

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

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

Second Semester 1436/ 1437

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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

STRATEGY

- ❖ **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)**

STRATEGY AND STRATEGIC MANAGEMENT

STRATEGY

- ❖ 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

- ❖ **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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STRATEGY

- ❖ 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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STRATEGY

- ❖ 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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Strategy addresses...

- ❖ how management intends to grow the business;
- ❖ how the organization relates to other companies 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; and
- ❖ what the relationship and culture among employees will be.

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Strategy addresses...

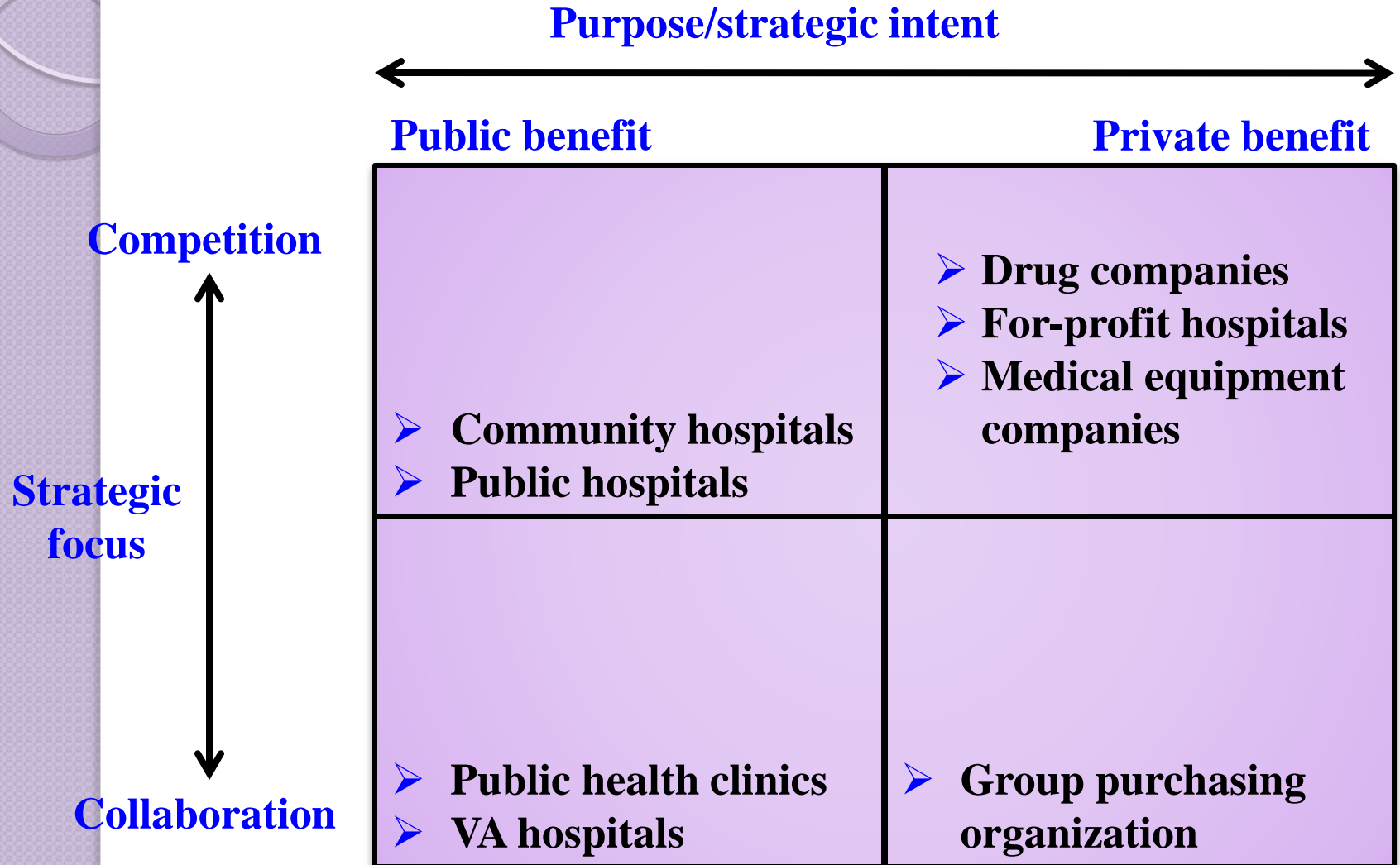
- ❖ Some maintain that there should be no difference in the application of strategic principles between the healthcare field and other industries.
- ❖ While the general principles and techniques discussed in this book are relevant to healthcare, the field is distinct from many other industries and a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

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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.

EXHIBIT 1.1 Healthcare Organizations by Strategic Intent Focus



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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.

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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 companies typically demonstrate much more competitive strategies.**

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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.

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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 deciders. 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.

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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.**

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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*.

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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.

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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	

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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

Emergent Strategy



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

- 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.

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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

