

STRATEGIC MANAGEMENT *OF* HEALTH CARE ORGANIZATIONS

EIGHTH EDITION



PETER M. GINTER • W. JACK DUNCAN • LINDA E. SWAYNE

STRATEGIC MANAGEMENT
OF HEALTH CARE
ORGANIZATIONS



EIGHTH EDITION

STRATEGIC MANAGEMENT OF HEALTH CARE ORGANIZATIONS

PETER M. GINTER
University of Alabama at Birmingham

W. JACK DUNCAN
University of Alabama at Birmingham

LINDA E. SWAYNE
University of North Carolina at Charlotte

WILEY

Cover Design: Wiley

Cover Image: © Jamie Grill/Getty Images

© 2018 Peter M. Ginter, W. Jack Duncan, Linda E. Swayne. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Previous editions published under the Jossey-Bass imprint by John Wiley & Sons, Ltd. Seventh edition published 2013.

Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the Web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

Library of Congress Cataloging-in-Publication Data:

Names: Ginter, Peter M., author. | Duncan, W. Jack (Walter Jack), author. | Swayne, Linda E., author.

Title: Strategic management of health care organizations / by Peter M. Ginter, University of Alabama at Birmingham, W. Jack Duncan, University of Alabama at Birmingham, Linda E. Swayne, University of North Carolina at Charlotte.

Description: Eighth edition. | Hoboken, New Jersey : Wiley, [2018] | Includes bibliographical references and index. |

Identifiers: LCCN 2017051205 (print) | ISBN 9781119349709 (hbk)

Subjects: LCSH: Health facilities—Administration. | Strategic planning. | Mission statements. | BISAC: MEDICAL / Nursing / Management & Leadership. | HEALTH & FITNESS / Health Care Issues.

Classification: LCC RA971 .D78 2018 (print) | DDC 362.1068—dc23

LC record available at <https://lcn.loc.gov/2017051205>

ISBN 978-1-119-34970-9 (hbk)

ISBN 978-1-119-34969-3 (ebk)

ISBN 978-1-119-34971-6 (ebk)

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

CONTENTS



<i>Preface</i>		<i>xiii</i>
<i>Features of the Text</i>		<i>xiv</i>
<i>Organization of the Text</i>		<i>xvi</i>
<i>To the Students: Why This Book About Strategic Management Is Important</i>		<i>xviii</i>
<i>The Author Team</i>		<i>xviii</i>
<i>Acknowledgments</i>		<i>xix</i>
Chapters		
Chapter 1	The Nature of Strategic Management	1
Chapter 2	External Analysis	37
Chapter 3	Service Area Competitor Analysis	79
Chapter 4	Internal Analysis and Competitive Advantage	121
Chapter 5	Directional Strategies	163
Chapter 6	Identifying Strategic Alternatives	205
Chapter 7	Evaluation of Alternatives and Strategic Choice	259
Chapter 8	Value-Adding Service Delivery Strategies	313
Chapter 9	Value-Adding Support Strategies	359
Chapter 10	Communicating Strategy and Developing Action Plans	401
Resources for Strategic Thinkers		
Resource 1	Analyzing Strategic Health Care Cases	431
Resource 2	Health Care Organization Accounting, Finance, and Performance Analysis	443
Resource 3	Health Care Acronyms	463
Resource 4	Glossary of Strategic Management Terms	471

Cases in the Health Care Sector

- Case 1 Cottage Senior Living**
- Case 2 Asian Health Services: Rediscovering a Blue Ocean**
- Case 3 Community Blood Center of the Carolinas: Building for a Better Community**
- Case 4 Navigating Change at Alaska’s Southcentral Foundation**
- Case 5 LINET Americas: This Bed Is Just Right!**
- Case 6 West Kendall Baptist Hospital: Meeting the Demand of Community-Based Health Care in the New (and Stormy) Regulatory Environment**
- Case 7 Humana’s Bold Goal: 20 Percent Healthier by 2020**
- Case 8 Pricing the EpiPen: This Is Going to Sting**
- Case 9 Cavalier Hospital**
- Case 10 Pleasant Bluffs Hospital: Launching a Home-Based Hospital Program**
- Case 11 Kaiser Permanente: Creating a No-Wait Emergency Department**
- Case 12 ExAblate Neuro**
- Case 13 Huntington Hospital**
- Case 14 Valley Health**

CASES



For book adopters, the following cases from the health care sector are available on the book's website, www.wiley.com/go/ginter8e.

Case 1 Cottage Senior Living

Andrew C. Rucks, PhD
School of Public Health, University of Alabama Birmingham

Cottage Senior Living (CSL) was a family owned assisted-living company headquartered in Huntsville, Alabama. CSL had developed or acquired nine continuing care retirement communities (CCRCs) in seven locations in Alabama and one each in Mississippi and Tennessee. CSL operated in a highly-controlled environment with regulations stipulating staffing and building requirements. The leadership team of CSL assembled at a strategic planning retreat to move the business “to the next level.” The purpose of the retreat was to answer three questions: (1) How to grow? (2) Where to grow? and (3) Do we have the organizational capacity to grow?

Case 2 Asian Health Services: Rediscovering a Blue Ocean

Ken Chung, PhD and Wendell N. Chin, MBA
California State University at Eastbay

Asian Health Services (AHS) is a not-for-profit community health care provider that focuses on serving ethnic Asians in Oakland, California. With the advent of the Affordable Care Act (ACA or “Obamacare”), AHS had been preparing vigorously for significant changes. Now that the initial operational systems were in place, AHS's CEO Sherry Hirota must decide what proposals to include in a coherent blue ocean strategy presentation at the upcoming board meeting that balanced AHS's dual mission of social benefit against generating more revenues than costs. Looming threats included payments moving from pay-for-service to pay-per-patient or even pay-for-value. As the original founders had identified a blue ocean (i.e. uncontested markets) in the health care environment 40 years ago, now Hirota must find another blue ocean.

Case 3 Community Blood Center of the Carolinas: Building for a Better Community

Linda E. Swayne, PhD
Belk College of Business, The University of North Carolina at Charlotte

In early 2010, Martin Grable, President of the Community Blood Center of the Carolinas (CBCC), was ready to move the first community blood center in

North Carolina to a new level. In a strategic planning retreat, he asked the Board of Directors to evaluate seven strategic options for CBCC. Although all of the alternatives were needed by the community, CBCC did not have unlimited resources. Further, health care reform loomed on the horizon. Clearly, to serve the community, CBCC needed not only to survive, but to thrive in the near term. Which of the alternatives would allow achievement of that goal for the newest FDA-licensed community blood center?

Case 4 Navigating Change at Alaska's Southcentral Foundation

Erin E. Sullivan, PhD, and Jessica L. Alpert
Center for Primary Care, Harvard Medical School

Long-time president and CEO Katherine Gottlieb reflected on a recent meeting of Southcentral Foundation's (SCF) board of directors where CEO succession planning was discussed as she contemplated retirement. The case provides background information about Alaska, the American Indian and Alaska Native (AIAN) health care system, and reviews SCF's mission, vision, and key tenets of the organization's culture: customer-ownership, core concepts, and continuous improvement. SCF's approach to hiring and developing its workforce and its governance structure are highlighted as background for Gottlieb's concerns in choosing the next CEO: maintaining SCF's culture, choosing an internal or external CEO, and identifying the top three qualities that SCF's next leader must embody.

Case 5 LINET Americas: This Bed Is Just Right!

Linda E. Swayne, PhD
Belk College of Business, The University of North Carolina at Charlotte and Colin Bain, President and CEO, LINET Americas

LINET was the leading manufacturer of ICU (intensive care unit) beds in Europe. In 2010 LINET Americas began competing with the two largest U.S. bed manufacturers, Hill-Rom and Stryker, by marketing to smaller hospitals based on lower prices and better safety features for caregivers. Hill-Rom and Stryker noticed and head-to-head competition began. Hill-Rom lowered its prices and extended its warranty to match two of LINET Americas' competitive advantages; however, the innovative design was much harder to match. President and CEO Colin Bain needed to determine how he could continue to grow LINET Americas, especially when the company was blocked out of the largest group purchasing organization (GPO) that was offering Hill-Rom or Stryker ICU beds.

Case 6 West Kendall Baptist Hospital: Meeting the Demand of Community-Based Health Care in the New (and Stormy) Regulatory Environment

Miriam Weismann, PhD, and students Javier Hernandez Lichtl, Heather Pierce, Denise Harris, Lourdes Boue, and Cathy Campbell
Florida International University

The first three years of operation of the West Kendall Baptist Hospital in Miami provided a "poster child" for efficient and cost-effective health care delivery to

the West Kendall community. The 133-bed facility's mission was to promote the preservation of life by improving the health and well-being of its constituents. WKBH exceeded every budget prediction and showed a profit in year 3; however, with the passage of the Affordable Care Act, the situation changed almost overnight. By the first quarter 2016, WKBH started to lose money in excess of budget predictions, despite its increased patient admissions, careful financial planning, expense reductions, quality service, and excellence in patient care delivery. A serious financial crisis loomed with little relief in sight; the management team was searching for solutions.

Case 7 Humana's Bold Goal: 20 Percent Healthier by 2020

Nancy M. Kane, DBA with the assistance of Deborah Milstein
Harvard T.H. Chan School of Public Health

Humana, Inc., headquartered in Louisville, Kentucky, was the fourth largest U.S. health insurance firm with annual revenues of \$54.3 billion, membership of 14.2 million, and 50,100 employees in 2015. The company served members in 17 states plus the military. Under the leadership of CEO Bruce Broussard, Humana was attempting to shift its focus from paying claims to improving the health of beneficiaries. Humana set an "aspirational Bold Goal of improving the health of the communities we serve by 20 percent by 2020 because we make it easy for people to achieve their best health." Dr. Andrew Renda, hired as Director, Bold Goal Measurement, knew that senior leaders understood that it would take time to change population health, yet they wanted to see some results quickly.

Case 8 Pricing the EpiPen: This Is Going to Sting

Thomas J. Steenburgh, PhD
The Darden School of Business, University of Virginia

Mylan Inc., a generic drug manufacturer, bought the EpiPen product line from Merck, invested in marketing, and dramatically increased the price from \$100 to \$600 per two-pack, igniting consumer anger and provoking a media firestorm. Congress was compelled to step in, demanding to know how Heather Bresch, CEO of the company, could justify the high price of EpiPens. Such health care companies face a tension between doing good in the world and making a profit. Is it fair for drug prices to vary so dramatically across countries (as the EpiPen is priced at \$85 in France)? How should such a public controversy be resolved?

Case 9 Cavalier Hospital

Kenan W. Yount, MD MBA under the supervision of Michael J. Schill, PhD
The Darden School of Business, University of Virginia

A midsize (650-bed) community not-for-profit hospital, located in south central Virginia, chose an expansion strategy in 2008 by bringing all its cardiology under one roof in a new comprehensive care center. Impressive results drew the attention of several insurers who approached Cavalier Hospital, each hoping to include the hospital in its network of physician providers. In preparation for his first board meeting, the physician director wanted to assess the hospital's overall financial

condition to determine which strategies should be pursued next: focusing on acquiring patient volume, expanding investment into integrated care, setting the reimbursement structure for revenue collection, or moving to a capitation-based payment system. The evaluation of revenue models would help him understand which alternatives could best be supported for the business strategy.

Case 10 Pleasant Bluffs: Launching a Home-Based Hospital Program

Laura Erskine, PhD
Ivey Business School, University of Western Ontario

Pleasant Bluffs Health System was a Level I Trauma Center with 400+ licensed beds that provided outpatient care, acute and subacute care, biomedical research, and graduate and undergraduate education. Pleasant Bluffs wanted to create a pilot program for home-based hospital care. Graft Salot, as the director of the hospital's Performance Improvement (PI) department, was asked to recommend the pilot program's location, duration, eligible population, and possible changes to the intake process. Salot must consider issues related to an educational program about home-based care and an implementation strategy for it as well as a cost/profit comparison for providing care in the hospital versus home-based care.

Case 11 Kaiser Permanente: Creating a No-Wait Emergency Department

Edward D. Arnheiter, PhD
Ivey Business School, University of Western Ontario

Kaiser Permanente, based in California, was a vertically integrated health care system comprised of 38 hospitals, 619 medical offices, and 10.1 million members in eight western U.S. states. In 2007, the emergency department at South Sacramento was experiencing long patient wait times; it became clear that a better way was needed. Changes were made from 2007 until 2015 by Dr. Karen Murrell, leader of the LEAN program, and her flow group, to significantly improve many key performance measures of the emergency department. In 2016, she was wondering whether there were any additional ways to create capacity in the ED.

Case 12 ExAblate Neuro

Matthew Thames, MBA/MD under the supervision of Robert E. Spekman, PhD
The Darden School of Business, University of Virginia

InSightec, a privately-held Israeli company, developed a new medical device, ExAblate. Focused ultrasound provided precise concentration of sound waves to act on a particular part of the body; the guidance of magnetic resonance imaging (MRI) technology allowed for non-invasive, targeted destruction of diseased tissue. The company required a marketing strategy, navigating a number of barriers that could impinge on its ability to successfully introduce the new technology. The FDA approved its use for removing uterine fibroids and bone metastases. Yet the holy grail of this technology was the application to the brain. InSightec needed to

develop a go-to-market strategy for ExAblate Neuro, which was intended to treat essential tremor (ET) and other diseases, such as Parkinson's, for which there was no cure at present.

Case 13 Huntington Hospital

Davina Drabkin and Sarah Soule, PhD
Stanford Business Graduate School, Stanford University

Located in Pasadena, California, Huntington Hospital (HH) was a 625-bed not-for-profit organization named among the top-performing hospitals in 2012 by *U.S. News & World Report*. To further HH's focus on high-quality, patient-centered care, Jim Noble, Executive VP-COO/CFO, was looking for a change in direction, particularly in the Business Services Office. Accounts Receivable (AR), a key billing metric, could be lower; Noble hired Kim Markey with the mandate to improve performance. Markey's long-term vision involved re-examining the revenue cycle and the hospital's processes to ensure that HH would become a stronger performer. She needed to get her metrics under control as a first step before transforming the departments she oversaw into truly patient-focused business centers.

Case 14 Valley Health

S. Hughes Melton, MBA under the supervision of Alexander B. Horniman, PhD
The Darden School of Business, University of Virginia

Felton Wayne, MD, began his career in private practice with a friend. After ten years of developing the practice, he sold his share and Dr. Wayne joined the much larger practice of Valley Health (VH) that had recently merged with Franklin Memorial Hospital (FMH). He was appointed Chief Medical Officer (CMO) and was responsible for the North Carolina organization. The medical staff was unhappy and many physicians left; two CMOs left before Dr. Wayne took up the position. During a feedback session with John Richmond, from the South Carolina division of VH, Dr. Wayne was stunned to discover that Richmond considered him a "cowboy!" Dr. Wayne personally thought he was doing a good job of developing a better working environment.

PREFACE



Almost three decades ago, the three of us agreed that health care was experiencing evolutionary, and in some segments, revolutionary change. At that time, we wrote in the Preface for the first edition of this text (1992) that health care organizations have “had difficulty in dealing with a dynamic environment, holding down costs, diversifying wisely, and balancing capacity and demand.” Our conclusion was that only health care organizations with a structured strategic management approach that recognized the value of emergent thinking could make sense of such a rapidly changing environment.

Our only surprise has been that the rate of change in the health care system has been far greater than we imagined and now certainly exceeds the magnitude of changes initiated with the passage of Medicare and Medicaid in the 1960s and later in 1983 with the implementation of Medicare’s prospective payment system. Significant change in health care continues as evidenced, first, by the passage of the Patient Protection and Affordable Care Act (ACA) in 2010 and more recently by the election of a new administration focusing once again on changing the health insurance landscape and subsequently the “rules for success” for health care organizations. Such regulatory changes, as well as significant economic, technological, social, political, and competitive changes in health care are likely to continue.

To cope with such alterations, by the late 1990s health care organizations had universally embraced strategic management as the primary leadership philosophy and process for understanding and addressing change. The widespread adoption of strategic management continues today as health care leaders have found that strategic thinking, planning, and managing strategic momentum are essential for coping with the dynamics of the health care system. We believe that strategic management has become the single clearest manifestation of effective leadership in health care organizations.

In the broadest terms, this text is about leadership; more narrowly, it concerns the essential strategic tasks of leading and managing health care organizations. As a result, the eighth edition continues to advocate the importance of strategic thinking and clearly differentiates strategic thinking, strategic planning, and strategic momentum. These concepts represent the central elements of a complete strategic management process that we believe reflect the realities of conceptualizing, developing, and managing strategies.

Specifically, our approach depicts strategic management as the processes of strategic thinking, consensus building and documentation of that thinking into a strategic plan, and maintaining strategic momentum. Through the management of the strategic plan, new insights and perspectives emerge and strategic thinking, planning, and managing are reinitiated. Therefore, strategic managers must

become strategic thinkers with the ability to evaluate a changing industry, analyze data, question assumptions, and develop new ideas. Additionally, through strategic planning, strategic managers must be able to create and document a plan of action. Once a strategic plan is developed, managers maintain the strategic momentum of the organization. As strategic managers attempt to carry out the strategic plan, they evaluate its success, learn more about what works, and incorporate new strategic thinking.

It is our view that strategic control is integral to strategic momentum and cannot be thought of or taught as a separate process. Therefore, traditional strategic control concepts are integrated into the strategy development chapters under the heading of “Strategic Momentum.” We believe that this approach better reflects how strategic control actually works in organizations – as a part of managing the strategy, not as an afterthought.

Although we present a structured strategic management process, we believe that strategic management is highly subjective, often requiring significant intuition and even well-informed guesswork; however, intuition and the development of well-informed opinions are not easily learned (or taught). Therefore, a major task of the future strategic thinker is to first develop a thorough understanding of analytic strategic management processes and then – through experience – develop the intuition, perspective, and insight to consider previously uncharted strategic issues. Our map and compass metaphor provides a framework for blending rational, analytical planning with learning and responsiveness to new realities. We believe this text provides the foundation for effective strategic thinking, planning, and managing strategic momentum.

Features of the Text

We have incorporated some new features into this 8th edition of *Strategic Management of Health Care Organizations* as well as retained features that users of previous editions have said were informative, interesting, and a pedagogically sound foundation for understanding and embracing strategic management of health care organizations.

Retained Features

- Retained from the 7th edition, *Learning Objectives* direct attention to the important points or specific chapter elements that students should know and be able to describe, explain, discuss, clarify, and justify.
- We continue to emphasize analytical models, illustrative examples, and informative exhibits to aid in learning chapter material.
- As in the 7th edition, the *Map* and *Compass* provide a useful metaphor for conveying the view that strategic leaders must both plan as best they are able, but also learn, adjust, and establish new direction (develop a new plan) as they progress.

- Retained from the 7th edition, *The Language of Strategic Management – Key Terms and Concepts*, presents a list of the essential vocabulary and terminology relative to the chapter’s material.
- The *Questions for Class Discussion* focus on key chapter concepts and assist the reader in reviewing the material and thinking about the implications of the ideas presented.
- We have retained our extensive end of chapter *Notes*, which contain the references used in development of the chapter materials.
- An even more extensive and easy to access *Web-based Instructor’s Support* site is available to verified course instructors using the text. The support material includes PowerPoint slides for each chapter, chapter lecture notes that include suggestions for effective teaching, answers to the end of chapter questions, example assignments and quizzes, the strategic management case studies, and the instructor’s manual (teaching notes) for the case studies. In addition, the *Instructor’s Support* contains a true/false, multiple choice, and discussion question test bank and can be found at www.wiley.com/go/ginter8e.

New Features

- Each chapter now begins with *Why this Chapter Is Important*, a brief chapter introduction – a call to action, providing a clear and compelling reason for continuing to read and understand the concepts discussed in the chapter.
- In addition to *Learning Objectives*, this edition identifies a *Strategic Management Competency* that describes the overall applied skill that students of strategic management should be able to demonstrate after completing the chapter.
- Each chapter now has a step-by-step process for accomplishing the elements of strategic management discussed in the chapter. Thus, readers are guided through a series of detailed steps for performing external analysis, service area analysis, internal analysis, and so on through strategy implementation.
- Newly introduced in the 8th edition, *Essentials for a Strategic Thinker* are one-page sidebars that provide summaries of contextual concepts important to understanding health care and the health care system. These “Essentials” do not concern core strategic management concepts per se, but rather provide concise descriptions of terms, institutions, or concepts in the changing health care landscape that every strategic thinker should know.
- New to this edition, *Practical Lessons for Health Care Strategic Thinkers* provides bullet points (derived from the chapter content) containing practical advice for those undertaking strategic thinking, strategic planning, and managing strategic momentum.
- For this edition we have eliminated the *Introductory Incidents*, which provided a practical example of the concepts addressed in the chapter, and instead included additional in-text examples more specific to the concepts being discussed.

- For this edition, four *Resources for Strategic Thinkers* are included at the end of the text to assist readers:
 - Resource 1. *Analyzing Strategic Health Care Cases*
 - Resource 2. *Health Care Organization Accounting, Finance, and Performance Analysis*
 - Resource 3. *Health Care Acronyms*
 - Resource 4. *Glossary of Strategic Management Terms*
- The new *Glossary of Strategic Management Terms* (presented in alphabetic order with the chapter noted) defines all the terms and concepts presented in *The Language of Strategic Management – Key Terms and Concepts* section at the end of each chapter as well other terms referenced in the text that students of strategic management should know.
- *Strategic Management Case Studies* are returning to this edition in response to user requests. These case studies, listed in the Table of Contents, are unique to this edition and are available for download to verified course instructors on the Web-based Instructor's Support site (see www.wiley.com/go/ginter8e). In addition, favorite case studies from the sixth edition of this text as well as other selected cases written by the authors are available for download from the support site.

Through our own teaching, research, and consulting in the health care field, we have applied the process outlined in this text to physician practices, hospitals, local and state public health departments, long-term care facilities, social service organizations, and physical therapy practices. In addition, we have students who report back to us saying that they lead strategic planning in their organizations using the process with great success. The process works.

Organization of the Text

The text contains ten chapters, four resources for strategic thinkers addressing the philosophy and activities of strategic management, and 14 online case studies. Chapter 1 introduces definitions for strategic management and its activities – strategic thinking, strategic planning, and strategic momentum. The chapter discusses the need and rationale for strategic management in today's turbulent health care system and briefly traces its historical foundations. In addition, Chapter 1 presents a conceptual model or map that guides strategic thinking, focuses on important areas for strategic planning, and provides the constructs for managing strategic momentum.

Chapter 2 contains strategic thinking and planning maps for investigating the general environment, health care system, and service area. Chapter 3 narrows the external focus by providing strategic thinking maps for conducting service area competitor analysis for a specific health care organization. Next in Chapter 4, an assessment of the organization's internal situation is accomplished using the health care value chain and an analysis of resources, capabilities, and competencies.

The directional strategies – mission, vision, values, and strategic goals – are examined in Chapter 5. Developing a mission asks members of an organization to strategically think about its distinctiveness; developing a vision encourages them to think about their hopes for the organization’s future; and building awareness of organizational values makes members mindful of the principles that should be cherished and not compromised as the mission and vision are pursued. Strategic goals establish clear targets and help focus activities. Chapters 2–5 collectively constitute situational analysis.

Strategy formulation is concerned with making strategic decisions using the information gathered during situational analysis. Chapter 6 provides the decision logic for strategy formulation and identifies an organization’s strategic alternatives. The broadest decisions are made first and subsequent decisions more explicitly define the strategy and must be consistent with previous decisions. Chapter 7 discusses how to evaluate the strategic alternatives within each strategy type. These evaluation methods do not make the strategy decision; rather, the constructs or maps help strategists think about the organization and its relative situation, thus enabling them to understand the potential risks and rewards of different strategic choices.

Managing strategic momentum entails putting strategies to work (managerial actions that accomplish the strategy), incorporating strategy evaluation and control, and building strategic awareness. Implementation requires that strategic managers shape and coordinate the value chain components and ensure that the organization’s action plans are directly tied to selected strategies. Chapter 8 addresses the development of implementation plans through either maintaining or changing the pre-service, point-of-service, and after-service strategies. Strategic managers should determine the essential characteristics of service delivery to ensure they best contribute to accomplishment of the strategy. Chapter 9 examines the role of organizational culture, organizational structure, and strategic resources in implementing strategy. These value chain components determine the organizational context and are vital in effective strategy implementation. Chapter 10 demonstrates how strategy may be translated into organizational unit objectives, timelines, and action plans. It is the organizational units that must carry out strategy and strategic managers must review objectives and action plans to ensure that they are coordinated and make best use of human, physical, and financial resources. Each of these chapters reinforces the need to manage strategic momentum by thinking, planning, and doing, and then rethinking, new planning, and re-doing.

Finally there are four Resources for Strategic Thinkers as a reference for users of the text. The first resource, *Analyzing Strategic Health Care Cases*, presents a methodology for case analysis for those using case studies to “practice” strategic thinking and planning. The second resource, *Health Care Organization Accounting, Finance, and Performance Analysis*, serves as an accounting and finance refresher and reference. The third resource, *Health Care Acronyms*, is a quick source for definitions of the “short-hand” language of health care. Finally, the fourth resource is a *Glossary of Strategic Management Terms* as used in this text.

To the Students: Why This Book About Strategic Management Is Important

Students often wonder about the relevance of various topics or courses they take. They ask, “How am I ever going to use this stuff?” Well, if you are a part of a health care organization, plan to join a health care organization, or even start your own health care business, you almost certainly will be involved in strategic management and particularly the strategic planning process in your organization – you simply cannot avoid it. Virtually all health care organizations, indeed, nearly all organizations, engage in some form of strategic planning. You may be asked to participate in the strategic planning process by providing input, gathering data, or analyzing and summarizing information. You may be asked to brainstorm changes in the industry that will affect the organization. You may serve as team leader to produce a critical part of the plan or you may even be asked to lead the process. Strategic thinking, strategic planning, and managing strategic momentum are skills you simply have to have if you are to be successful. Understanding strategic management and its processes will give you a competitive advantage and possibly play a role in your advancement in the organization. Additionally, strategic management and the concepts offered here can help you think about and plan for your personal life – they work equally well at a corporate, business, unit, or personal level.

Furthermore, effective leadership and management are inherently tied to strategic management. After all, leadership is about setting direction and strategic goals for an organization and management is about the effective and efficient use of resources to pursue that direction and achieve those goals. When you understand strategic management you will have a better understanding of how to lead and manage organizations. This textbook will provide you with the necessary foundation for participating in and leading a strategic planning process. In addition, you will understand why organizations simply have to engage in strategic thinking, strategic planning, and managing strategic momentum to develop and carry out effective plans. In doing so, you will see why strategic management is so crucial in today’s changing world.

We believe this textbook is essential for your long-term professional success in a health care organization and will help you think about setting and achieving your professional and personal goals.

The Author Team

Peter M. Ginter, PhD, is a Professor in the Department of Health Care Organization and Policy in the School of Public Health at the University of Alabama at Birmingham.

W. Jack Duncan, PhD, is Professor of Management and University Scholar Emeritus in the School of Public Health and Graduate School of Management at the University of Alabama at Birmingham.

Linda E. Swayne, PhD, is Professor of Marketing in the Belk College of Business at The University of North Carolina at Charlotte.

Acknowledgments

A number of people have provided inspiration, ideas, and considerable effort to produce the eighth edition. We are indebted to many individuals for their assistance and encouragement. A special note of thanks to Sunil Erevelles, Chair of the Department of Marketing in the Belk College of Business at The University of North Carolina at Charlotte, and to Dean Max Michael, MD of the School of Public Health at the University of Alabama at Birmingham, who have continuously been supportive of our efforts.

A special thanks to Andrew C. (Andy) Rucks for his Health Care Organization Accounting, Finance, and Performance Analysis Resource; case study; and Essentials for Strategic Thinkers as well as for his reviews of our draft chapters and suggestions. In addition, we thank the case authors who crafted actual organizational experiences into case studies for students to practice their strategic management skills as well as a thanks to their subject organizations for their willingness to allow these case authors to document their experiences. Thanks to all the Essentials for Strategic Thinkers authors and other contributors whose expertise greatly enriched the text and will further enhance the education of health care strategic management students. Thank you to Lauren Wallace, our graduate teaching and research assistant at UAB, who tirelessly worked with us on this text and instructor's materials, and supported our in-class and online teaching.

We must also thank our students (many of whom have become strategic management course instructors), who have provided feedback, made contributions, used the book in their professional careers, and kept in contact to tell us of the value of the book that remains on their bookshelves.

Finally, but most importantly, we thank our families who have supported and encouraged us as we worked on still another writing project. Thank you all for your understanding.

“Without a map, one cannot begin the journey toward a dream, without a compass one may not be able to find it.”

PMG
WJD
LES

Chapter 1

The Nature of Strategic Management



“It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.”

—CHARLES DARWIN, BRITISH NATURALIST

Why the Nature of Strategic Management Is Important

Charles Darwin’s quote speaks to a core concept of strategic management – responsiveness to change. For organizations in a world where there is no change, strategic management is unnecessary; however, for organizations in an ever-changing world, strategic management is essential. Similar to biology, the organization that best adapts to the demands of its environment prospers and those organizations that do not adapt become less and less relevant. Staying relevant is the key to success. The rate of technological, social, economic, competitive, and political change impacting organizations continues to accelerate. Although change affects all industries, nowhere has greater change occurred than in the

health care sector. Strategic management enables leaders to make sense of change and develop strategies to position organizations for success in the continuously evolving health care environment.

More than simply being responsive to change, strategic management attempts to create the future by envisioning what could be and charting a course toward that dream. In addition to the processes underlying the pursuit of the dream, strategic management provides the organization with structured thinking and practices for translating dreams into effective visions, missions, strategies, and plans that will move organizations toward their aspirations. Dreams, without the enabling strategic management processes and direction, are just fantasies; with the structure provided by strategic management, dreams can become reality.

Strategic management is leadership – responding to change, setting direction, and focusing the organization’s momentum. Strategic management is the clearest manifestation of leadership in organizations. As a result, virtually all successful health care organizations have embraced strategic management to cope with change and translate their visions, missions, and strategic goals into actuality. Learning about strategic management also means learning about leadership – the ability to utilize strategic thinking, strategic planning, and strategic momentum in organizations.

Use concepts in this chapter to remain relevant!

Learning Objectives

After completing the chapter you will be able to:

1. Describe why strategic management is crucial in today’s dynamic health care environment.
2. Trace the evolution of strategic management.
3. Discuss the rationale and usefulness of strategic thinking maps.
4. Define and differentiate between strategic management, strategic thinking, strategic planning, and strategic momentum.
5. Articulate the necessity for both the analytic and emergent models of strategic management.
6. Clarify whether an organization may realize a strategy that it never intended.
7. Discuss the benefits of strategic management for health care organizations.
8. Explain the links between the different levels of strategy within an organization.
9. Describe the various leadership roles of strategic managers.

Strategic Management Competency

After completing this chapter you will be able to create a process for developing a strategic plan for a health care organization.

Managing in a Dynamic Industry

A major aspect of strategic management concerns responsiveness to change to remain relevant. Significant change in the health care system comes from many sources, including: legislative and policy initiatives; international as well as domestic economic and market forces; demographic shifts and lifestyle changes; technological advances; and fundamental health care delivery changes. Furthermore, a multitude of interests are directly or indirectly involved in the delivery of health care. For instance, the for-profit provider segment has grown dramatically; private-sector businesses are largely responsible for the development and delivery of drugs, medical supplies, and many technical innovations, and government agencies regulate much of the actual delivery of and payment for health care services. Certainly, health care systems, as well as other domestic and international health care organizations, have had to continuously adapt to these and other changes. As suggested in the introductory quote, health care organizations must be responsive to change and effectively manage that change in this dynamic industry.

The Nature of Health Care Change

The health care system has experienced considerable change and will undoubtedly contend with even more intensive transformations in the future. Interviews with health care professionals and a review of the health care literature suggest that the types and magnitude of change for which health care organizations will have to be responsive include some or all of the following areas: legislative/political, economic, social/demographic, technological, and competitive.¹ A few illustrations are provided below.

Economic Changes

- Continued growth in the industry – health care by most measures is the largest U.S. industry and non-government employer.²
- Procedure costs may be falling while total spending is rising.³
- Employers will become increasingly unwilling to shoulder the burden of the costs of health care for their employees and retirees.
- Over 27.3 million Americans were without health insurance in 2016. However, the uninsured rate dropped to 8.6 percent, which is the first time in recent history the rate has dropped below 9 percent.

Social/Demographic Changes

- Without a truly radical reduction in health care spending, which there is no reason to expect, demographics alone will drive health care's share of GDP (gross domestic product) as high as 25 percent.⁴
- The 2010 Affordable Care Act (ACA) resulted in 20 million people gaining health insurance coverage – continuing evolution of health care legislation will no doubt further affect the number of people with health insurance.

- An aging population and increased average life span will place capacity burdens on some health care organizations while a lessening of demand threatens the survival of others. By 2020, the U.S. population over the age of 65 is expected to increase from 47.5 million to 53.7 million or approximately 20 percent of the U.S. population.
- The U.S. population will become increasingly diverse.
- The Hispanic population will continue to grow; some experience difficulty with health literacy. Hispanics have become the largest minority group, representing about 18 percent of the U.S. population. By 2050, it is estimated that as many as one out of every four Americans will be Hispanic.

Legislative/Political Changes

- Legislative changes in health care regulation will become the “new normal” in conjunction with changes in government administrations as policy makers try to balance costs and issues related to health care access.
- The most significant external factor affecting health care may be how it is financed. See Essentials for a Strategic Thinker 1–1, “What Is Private Health Insurance?” and Essentials for a Strategic Thinker 2–1, “What Is Government Health Care Insurance?” to understand why the health care insurance market is so important for this industry.
- Employer-based insurance may diminish as the penalties for not providing insurance for employees are eliminated or are significantly less than the cost of health insurance; more employees will likely shift to government sponsored policies.

Technological Changes

- Further growth in the adoption of electronic health records (EHRs) will produce more data to improve the quality of care, that will be used to determine payments for hospitals and physicians (value-based payment).
- Significant advances in medical information technology are anticipated, such as automation of basic business processes, clinical information interfaces, data analysis, and telehealth.
- New technologies will emerge in the areas of drug design, imaging, minimally invasive surgery, genetic mapping and testing, gene therapy, vaccines, artificial blood, and xenotransplantation (transplantation of tissues and organs from animals into humans).

Competitive Changes

- The disintegration of some health care networks can be expected. In 2016 Aetna and United Health, two of the largest U.S. insurance companies, announced they could not sustain the losses and were significantly reducing their participation in government health care exchanges.

- A changing role for public health is expected, moving back to “core” activities (prevention, surveillance, disease control, assurance) and away from the delivery of primary care.
- According to the Bureau of Labor Statistics, more than 1.2 million vacancies will exist for registered nurses (the largest segment of the health care workforce) through 2022.

ESSENTIALS FOR A STRATEGIC THINKER 1-1

What Is Private Health Insurance?



Private health insurance buys health care coverage offered by commercial and non-profit organizations that requires enrollment (membership) and premiums (fees) usually paid monthly to cover some or all costs of care. According to the U.S. Census Bureau, over 214 million people had private health insurance in the United States at some time during 2015¹ – representing two-thirds of the population and over four times the number of people that have Medicare coverage.

Private coverage is offered in three market segments: the large-group, small-group, and individually-purchased markets. The distinction between large and small groups varies but is often defined as having more or less than 500 covered lives; most such groups are employer-based.

Virtually all private health plans are either health maintenance organizations (HMOs) or preferred provider organizations (PPOs). HMOs typically have a relatively narrow set of hospital and physician providers who are contracted to provide health services for enrollees. PPOs typically offer a broader panel of providers, but some of these will require higher cost sharing on the part of enrollees. HMOs usually bear underwriting risk (a guarantee made by an insurer that will pay for losses incurred), while PPOs often do not. Increasingly many private plans are high-deductible health plans; lower premiums are

offered for these PPO or HMO insurance plans that require that the first few thousands of dollars of health care costs be paid by the enrollee before insurer coverage begins.

In the large-group market virtually all employers offer health insurance to employees and their dependents, often sponsoring two or more plans. In this market segment the PPOs offered are almost always self-insured (meaning that the employer is effectively its own insurer). It pays an administrative-services-only fee to a traditional insurer or a third party to manage the plan; however, the actual medical claims are paid from the employer's funds. The HMOs offered are usually simple insurance products offered by insurers and paid for by premiums.

The small-group market is more diverse. Only about half of firms with three to nine employees offer coverage and about 70 percent of those with 10 to 24 employees offer coverage. Nearly all firms with more than 50 employees offer coverage, and did so even prior to the Affordable Care Act's employer mandate. Most of these employers offer a single health plan that is purchased from a traditional insurer; however, around 30 percent of the larger small employers (more than 100 workers) are self-insured.

The individually-purchased market segment is much smaller, covering only 18 to 24 million

people. Individuals and families buy coverage from an insurer licensed by their state. This segment tends to be dominated by a single insurer in most states although multiple insurers often offer coverage. This market segment has been most affected by the ACA. The law established Health Insurance Marketplaces or exchanges through which people may buy coverage, although they may buy coverage through an agent or directly from an insurer. The exchanges, however, provide access to subsidies for coverage. Prior to the ACA, premiums in this market segment were often determined, in part, by the health status of the

applicant; the ACA precluded the use of pre-existing conditions to set premiums.

REFERENCE

1. J. C. Barnett and M. S. Vornovitsky, Current Population Reports, P60–257(RV), *Health Insurance Coverage in the United States: 2015* (Washington, DC: U.S. Government Printing Office, 2016).

Source: Michael A. Morrissey, PhD, Professor and Head, Department of Health Policy & Management, School of Public Health, and Adjunct Professor, Bush School of Government & Public Service, Texas A&M University.

Coping with Change

How can leaders of health care organizations deal with the diversity and magnitude of change anticipated in the industry? Which issues are most important or most pressing? Furthermore, what new issues will emerge? Undoubtedly, issues that have yet to be identified or fully assessed will arise. Surviving rapid, complex, and often discontinuous change requires strong leadership. Successful health care organizations have leaders who understand the nature and implications of external change, possess the ability to develop effective strategies to navigate change, and have the will as well as the ability to actively manage the momentum of the organization. These activities are collectively referred to as “strategic management.” More specifically, *strategic management* is the process of strategic thinking, strategic planning, and managing the strategic momentum of an organization to provide direction and achieve the organization’s mission and vision. Strategic management is essential for leading organizations in dynamic industries.

Organizational change is a fundamental part of success. As health care leaders chart new courses into the future, in effect, they create new beginnings, new chances for success, new challenges for employees, and new hopes for patients. Therefore, it is imperative that health care managers understand the changes taking place in their industry; they should not simply be responsive to them, they must envision and create the future. Health care leaders must be prospective, construct new visions for success, and be prepared to make significant improvements. Such preparation may include educating staff concerning the necessity for change. For example, the Jersey City Medical Center in Jersey City recognized that moving from a paper system to electronic records would require helping doctors understand the value of an EHR and assuring them that education and individual mentoring would be available to assist in the implementation.⁵

This chapter provides a practical model for dealing with change, transforming an assessment of the implications of that change into a workable plan, and managing the plan. Coping with change requires leadership as well as careful management. Therefore, the chapter examines the role of leadership and its relation to strategic management. In addition, the foundations and evolution of strategic management provide an excellent underpinning for understanding its nature and function.

The Foundations of Strategic Management

A *strategy* is a consistent, relatively enduring approach to achieve a goal or objective; a type of plan that provides a set of guidelines or a line of attack for an organization to move from where it is today to a desired state sometime in the future. In political and military contexts, the concept of strategy has a long history. For instance, the underlying principles of strategy were discussed by Sun Tzu, Homer, Euripides, and many other early strategists and writers. The English word strategy comes from the Greek *stratēgōs*, meaning “a general,” which in turn comes from roots meaning “army” and “lead.”⁶ The Greek verb *stratēgō* means “to plan the destruction of one’s enemies through effective use of resources.”⁷ Similarly, many of the terms commonly used in relation to strategy – objectives, strategy, mission, strengths, and weaknesses – were developed by the military.

Long-Range Planning to Strategic Planning

The development of strategic management began with much of the business sector adopting long-range planning. *Long-range planning* forecasts demand for current products/services to enable managers to develop marketing and distribution, production, human resources, and financial plans, thereby matching production capacity to demand. Long-range planning was 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. Post-WWII economies were growing and the demand for many products and services was accelerating. Long-range forecasts of demand enabled managers to develop detailed marketing and distribution, production, human resources, and financial plans for their growing organizations. 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 requirements, capital allocations, and other operational growth needs.

As industries became more volatile, long-range planning was replaced by strategic planning because the assumption underlying long-range planning – that the organization will continue to produce its present products and services – was not necessarily valid. In contrast, 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 in a fundamentally different way.

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.⁸ In a survey of senior executives, 80 percent indicated that the productive lives of their strategies were getting shorter and 75 percent believed that their leading competitor would be different within five years.⁹ 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.

Strategic Planning to Strategic Management

The 1960s and 1970s were decades of major growth for strategic planning in business organizations. Leading companies such as General Electric were not only engaged in strategic planning but also actively promoted its merits in the business press. The process provided these firms with a more systematic approach to managing business units and extended the planning and budgeting horizon beyond the traditional 12-month operating period. In addition, business managers learned that financial planning alone was not an adequate framework.¹⁰ In the 1980s the concept of strategic planning was broadened to strategic management. This evolution acknowledged not only the importance of the dynamics of industries 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 and, as discussed in Essentials for a Strategic Thinker 1–2, “What are These?”, should not be viewed as a passing fad.

ESSENTIALS FOR A STRATEGIC THINKER 1–2

What Are These?



“Management fads” is usually the flippant answer. However, each of these management approaches was a genuine attempt to change and improve the organization – to focus efforts, to improve the quality of the products and services, to improve employee morale, to do more with less, to put meaning into work, and so on. Some of the approaches worked better than others; some stood the test of time and others did not. Yet, it would be too harsh to simply dismiss them as fads

or techniques. The goals for all of these management approaches were to manage and shape the organization – to make it better and move it toward excellence. One thing that has distinguished all of these “fads” is the enthusiasm and commitment they have engendered among managers and workers. For many, these approaches have significantly increased the meaning of work – no small accomplishment in an era in which people are increasingly hungry for purpose.¹ A definition

for each of these management approaches may be found in Resource 4 – Glossary of Strategic Management Terms at the end of this textbook.

1950s	<ul style="list-style-type: none"> • Theories X and Y • Management by Objectives • Quantitative Management • Diversification
1960s	<ul style="list-style-type: none"> • Managerial Grid • T-Groups • Matrix Management • Conglomeration • Centralization/Decentralization
1970s	<ul style="list-style-type: none"> • Zero-Based Budgets • Participative Management • Portfolio Management • Quantitative MBAs
1980s	<ul style="list-style-type: none"> • Theory Z • One-Minute Managing • Organization Culture • Intrapreneuring • Downsizing • MBWA (Management by Wandering Around) • TQM/CQI
1990s	<ul style="list-style-type: none"> • Customer Focus • Quality Improvement • Re-engineering • Benchmarking • Resource-Based View
2000s	<ul style="list-style-type: none"> • Six Sigma • Balanced Score Card • Transformational Leadership • Self-Managed Teams • Dynamic Capabilities • Virtual Organizations • Blue Oceans • The Learning Organization

2010s	<ul style="list-style-type: none"> • Knowledge Management • LEAN Six Sigma • Strategic Mapping • Black Swan • Disruptive Innovation • Predictable Surprises • Big Data Analytics
-------	---

When management approaches such as these fail, it is usually because they become ends in themselves. Managers lose sight of the real purpose of the approach and the process becomes more important than the product. Managers start working for the method rather than letting the method work for them.

What will be the “management fads” of the next decade?² Will you be an active participant in such efforts to make the organization better or will you simply dismiss them as fads? Perhaps benchmarking, quality improvement, the learning organization, or LEAN Six Sigma will turn your organization around. One of these approaches may help to make your organization truly excellent or save it from decline.

Is strategic management just another fad? Will it stand the test of time? If strategic management becomes an end in itself, if its activities do not foster and facilitate thinking, it will not be useful. However, if strategic management helps managers to think about the future and guide their organizations through turbulence, strategic management will have succeeded.

REFERENCES

1. J. Daniel Beckham, “The Longest Wave,” *Healthcare Forum Journal* 36, no. 6 (November/December 1993), pp. 78, 80–82.
2. “Rethinking the Cause of Management Fads,” *Strategic Direction* 21, no. 4 (2005), p. 28.