a functional area but important because it affects the functional areas): includes the organization’s values and ethics; cohesiveness of the culture; philosophy about CQI, customers, and employees; and compatibility of culture with mission

Awareness of strengths in all functional areas and culture permits conclusions to be drawn about comparative advantage and the ability to implement strategies. Some of these conclusions identify the organization’s or system’s particular competencies, where it excels compared with other organizations, and how it can be differentiated. Is the HSO/HS the lowest-cost provider? Does it provide the highest-quality service? Does it have the best reputation? Is it committed to CQI and customer satisfaction? Is it on the cutting edge of technology application? Comparative advantage is a barrier to entry that others must overcome to compete with an entity. Information about comparative advantage, strengths, and weaknesses allows consideration of organizational strategies that capitalize on the first two and mitigate the last.

The systematic assessment and appraisal through external and internal environmental analysis identifies external threats and opportunities facing the HSO/HS as well as internal organizational strengths and weaknesses. Conclusions can be drawn about the HSO’s/HS’s comparative advantage and competitive position. It enables managers to identify risks, issues, organizational deficiencies, and gaps in objectives that are the difference or discrepancy between actual and desired results

### 8. *Discuss strategic control.*

As managers are implementing strategies, it is necessary to control. Control is very important in strategizing, and as is discussed in Chapter 11, controlling is an important activity in managing. The discussion here is limited to control as an element of effective strategizing.

In this context, results of strategies must be monitored and evaluated to determine whether objectives are being accomplished and whether resource allocation and use are effective. If not, adaptation must occur, including going back to the beginning of the strategic management process depicted in Figure 9.2. In fact, strategic management is a cyclical process. Even though present strategies may result in achieving objectives, strategic assessment must monitor internal and external environments with respect to whether and how they are changing and what the response should be.

The strategizing process (Figure 9.2) is brought full circle through strategic control and subsequent adaptations and changes. In the control stage, implementation is monitored, and the resulting information is used to control ongoing decisions, actions, and behaviors affected by the organization’s strategies. Figure 11.2 models the basic control process, in which actual results are monitored and compared with previously established objectives and standards, and deviations are corrected. In effective strategic control, senior-level managers, who have overall responsibility for their entities’ performance, evaluate that performance and make changes when they are indicated.

## Strategic Control Systems

Managers with strategic responsibilities must develop effective strategic control systems to achieve the successful implementation of their strategies by detecting discrepancies between desired and actual performance, which trigger corrective actions when necessary.<sup>12</sup> HSOs/HSs typically use a number of strategic control systems or devices, including budgets, routine activity reports, exception reports, employee performance appraisal systems, and consumer or patient satisfaction surveys. Effective strategic control systems

- facilitate coordination in organizations and systems,
- motivate effort toward achievement of organizational objectives,
- provide an early detection system to warn that the assumptions and conditions underlying strategies are wrong or have changed, and
- provide a means through which strategic managers can intervene to correct an ineffective or inappropriate strategy.

## Mechanisms of Strategic Control

Assuming that missions and objectives have been established as part of the strategy formulation and strategic implementation stages of strategizing, then strategic control entails monitoring actual organizational strategic performance, comparing actual results with desired results, and correcting deviations or adapting to new strategic realities.

### Monitoring Performance

In monitoring and comparing, managers monitor actual performance in their domains and compare it with the desired states of performance they seek. Where clear, concrete objectives and standards exist, monitoring outcomes and then comparing them with the standards is a straightforward process. But to carry out this step effectively, managers must observe more than mere operating results, although such bottom-line outcomes are always important in judging the success or failure of strategies. One very serious problem with relying on outcomes is that they often occur too late to permit the effective corrective actions necessary to fully meet objectives. In addition to this problem, final results may not indicate why deviations occurred. To overcome such problems, effective managers design their monitoring systems and techniques very carefully.

Management information systems (MISs) can be designed so that information relevant to strategic control can be collected, formatted, stored, and retrieved to support monitoring and comparing activities. These systems can be tailored to provide information that is useful in the strategic control of quality assessment and in improvement as well as cost control activities, for example.<sup>13</sup> If MISs are to be useful in support of monitoring and comparing actual performance with desired standards of performance activities, they should possess certain characteristics, including the following:

- The MIS should match the elements of information it covers to the strategies being managed. The closer the match between the information and the specific nature and structure of strategies, the more effectively the control stage in the strategic management process can be carried out.

- The elements of information should point out exceptions at critical points. Effective strategic control requires attention to the factors most critical to organizational performance. Generally, the more managers concentrate on critical points, the more effective will be the results of their control efforts. Related to this characteristic, the elements of information in an MIS should be economically selected and worth their cost.
- The elements of information should be understandable to those who will use them. Some strategic control systems are supported by MISs—especially those based on mathematical formulas, complex statistical analyses, and computer simulations—that include information elements that are not always understandable to the people who must use them. The inclusion of such elements in an MIS can be dysfunctional.
- The MIS should report deviations promptly. The ideal MIS for strategic control purposes detects deviations soon after they actually occur. Only if information about difficulties with their strategies reaches managers in a timely manner can they take effective corrective action.
- The MIS should be forward looking. Although perfect control would be instantaneous, the facts of organizational life include a time lag between deviations and corrective actions in strategic management. Nevertheless, a crucial precursor to effective strategic control is the ability to detect potential or actual deviations from established strategies early enough to permit effective corrective action. Thus managers usually prefer a forecast of what will probably happen next month, next quarter, or next year—even though this contains a margin of error—to information that is accurate to several decimal points but about which nothing can be done.
- Finally, the MIS should point to corrective action. A strategic control system that detects deviations from the desired results established for strategies will be little more than an interesting exercise if it does not show the way to corrective action. An adequate system will disclose where failures are occurring, who is responsible for them, and what corrective action can be taken.

## Taking Corrective Actions and Adapting to New Strategic Realities

Based on monitoring and comparing with desired results, corrective actions are taken to bring performance deviations back into line with performance objectives. This step often presents difficult problems for managers, even if they are guided by good information from their strategic control systems. It is often difficult to determine why strategies fail or why their implementation falters, because so many underlying factors can be involved. The strategic management model shown in Figure 9.2 illustrates that the effort to trace the source or sources of deviations and to decide where to intervene goes back to each stage of the process where questions such as these can be answered: Is the information produced in the situational analysis still accurate, complete, and relevant? Are the strategies still appropriate? Are the steps being taken to implement the strategies the correct ones? And so on.

Armed with a determination of the causes of deviations, managers can undertake corrective actions with some hope for successful results. In doing this, managers become change agents. They must adapt and adjust prior decisions and activities within the overall strategizing process in Figure 9.2. Strategic control, and the adaptation and change that it triggers, brings the strategic management processes full circle. These important steps in the processes are where managers determine the continuing relevance of their strategies and make adaptations and changes.



*9. Resistance is often the human response to strategic changes. What can managers do to overcome resistance?*

One of the facts of organizational life is the tendency of many people to resist things that are new and different. Thus managers invariably must deal with resistance to strategic adaptations. A crucial step in smoothing adaptation and change is devising a suitable overall approach to making the adaptation or change.<sup>14</sup> Many possible approaches fit into one of two broad categories. One is based on the use of power, in which managers use coercion or sanctions to bring about change. Such approaches are also called force-coercion approaches and are top-down in nature. Alternatively, approaches can rely on reason and rational persuasion. In these approaches, managers make strategic adaptation and organizational changes by convincing those involved of the need for change and explaining the rationale.

In the power (force-coercion) approaches, managers determine and announce the adaptations and changes that they want to make; other participants are expected to accept them. Changes in the strategic direction of HSOs/HSs often necessitate top-down power approaches, as do quick responses to important environmental changes. For example, a change in the reimbursement policy of a major insurance carrier may necessitate an immediate adaptation or change that leaves little time for anything but a top-down edict.

Approaches that rely on reason and persuasion to implement adaptations and changes come in many forms, although they share the common element of being participative. In these approaches, participation in making adaptations and changes increases, although the degree of participation can vary widely. In general, increasing the level of participation or involvement of others in decisions about adaptation and change can allow managers to reap substantial rewards, including better decision making, which can lead to higher quality and other desired performance results. Approaches that rely on participation are very different from top-down approaches. Participation suggests the opposite of top-down edicts from senior-level managers who direct what and how change will be made.

When information, rewards, knowledge, and power are concentrated at the top of an HSO/HS, little opportunity exists elsewhere for meaningful involvement or participation in adaptation and change. In contrast, when these factors are decentralized, opportunities to participate in managing adaptation and change are greatly increased.

When permitted higher levels of participation, more people can decide about adaptations and changes in their work and also have meaningful input into changes in mission or objectives, culture, strategies, tasks, technologies, people, and structures. Such high involvement, which is sometimes called a bottom-up approach, works only when senior-level managers encourage and facilitate its use. An important advantage of a high-participation, bottom-up approach to strategic adaptation and organizational change is that it stimulates creativity in the HSO/HS. It also fosters commitment to making adaptations and changes in those who participate. HSOs/HSs often use high-involvement, bottom-up approaches when adaptations and changes involve small parts of the organization or system, such as single departments, or when changes are modest and operational.

Managers cannot ensure that a strategic adaptation will be successfully implemented, although certain actions increase the likelihood of success. Perhaps the most important action is that those involved in or affected by an adaptation understand the necessity for it. Managers should provide information as far in advance as possible, including details about reasons for the change, its nature and timing, and the expected impact.

It may be useful for a substantial adaptation or change to be introduced on a trial basis. Familiarity gained through experience with an adaptation or change, as well as assurances that it is

not irrevocable, can reduce initial insecurity and increase the likelihood of acceptance. Allowing time for a change to be digested by those involved almost always increases their acceptance of it.

Another useful action for managers when adjusting or changing is to minimize the disruption of customs and informal relationships. The HSO/HS culture has value because it helps people adjust to the workplace and to their roles in it. Change almost invariably disrupts the culture, but such disturbances can be reduced by facilitating widespread participation in making the adaptations and changes.

In considering how to minimize resistance to strategic adjustment and organizational changes, managers should remember that people respond to change in predictable, often negative ways. Some people may view change negatively and resist it because of their background and experience. They also may react negatively to change because of the work environment. For example, when an HSO/HS has been stable for a long time, it may be especially difficult to introduce strategic adaptations without strong resistance. When people become part of the status quo and believe it is permanent, even minor changes can be disruptive. Conversely, when change is part of the culture, it is expected and more readily accepted.

Being a change agent is never easy. It is most difficult when it involves major strategic adaptations or complex organizational changes. The successful management of a complex adaptation requires that managers have a purpose for the adaptation or change, the skills that are necessary to make the change, incentives and resources to make the adaptation possible, and a plan for making the change. If any of the necessary ingredients are missing, the adaptation may not succeed, or it may be more difficult and limited than it would be if all necessary ingredients were present.

## Case Study 1

### No Time for Strategizing

#### 1. *What are the appropriate roles of the CEO and GB in strategizing the future of Downstate Medical Center?*

The CEO and the GB are responsible for establishing and maintaining a sustainable relationship between these organizations and systems and their external environments. This requires continuous activity designed to analyze internal and external environments and plan and carry out courses of action in response to what is seen there. These activities are referred to as *strategizing*. Both the CEO and the GB share responsibilities for strategizing, or achieving a “fit” or equilibrium between an organization and its external environment. The activities involved are future oriented and play a large role in how these entities establish and maintain sustainable relationships with their external environments. Of course, any equilibrium attained is at best temporary because of the constant flux (and growing complexity) of the environmental forces an organization must interact with and adapt to in order to survive and grow. This means CEOs and GBs have ongoing responsibility for strategizing. It must be continuous.

Strategizing is performed at the GB and CEO level with input from other organization members, including those of the professional staff organization (PSO) who hold leadership positions. The GB exercises oversight to ensure that the strategizing process is in place and accomplished appropriately.

The GB is responsible for setting the HSO’s/HS’s direction—its mission and objectives. Senior-level management, especially the CEO, has significant input in formulating organization

objectives and is charged with developing and implementing organizational strategies to accomplish them. The GB's role generally does not include originating strategy, although it is responsible for ensuring that strategic proposals brought to it by senior-level management are properly prepared and are consistent with the mission as well as responsibilities to stakeholders.

*2. If things are going well at Downstate, why should its leaders give more attention to strategizing?*

Just because things are going smoothly does not mean that this will always be the case. The essence of strategizing is focusing on the future and preparing the organization to take advantage of opportunities or to prepare for threats in that future environment.

*3. What do you recommend to Nathan Robertson and to Clare Lipton as a way to begin strategizing for Downstate Medical Center?*

A good starting point for both the CEO and the GB to strategize is an external environmental analysis. This can identify external threats and opportunities such as moves by competition and new forms and places of service delivery; change in third-party reimbursement; change in target market demographics and health status; new technologies; changes in accreditation, regulation, and licensure; and economic and demographic conditions.

An external environmental analysis includes five interrelated steps: 1) scanning to identify relevant information (trends, developments, or possible events that represent opportunities or threats for the HSO/HS), 2) monitoring or tracking the relevant information identified through scanning, 3) forecasting or projecting the future directions of relevant information, 4) assessing the implications of the information, and 5) disseminating the information to those who can use it to guide decisions and actions.

## Case Study 2

### A Response to Change

*1. What caused the reactions to the study?*

The reactions are fairly normal human reactions to changes such as this and are caused by several of the factors cited in the chapter, including the following:

- Staff insecurity about their jobs
- Possible economic loss caused by changes in the business office staffing pattern
- The normal preference for stability being lessened by uncertainty about the purpose and uses of this study

*2. Could these reactions have been predicted? How?*

These reactions should have been predicted because the causes are so basic and universal among employees.

*3. What steps should Smith take to get the study back on track?*

Smith is under considerable pressure to get the study back on track. Her best alternative is to use a more participative and persuasive approach with subordinates, carefully explaining the purposes of the study and likely consequences. Even if she does, however, reactions will continue to include resistance and concern by employees. These can be minimized by providing more complete information.

### Case Study 3

## HSO Strategic Assessment

1. *Compile a list of situational analysis considerations (e.g., factors, items) that are relevant to the HSO selected.*

(Note: The response to Question 7 is useful in preparing this case.)

This case permits students to apply elements of the strategizing model in Figure 9.2 to an HSO. This will heighten awareness of its components. The figure can be a very specific guide to order and direct students' thinking. Based on their perception and awareness of the HSOs they choose, students should list and discuss considerations under

- external environmental analysis and
- internal environmental analysis.

2. *Identify and describe past and present organizational strategies the HSO has implemented or is implementing.*

Student responses will be unique to the organizations they are focusing on. However, they can be guided by Table 9.3 in which the numerous strategic alternatives are classified into several different types: directional, adaptive, market-entry, competitive, and implementation strategies as a starting point for their discussion.

3. *Discuss the context in which the HSO made strategic choices. Use the list of aspects of context discussed in this chapter in your response.*

Student responses will be unique to the organizations they are focusing on. However, the discussion can be guided by the set of context variables discussed in the text and in the response to Question 6, including the following:

- Type of organization
- Strategic decision style
- Managerial philosophy
- Organizational culture and choice-maker values
- Portfolio analysis
- Organization life cycle
- Competitive position

### Case Study 4

## Closing Pediatrics

(Note: The instructor should use the strategizing model in Figure 9.2 as the foundation for discussing this case.)

1. *What effect would the retrenchment strategy have on City Hospital's objectives?*

Retrenchment may help (and perhaps be necessary) to meet objectives of survival, quality patient care, and acceptable costs. However, it may be inconsistent with the objective of being a "full-service hospital." Two points should be made by the instructor:

- It is especially important for hospitals to connect with women as new mothers because women make most of the healthcare-related decisions in families. A good obstetrics experience will link women and their families with a hospital and continue a relationship through the hospital's staff physicians. This will tend to optimize the delivery of services and the continuity of the process of delivery. This leads to the next point.
- This case should be analyzed in terms of optimizing a system. Here, obstetrics is part of a system of delivery. It is unreasonable to expect all of the units or parts of a system to produce a profit (optimize) when that optimization is likely to lead to suboptimization of the entire system. The aim of the components in a system should be to optimize the entire system, even if they are asked to, or must, suboptimize, by doing so. Thus they should be judged on their contribution to the system, not on their individual performance.

Alternatively, a consortium or other arrangement for pediatrics would permit the objective, to serve the needs of the community, to be met. The instructor may argue that all services are not required of all hospitals.

### *2. Identify the stakeholders who influence the decision.*

Stakeholders who influence decisions are the GB, PSO, affected employees, patients, third-party payers, affiliated medical schools, community constituents, public, and government.

### *3. Are there other strategies that City Hospital can consider?*

A strategy other than closure is noncooperation with other hospitals and conscious, aggressive expansion of pediatrics. This would make City Hospital the preferred pediatric center based on quality/price (i.e., a differentiation strategy, or perhaps a low-cost leadership strategy). Such growth would occur at the expense of the other hospitals, however. Implementation would involve recruiting physicians, adding a neonatal unit, remodeling facilities, aggressive promotion, and the like.

A second strategy is joining a consortium (strategic alliance) and influencing the group so that City Hospital is declared the sole pediatric site and other HSOs/HSs will close their pediatric services.

### *4. Argue against the closure. What reasons support your position?*

The arguments *against* closure include the following:

- Loss of physicians
- No longer being a full-service hospital
- Possibility that community needs will not be met
- Decreased status/stature of hospital
- Likely resistance to change by PSO, employees, or both
- Possible effect on other residency programs

Arguments *supporting* closure include the following:

- Decrease in hospital costs
- Probability that other hospitals will meet community needs
- Redeployment of resources to other services (cows/stars)

## Case Study 5

### Affiliation

#### 1. *Identify the other ways in which Mooreland might have benefited from the affiliation with the HS.*

The most important potential benefit of the affiliation was the flexibility it provided to Mooreland. Such affiliations arise because of mutual need and a willingness among the participants to share knowledge, capabilities, risks, and costs; to leverage innovation; and to take advantage of complementary strengths and capabilities. Conversely, the affiliation, in effect, is a strategic alliance that could lead to a different relationship. This is what happened in the case of the competitor hospital acquired by the HS. That hospital may now experience the benefits of being part of a vertically integrated HS, and Mooreland may have missed the opportunity to achieve them.

#### 2. *Identify the types of data that should be collected.*

Mooreland's senior-level managers and GB members will now be most interested in the impact of the acquisition by the HS of a competitor of Mooreland's on patient volume. Collection of volume information and projections will support calculation of the financial impact of the change. Mooreland should also conduct a marketing analysis, and this will require data on the impact of this change on the decision making among Mooreland's patient base. For example, will potential patients in their market be more or less inclined to utilize the competitor now that it is part of the HS?

#### 3. *What analyses should be done?*

In addition to analysis of the volume, financial, and market data collected, it will be especially important for Mooreland to carefully assess its external environment. This analysis can be informed by the discussion of Sector Analysis as a way to organize an external environmental assessment: Threats and opportunities are identified, and competitive position is assessed. Important sectors include the following:<sup>15</sup>

*Macroenvironment:* "includes major trends and events taking place outside the specific environment in which the organization operates, e.g., the global economy, industry trends, national economic indicators," business cycle, unemployment (loss of third-party health insurance)

*Economic environment:* "includes trends, events, and economic indicators that are specific to the marketplace in which the organization operates; also included in this area is an assessment of the growth, strength, and impact of managed care arrangements in the delivery of healthcare services in the marketplace"

*Regulatory environment:* "includes recent or expected changes in the myriad regulations that directly affect the organization," including those of local, state, and federal government

*Social environment or culture:* "includes issues such as public health status of the marketplace, [and] health impacts of generalized social behaviors such as poor diet, sexually transmitted disease, smoking, [and] substance and alcohol abuse"; also includes cultural factors such as respect or disrespect for authority, attitudes of employees about work, sexual mores, personal ethics, and societal attitudes such as those about abortion

*Political environment:* “includes factors such as recently enacted or pending legislation at the local, state, and federal levels”; healthcare as an actual or perceived right; public policy and federal responsibility for healthcare

*Demographics and market:* includes demographic changes and trends in the marketplace, such as changes in service area composition or target market; age (Medicare), income (Medicaid), location, and patient–payer mix; demand for services

*Competitive environment:* includes defining and assessing existing competitors who provide services similar to the HSO/HS; the extent of rivalry; and the HSO’s/HS’s competitive position in the marketplace, such as barriers to entry, threat of new entrants, potential for substitute services and products, and the strengths and weaknesses of other buyers or sellers and the organization’s strength as a buyer or seller

*Technology environment:* “includes assessment of advances in pharmaceuticals, genetics, and high-tech equipment, and the knowledge base, skills, and talents of the organization’s workforce”; also includes medical education and research and the cost and pace of technology infusion

*External stakeholders:* includes identifying and understanding stakeholder power and influence, their relative importance to the HSO/HS, and the demands they place on it

#### 4. List the options that Moreland should consider.

Moreland’s strategic options are limited. The hospital may be able to continue its affiliation with the HS, although the HS may no longer see any advantage in maintaining the affiliation. The hospital may attempt to continue to operate as an independent hospital, although this will be very difficult. The original affiliation agreement was made because of the difficulty of operating independently. Moreland may seek to be acquired by the HS, although the HS may not wish to do this given the overlapping service areas of Moreland the recently acquired competitor hospital. Eventual options may include downsizing or closure.

## Case Study 6

# Healthcare Firms Send Jobs Overseas

1. As this news article indicates, some healthcare companies are starting to shift clinical services and decision making on medical care overseas, primarily to India and the Philippines. Is this a good strategy for these companies? What are the pros and cons of this strategic decision?

The shifting of some clinical services overseas may well be a good strategy for healthcare companies in financial terms. Financially, the decision is simple: obtain services where cost is lower, assuming acceptable quality.

Cost savings for the companies is the primary pro of this strategy in their decision. To whatever extent savings might be reflected in lower premiums, customers of the companies could benefit and this could be a positive feature of the strategy. There would be employment and wage benefits for those in India, the Philippines, or elsewhere who perform this work.

On the negative side, displaced American workers suffer losses because of this decision and form a significant con in the decision. Other cons include negative publicity for the company. As the article notes, some politicians openly criticize the outsourcing movement in general.

2. Who would make a strategic decision of this magnitude in a healthcare company?

In view of the stakeholders who might view this decision negatively, this is a decision that would be made at the highest corporate levels of a healthcare company. Government regula-



tors, labor, the general public, and other stakeholders have views on a decision such as this, and their views must be considered by the company making a decision of this magnitude.

### 3. Is this a strategy that HSOs/HSs might adopt?

For the same cost-saving reasons that healthcare companies might consider this strategy, HSOs/HSs might also consider it. In fact, just as with the insurance companies, many HSOs/HSs have pursued outsourcing of back-office work and some clinical activity as a cost-saving move. To date, most of this activity has been limited to domestic outsourcing, but shifting the work to international sources is just a small step that will increasingly be considered as cost pressures continue to mount in the healthcare industry overall.

## Notes

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