

*King Saud University
College of Business Administration
Department of Health Administration - Masters` Program*

***HHA 518 – Strategic Management in Healthcare
Organizations***

Second Semester 1441/ 1442

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STRATEGY AND STRATEGIC MANAGEMENT

Learning objectives

- ❖ **Comprehend that strategy has many definitions, and its meaning depends on one's perspective;**
- ❖ **Understand the role of strategy in moving a healthcare organization to achieve its goals, grow its business, and improve its performance;**
- ❖ **Recognize the use of prospective and emergent strategies; and**
- ❖ **Be aware that business strategies evolve over time as a result of changing circumstances and managerial modifications.**

STRATEGY AND STRATEGIC MANAGEMENT

STRATEGIC MANAGEMENT

“Somehow there are organizations that effectively manage change, continuously adapting their bureaucracies, strategies, systems, products, services and cultures to survive the shocks and prosper from the forces that decimate others . . . they are the masters of what I call renewal.”

***Robert H. Waterman, Jr.
The Renewal Factor***

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STRATEGIC MANAGEMENT

- ❖ The **dramatic changes** in the health care industry that began in the 1980s, marked by the value-based healthcare and prospective payment system, continue well into the twenty-first century.
- ❖ **As a result**, both public and private health care institutions continue to face a turbulent, confusing, and often threatening environment.

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STRATEGIC MANAGEMENT

- ❖ **Significant change** comes from many sources including: health care legislative and policy initiatives; international as well as domestic economic and market forces; demographic shifts and lifestyle changes; technological advances; and health care delivery changes within the industry.
- ❖ **As suggested in the introductory quote,** organizations will have to effectively manage change and become “masters of renewal” in this dynamic environment.

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- ❖ 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.

STRATEGY AND STRATEGIC MANAGEMENT

STRATEGIC MANAGEMENT

- ❖ 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 the momentum for change.

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The Foundations of Strategic Management

Strategy literally means “the art of the general.” It is from the Greek word **strategos**, which signifies the planning of a military campaign. **Strategos** (Greek term): Planning a military campaign.

❖ **Sun Tzu** taught the importance of positioning in military **strategy**, establishing **objectives** based on environmental conditions and the subjective beliefs of the opponents. **Sun Tzu: Art of War (book)**

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Long-Range Planning to Strategic Planning

- ❖ The development of **strategic management begins** with much of the business sector adopting long-range planning.
- ❖ **Long-range planning** 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.
- ❖ **Long-range forecasts of demand** enabled managers to develop detailed marketing and distribution, production, human resources, and financial plans for their growing organizations.

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Long-Range Planning to Strategic Planning

- ❖ 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.

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Long-Range Planning to Strategic Planning

- ❖ 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.

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Long-Range Planning to Strategic Planning

- ❖ **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.

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Long-Range Planning to Strategic Planning

- ❖ 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.
- ❖ 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.

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Long-Range Planning to Strategic Planning

- ❖ 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.

STRATEGY AND STRATEGIC MANAGEMENT

Strategic Management in the Health Care Industry

- ❖ Many of the **management methods** adopted by health care organizations, both public and private, were developed in the business sector.
- ❖ 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.

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Strategic Management in the Health Care Industry

- ❖ 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 appropriate to the health care industry.
- ❖ **Certainly**, not all the “**big ideas**” have delivered what was promised, even in business. **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.

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Strategic Management in the Health Care Industry

- ❖ In the past, 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**.
- ❖ Efforts at **health planning** were initiated by governments and implemented through legislation or private or nongovernmental agencies.
- ❖ For the most part, these planning efforts were **disease oriented**; that is, they were categorical approaches directed toward specific health problems.

STRATEGY AND STRATEGIC MANAGEMENT

Strategic Management in the Health Care Industry

- ❖ These health planning efforts **are not strategic management**. **Health planning** is the implementation of government's health policy and affects a variety of health care organizations.
- ❖ In contrast, **strategic management** is organization specific. **Strategic management** helps an individual organization respond to government's policy and planning efforts, as well as to a variety of other external forces.

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The Foundations of Strategic Management

- ❖ For some, **strategy** is developing a formal plan.
- ❖ For others, **strategy** involves crafting a process or means for outwitting a competitor.
- ❖ Yet others see **strategy** as a way of doing business, **positioning** an organization, and determining competitive differences from a prospective or an **emergent** viewpoint

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- ❖ **Strategy** tends to be a bit of all of these **perspectives** in that it involves processes and end goals but also **constant adaptation** to shifting conditions and circumstances in a world dominated by chance and uncertainty.
- ❖ **Likewise, strategies** frequently emerge from the unintended, almost accidental results of decisions, as our earlier decisions commonly restrict the path of our choices and impose policies and actions that leaders initially would not have chosen

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- ❖ Theoretically, an organization's established **mission** and **vision** should drive **strategy** formulation.
- ❖ The organization should first define what business it is in and what it wants to become and then establish **goals**, **objectives**, and **tactics** to achieve its **mission** and **vision**.
- ❖ From this point of view, **strategy** establishes a path and direction toward an end state or outcome.

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- ❖ In formal prospective planning processes, leaders often elaborately analyze the environment, set goals, and lay plans to achieve those aims.
- ❖ The **strategic plan** becomes management's action plan for running its business and operations.
- ❖ **Strategy** helps us make better decisions
**Good strategy + Good strategy implementation =
Excellent strategic outcomes**

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- ❖ There are many ways to think about **strategic management** in organizations.
- ❖ In fact, **Henry Mintzberg** identified ten distinct schools of thought concerning organizational strategy.
- ❖ As described in **Exhibit 1–2**, **three** of these approaches were **prescriptive** or **analytical** (**rational**): the design (conceptual) school, the planning (formal) school, and the positioning (analytical) school.

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- ❖ **Six schools of thought** were **descriptive** (emergent, intuitive) and dealt with philosophical approaches to **strategic management**: the entrepreneurial school (a visionary process), the cognitive school (a mental process), the learning school (an emergent process), the political school (a power process), the cultural school (an ideological process), and the environmental school (a passive process).
- ❖ **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.

Exhibit 1–2: Strategy Formation Schools of Thought

School of Thought	Basic Process	Brief Description
Design School	A conceptual process , simple, judgmental, deliberate (prescriptive)	Strategy formation as a process of informal design, essentially one of conception, process of fitting the organization to its environment
Planning School	A formal process , staged, deliberate (prescriptive)	Formalized the design approach, describing strategy as a more detached, sequential, and systematic process of formal planning
Positioning School	An analytical, systematic process , deliberate (prescriptive)	Focuses on the selection of strategic positions considered generically, emphasizes the content of strategy, selection of the optimal strategy

Exhibit 1–2: Strategy Formation Schools of Thought

School of Thought	Basic Process	Brief Description
Entrepreneurial School	A visionary process , intuitive, largely deliberate (descriptive)	Strategy is associated with the vision of single leader, focuses on personal intuition, judgment, wisdom, experience, insight
Cognitive School	A mental process , overwhelming (descriptive)	Strategy is viewed as a cognitive process of concept attainment, an understanding of the strategist's mind, how individuals handle information to develop strategies
Learning School	An emergent process , informal, messy (descriptive)	The world is too complex to develop clear plans or visions, hence strategies must emerge in small steps or stages, strategy is a process of doing and learning

Exhibit 1–2: Strategy Formation Schools of Thought

School of Thought	Basic Process	Brief Description
Political School	A power process , conflictive, aggressive, messy, emergent (descriptive)	Strategy is a process of exploiting power within organizations and by organizations with regard to their external environment
Cultural School	An ideological process , constrained, collective, deliberate (descriptive)	Strategy is rooted in the culture of the organization and thereby depicts it as collective, cooperative, and based on the beliefs shared by the members of the organization
Environmental School	A passive process , emergent (descriptive)	Strategy formation is a passive process and power over it rests not in the organization but the force in the environment
Configurational School	An episodic process , integrative, sequenced (contextual)	Strategy is composed of behavioral typologies, stages, episodes, or cycles

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- ❖ 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).

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- ❖ **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** assumption, by itself, is enough.

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- ❖ “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.”

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- ❖ **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.
- ❖ **In reality the methods are both complementary and contradictory** – 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 but in some cases, they may indicate different routes.

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- ❖ **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.
- ❖ **Managers may use the analytical approach to develop a map** as best they can from their understanding of the external environment and by interpreting the capabilities of the organization.

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- ❖ **Once the journey begins**, through managing the strategic momentum, new understandings and strategies may emerge and **old maps (plans) must be modified**.
- ❖ **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.

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- ❖ **The concept of the compass provides** a unique blend of thinking, performance, analysis, and intuition.
- ❖ **Therefore**, 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**.

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The Foundations of Strategic Management

- ❖ **A model or map** of how strategy may be developed will help organizations view their strategies in a cohesive, integrated, and systematic way.
- ❖ **Models are abstractions** that attempt to identify, simplify, and explain processes, patterns, and relationships inherent within a phenomenon.
- ❖ **As a result, models are quite useful** because they circumvent the need to store masses of data and allow us to recognize the logic underlying a series of interdependent activities. Without a model or map, managers run the risk of becoming totally incoherent, confused in perception, and muddled in practice.

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Strategy addresses...

- ❖ how management intends to **grow** the business;
- ❖ how the organization **relates** to other organizations in terms of competition and collaboration;
- ❖ how the **functional components** of the business relate and coordinate with each other;
- ❖ which services and programs will be emphasized and receive greater relative **allocation of resources**;
- ❖ what the relationship and culture among employees will be.

STRATEGY AND STRATEGIC MANAGEMENT

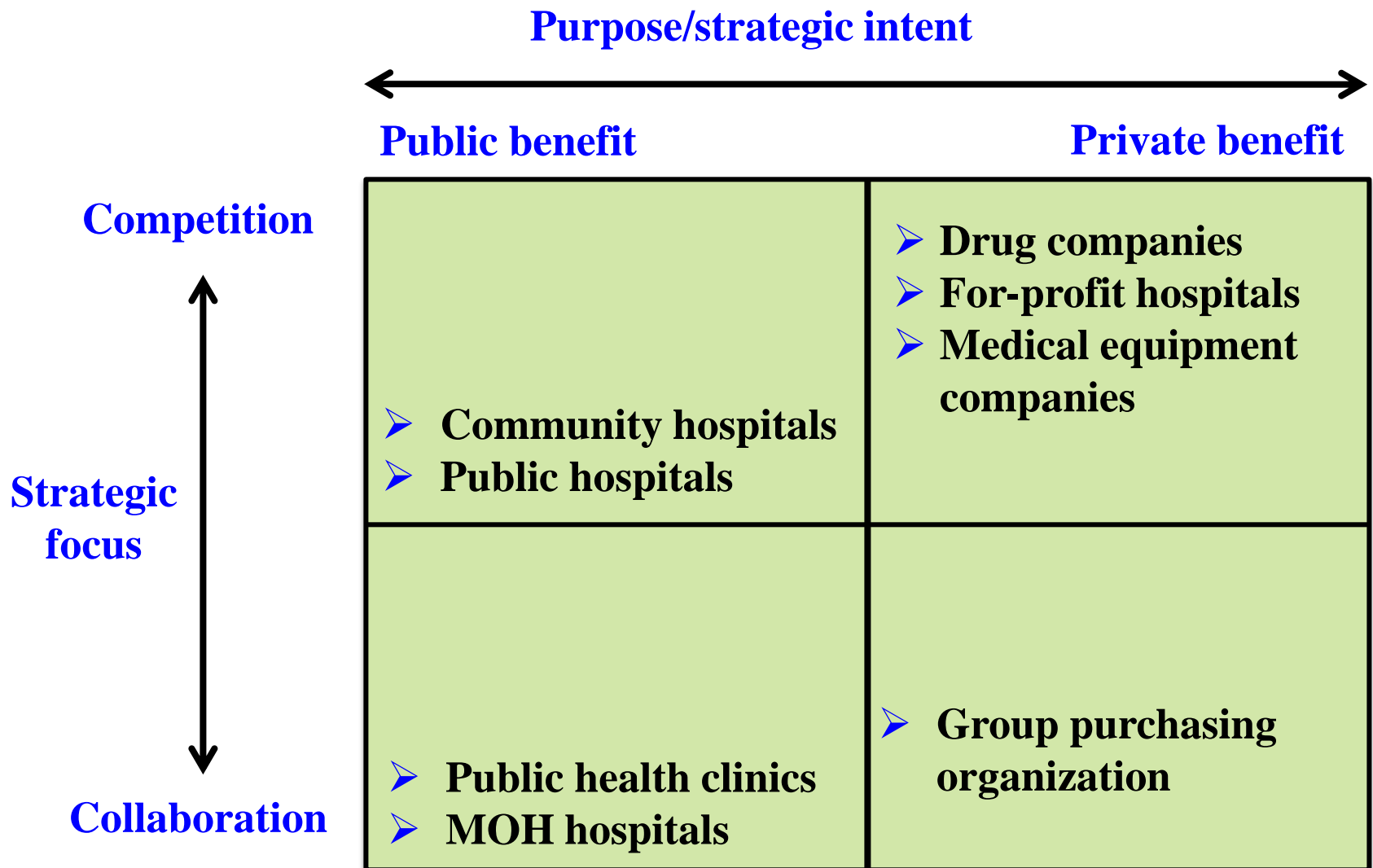
Strategy addresses...

- ❖ Some maintain that there should be no difference in the application of **strategic principles** between the healthcare field and other industries.
- ❖ While the **general principles and techniques** discussed in this book are relevant to healthcare, the field is distinct from many other industries and a much higher percentage of its organizations are created for community or public benefit (often referred to as *not-for-profit organizations*).

STRATEGY AND STRATEGIC MANAGEMENT

Strategy addresses...

- ❖ This difference in **purpose or strategic intent** does not lessen the importance of applying strategy and its principles but should motivate a greater **cooperative strategy** among organizations created for public benefit.
- ❖ As shown in **Exhibit 1.1**, the purpose and mission of a healthcare organization should influence the emphasis it places on competitive versus collaborative strategies.



STRATEGY AND STRATEGIC MANAGEMENT

Strategy addresses...

- ❖ A common **competitive strategy** is to draw **market share** away from competitors and, if possible, drive competitors out of the market.
- ❖ As a result, the community's access to products and services constricts and costs often increase.
- ❖ **Cooperative strategies**, on the other hand, build on synergies and community good.

STRATEGY AND STRATEGIC MANAGEMENT

Strategy addresses...

- ❖ Cooperation better utilizes community resources by reducing duplication and allows separate organizations to contribute their best competencies to achieving **strategic goals**.
- ❖ Organizations' emphasis on competition and cooperation varies. Drug, medical equipment, and for-profit hospital organizations typically demonstrate much more competitive strategies.

STRATEGY AND STRATEGIC MANAGEMENT

Strategy addresses...

- ❖ While healthcare organizations working for greater public benefit, such as public health clinics use more collaborative strategies.
- ❖ Community hospitals, especially those in markets that include for-profit organizations, often adopt a more mixed strategy of competition and collaboration.

STRATEGY AND STRATEGIC MANAGEMENT

Why Study Healthcare Strategy and Strategic Management?

- ❖ **Strategy and strategic management** provide a solid framework for better decision making.
- ❖ **Strategy and strategic management** help leaders be mindful of the key, critical facts they need to consider to be better decision makers.
- ❖ **The purpose** or, as is often the case, the mixed purposes of their organization and internal and external conditions, and they are charged with creating and implementing a strategic framework to accomplish the organization's purpose(s).

STRATEGY AND STRATEGIC MANAGEMENT

Why Study Healthcare Strategy and Strategic Management?

- ❖ The **importance of strategy** in healthcare also is increasing because of the demands on this field and the great changes occurring in it.
- ❖ **Drivers of change in healthcare include:**
 - ❖ advancing technologies,
 - ❖ demographic shifts,
 - ❖ political pressures, and
 - ❖ global forces that directly affect the cost, access, and quality of healthcare.

STRATEGY AND STRATEGIC MANAGEMENT

Advancing Technologies

- ❖ **Radiological**, diagnostic equipment (e.g., CT, MRI, PET, ultrasound) opens new diagnostic avenues.
- ❖ **Prescription drugs** contribute greatly to people's health and healthcare cost.
- ❖ **Advances in genomics** and genetics may transform much of medicine in the future. Developments in gene testing, gene therapy, and pharmacogenomics are predicted to have profound effects on healthcare in the coming decades.

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Demographic Shifts

- ❖ **Demographic shifts** occurring across the world are affecting the healthcare delivery system. Demographics include population size, age structure, geographic distribution, racial/ethnic mix, and income level.
- ❖ **Birthrates are falling** in most countries, and their populations are aging rapidly.
- ❖ **This increasing diversity** is driving greater strategy variation and is forcing healthcare organizations to be agile and adapt to the cultural and demographic needs of their constituents.

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Political Forces

- ❖ **Political forces** have a significant impact on healthcare.
- ❖ **Legislation** can substantially shift money, power, and regulation.
- ❖ **Legislative bodies** across the world continue to struggle to design laws that will curb the cost of healthcare while improving quality and access.

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Global Forces

- ❖ **Global forces** impact all aspects of our lives today.
- ❖ **Competition has broadened** to include global players in healthcare.
- ❖ **Patients increasingly are turning to new global alternatives** to meet their healthcare needs, such as purchasing medications from other countries and seeking care abroad.
- ❖ **Medical tourism** is increasing steadily.

STRATEGY AND STRATEGIC MANAGEMENT

Prospective and Emergent Strategies

- ❖ Most large organizations engage in some type of planning process to analyze and design means to prospectively address the aforementioned issues and produce some form of written document to guide their future decisions. This forward planning is called *prospective strategy*.

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Prospective and Emergent Strategies

- ❖ A retrospective analysis of strategy, on the other hand, looks backward to see what actually happened. Constant experimentation and adaptation to new market conditions produce patterns that can be identified retrospectively as *realized, or emergent, strategy*.

STRATEGY AND STRATEGIC MANAGEMENT

Prospective and Emergent Strategies

- ❖ **Most organizations' strategy evolves** incrementally over time, even in organizations that do prospective planning. This process also helps organizations understand their competitors' strategies.
- ❖ **Plans are often modified**, and the end results are sometimes very different from those anticipated.

STRATEGY AND STRATEGIC MANAGEMENT

Prospective and Emergent Strategies

- ❖ **Both prospective and emergent** views have merit; all strategy has both planned and unplanned components.
- ❖ **Prospective strategy is more important** in settings where greater environmental pressures and rapid changes occur because these factors cause realized strategy to differ much more from that intended.

EXHIBIT 1.3 Value and Purpose of Prospective and Emergent Strategies

Prospective Strategy	Emergent Strategy
Align actions with mission/vision	Understand competitor's strategy
Predict resource needs	Evaluate own strategy
Allocate capital and personnel to projects	Enhance organizational learning
Position organization in competitive space	

STRATEGY AND STRATEGIC MANAGEMENT

Prospective and Emergent Strategies

- ❖ **Strategy in many industries is emergent** by nature; many avenues must be tried before a successful strategic direction is found.
- ❖ **Implementation** of deliberate and emergent strategy may be influenced by many factors.
- ❖ **Factors that influence the type of strategy** an organization adopts include level of certainty, speed of change, degree of proactivity, clarity of mission, and time perspective.



EXHIBIT 1.5 Factors Affecting Use of Strategy Type

Deliberate Strategy

- Low uncertainty
- Slow change in:
 - Consumer preferences
 - Technology
- Written plans/proactive
- Clear mission
- Long time perspective

Emergent Strategy

- High uncertainty
- Fast change in:
 - Consumer preferences
 - Technology
- No plans/reactive
- Unclear mission
- Short time perspective

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Levels of Strategy

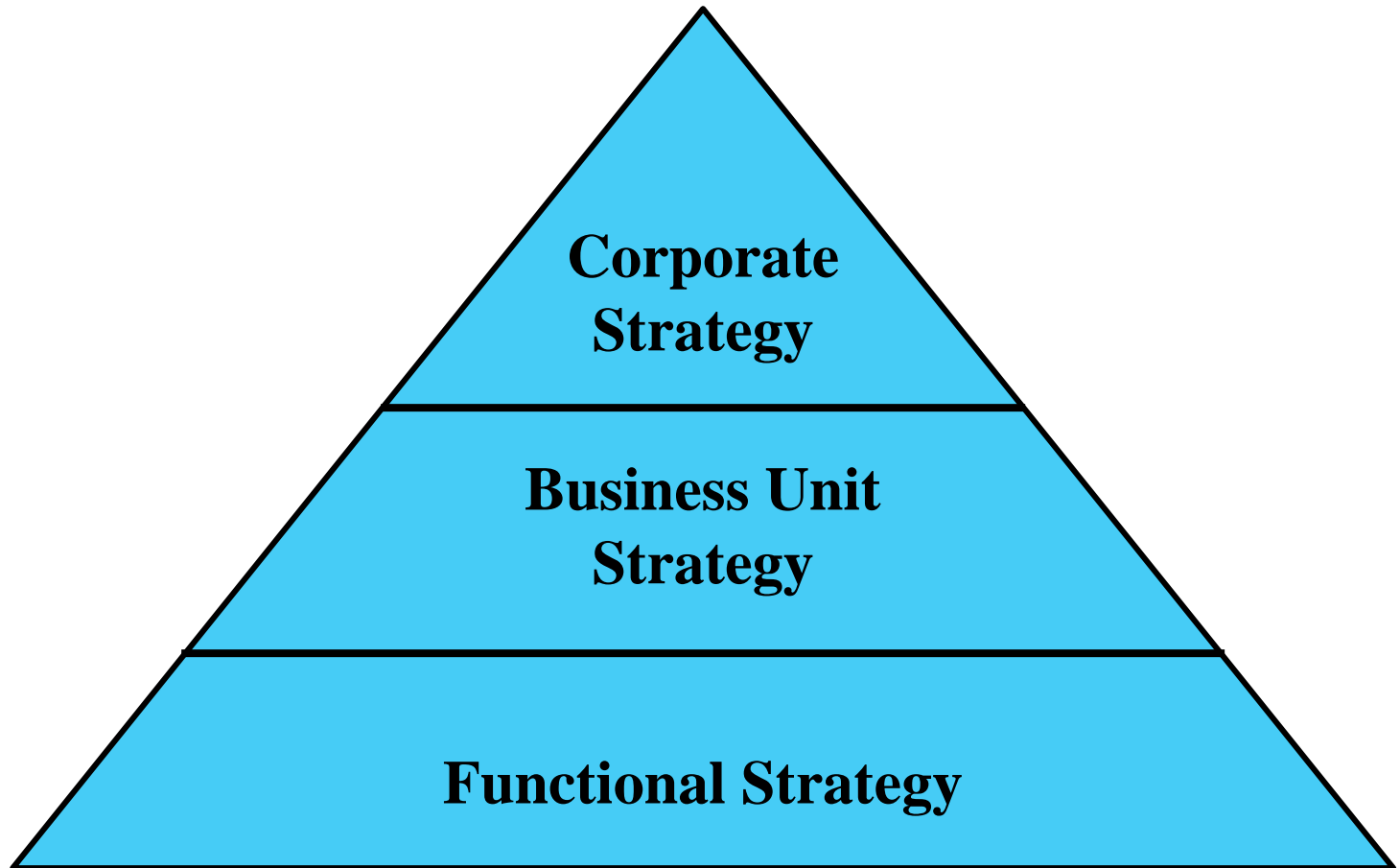
- ❖ **Strategy** is also accomplished at different levels in an organization.
- ❖ **Strategy** is often divided into corporate, business, and functional-level strategies.
- ❖ The **corporate level**—which consists of top executives, corporate staff, and generally a board of directors—is the apex of decision making in an organization.

STRATEGY AND STRATEGIC MANAGEMENT

Levels of Strategy

- ❖ The corporate structure oversees the strategy for the complete organization..
- ❖ The *business-level strategies* focus on specific product lines.
- ❖ The *functional level* is the operating division, department, or project level.

EXHIBIT 1.6 Levels of Organizational Strategy





THANK YOU