CHAPTER 1

The Nature of 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

The Tale of Two Cities Continues

“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness. . . .”¹ Likewise, it was the best of times for insured US citizens needing health care; the best health care in the world was available and continued to improve. Yet it was the worst of times for some, as health care costs continued double digit increases and nearly 48 million Americans were without health insurance.²

In this age of wisdom, medical advances are astounding. Scientists may soon have a new diagnostic technique that uses scans by beams of fast-moving neutrons, making it possible to “see” aberrant cells even before the smallest tumor forms.³ Nevertheless, in this age of foolishness, although the percentage of Americans who smoked declined from 1965 to 1990, it has remained virtually unchanged for the past 20 years at around 21 percent contributing to health problems and placing enormous demands on the health care system. The US health care system continues to fluctuate between the best and the worst, between wisdom and foolishness, as do the two cities in this tale, Boston and Nashville.

Boston

Boston has a number of large traditional hospital systems some of which have struggled. For example, CareGroup, the health system – which included the prestigious Beth Israel Deaconess hospital – failed as an integrated system and in 2007 existed only to see to the fiduciary obligations of the system with regard to bonded indebtedness. It no longer has any clinical responsibilities. Hospitals formerly associated with CareGroup were operating
essentially as independent entities sharing little
more than a computer system, teaching responsi-
bilities, and debt financing. However, at the end
of 2006 Partners, the other large hospital group
that includes Massachusetts General and Brigham and
Women’s Hospital, reported $133 million in income
from operations and $5.9 billion in total operating
revenue compared to $76 million and $5.3 billion
in 2005. Further, not-for-profit Harvard Pilgrim, the
state’s second largest insurer with almost a million
members, was placed into receivership (a form of
bankruptcy whereby an organization can avoid liq-
uidation by reorganizing with the help of a court
appointed trustee) by the Attorney General in 2000.
However, its recovery has been impressive with 26
consecutive quarters of positive financial results by
the beginning of 2007.

There are more fundamental concerns as health
care costs in Boston have increased more than
30 percent faster than the state’s average rate over
the past six years. In addition, competition among
Boston hospitals has increased considerably. For
example, in August, 2006 the CEO of Beth Israel
Deaconess Medical Center began an Internet blog
called “Running A Hospital.” In one of his entries he
posted the percentage of Beth Israel’s patients who
get infections each month from intravenous tubing
(central line infections). He challenged other area
hospitals to publicize their infection rates. Other hos-
pitals did not take the challenge. Some insisted that
various hospitals define infections differently and
data would not be comparable. Others indicated
that the data would not be useful for patients for vari-
ous reasons. The CEO also suggested that Partners
HealthCare was paid more by insurers because of
its size and market share. The controversy, however,
was tangible evidence of increasing competition in
an already competitive health care market.

Nashville
Encouraged by groups such as the Nashville Health
Care Council (NHCC), health care companies in
Nashville are capitalizing on the woes of the rest of
the industry. Nashville’s thriving health care sector,
instead of focusing on hospitals, has focused on
businesses that provide services to hospitals and
health plans to help them perform better. Several
years ago, the Nashville Chamber of Commerce
predicted that the US health care system would
have to make massive changes if it were to serve
the population without bankrupting the country. To
that end, the Chamber started NHCC to act as the
center of a network for people interested in develop-
ing entrepreneurial health services companies.

Middle Tennessee is home to nearly 3,000 health
care companies. Twenty publicly traded health care
companies are located in Nashville. Nashville-based
health care companies account for more than $62
billion in annual revenues and employ more than
336,000 employees world wide. Further, Nashville-
based health care companies own or operate more
than 40 percent of the nation’s investor owned
hospitals. Observers agree that Nashville will likely remain
the “Silicon Valley of Health Care” because of its
rich history of entrepreneurship, strong managerial
talent, and access to venture capital funding. Since
2000, Nashville health care start-ups and existing
companies have secured more than $4.3 billion
of venture capital and private equity fi nancing.
Nashville’s leadership claims that the changing
health care environment will only contribute to
its health care sector strength and that it is the best
of times.

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5. Scot Lehigh, “An Obstacle to Easing Town’s Healthcare
Beth-Israel CEO Jabs Competitors,” Boston Globe
(February 23, 2007).
8. Ibid.

Source: Terrie Reeves, PhD, University of North Carolina at
Greensboro.
Managing in a Dynamic Environment

The dramatic changes in the health care industry that began in the 1980s, marked by the implementation of Medicare’s prospective payment system in 1983, continue today. As a result, health care institutions continue to face a turbulent, confusing, and often threatening environment. Significant change 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. Certainly, the health care systems in Boston and Nashville, described in the Introductory Incident, 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, organizations will have to effectively manage change and become “masters of renewal” in this dynamic environment.

Coping with Change

How can health care leaders deal with change? Which issues are most important or most pressing? Furthermore, what new issues will emerge? It is likely that there will be new issues for health care organizations that have yet to be
identifi ed or fully assessed. Even more sobering, it seems certain that there will be more change in the health care industry in the next 10 years than there has been in the past 10 years.

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. 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 direction and momentum for change.

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 environment; they should not simply be responsive to them, they must create the future. Health care leaders must see into the future, create new visions for success, and be prepared to make significant improvements.

The Foundations of Strategic Management

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 ἄρατος, meaning “a general,” which in turn comes from roots meaning “army” and “lead.”1 The Greek verb ἄρατος means “to plan the destruction of one’s enemies through effective use of resources.”2 As a result, many of the terms commonly used in relation to strategy – objectives, strategy, mission, strengths, 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 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 forecasts, capital needs, and so on.
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. 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.

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. 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. 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. 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 and, as discussed in Perspective 1–1, should not be viewed as a passing fad.

### Strategic Management in the Health Care Industry

Strategic management concepts have been employed within health care organizations only in the past 25 to 30 years. Prior to this time, individual health care organizations had few incentives to employ strategic management because typically they were independent, freestanding, not-for-profit institutions, and health
Management fads? Management techniques? Management fads is usually the flippan 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, to make it an excellent organization. One of the things 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 meaning. And certainly organizations need to create meaning.1

When management approaches such as these fail, it is usually because they become an end 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 approach rather than letting the approach work for them.

What will be the “management fads” of the next decade? Will you be a part of these attempts to make the organization better or will you simply dismiss them as fads? Perhaps benchmarking, quality improvement, or 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 turbulent environments, strategic management will have succeeded.

References
services reimbursement was on a cost-plus basis. 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. Certainly, in the late 1980s and 1990s many health care organizations had much to learn from strategically managed businesses. As a result, many of the management methods adopted by health care organizations, both public and private, initially were developed in the business sector.

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.\(^6\) It has been pointed out that:

1. Some strategic alternatives available to non-health care organizations may not be realistic for many health care organizations.
2. Health care organizations have unique cultures that influence the style of and participation in strategic planning.
3. Health care has always been subject to considerable outside control, and
4. Society and its values place special demands on health care organizations.\(^7\)

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. Over time these business approaches increasingly have been modified to fit the unique aspects of health care organizations.

**Strategic Management Versus Health Policy Planning**

There has been and continues to be substantial health planning (policy) in the United States. Efforts at health planning are initiated by either state or local governments and the resulting health policies are implemented through legislation or private or nongovernmental agencies. Many of these planning efforts are disease specific; that is, they are categorical approaches directed toward specific health problems (e.g., the work of the National Tuberculosis Association that stimulated the development of state and local government tuberculosis prevention and treatment programs).\(^8\) As a result, a variety of state and federal health planning or policy initiatives have been designed to: (1) enhance quality of care and reduce medical errors; (2) provide or control access to care; and (3) contain costs.

These health-planning efforts are not strategic management. Health planning is the implementation of local, state and federal health policy and affects a variety of health care organizations. As explained in Perspective 1–2, the intent of health policy is to provide the context for the development of the health care infrastructure as a whole. In contrast, strategic management is organization specific. Strategic management helps an individual organization to respond to state and federal policy and planning efforts, as well as to a variety of other external forces.
The Dimensions of Strategic Management

There are many ways to think about strategic management in organizations. In fact, Henry Mintzberg identified ten distinct schools of thought concerning organizational strategy. Three of these approaches were prescriptive and analytical: the design school, the planning school, and the positioning school. Six schools of thought were descriptive and emergent: the entrepreneurial school, the cognitive school, the learning school, the political school, the cultural school, and the environmental school. 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.

The Congress and the state legislatures set health policy. In addition, the administrative authority given to executive branches and their agencies sets policy. Therefore, the Center for Medicare and Medicaid Services determines much of the health policy for federal Medicare and Medicaid. The Centers for Disease Control and Prevention, the Food and Drug Administration, and the Occupational Health and Safety Administration set and enforce health and safety standards. State Departments of Health, Insurance, and Environmental Quality set health policy within their own spheres of influence.

There are many analytic tools that come into play in helping to determine the rules that are adopted. These include economics, law, political science, epidemiology, medicine, and health services research. Health policy questions are sometimes very broad and at other times very specific. Some important questions include:

- Is health care a right or an individual responsibility?
- Can the human costs of poor health be quantified?
- Can higher taxes on saturated fats reduce the prevalence of obesity?
- Would a refundable tax credit encourage the uninsured to buy coverage?
- Would higher incomes or more health services do more to improve health status?
- Who pays if employers are required to provide health insurance?

Source: Michael A. Morrisey, PhD, Director, Lister Hill Center for Health Policy and Department of Health Care Organization and Policy, University of Alabama at Birmingham.
Analytical Versus Emergent Approaches

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). 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 view, by itself, is enough. David K. Hurst explains:

“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.”

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. 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. 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 strategy (map) as best they can from their understanding of the external environment and by interpreting the capabilities of the organization. Once they begin pursuing the strategy, new understandings and strategies may emerge and old maps (plans) must be modified. Harvard Professor Rosabeth Moss Kanter concluded from her research that pacesetter organizations “did not wait to act until they had a perfectly conceived plan; instead, they create the plan by acting.” 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. The concept of the compass provides a unique blend of thinking, performance, analysis, and intuition.

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. A model or map of how strategy may be developed will help organizations to view their strategies in a cohesive, integrated, and systematic way. Without a model or map, managers run the risk of becoming totally incoherent, confused in perception, and muddled in practice.
Combining the Analytical and Emergent Views

In this text, a series of “strategic thinking maps” are presented. These maps are designed to ignite strategic thinking as well as strategic planning and foster new thinking and planning when required. The strategic thinking maps will start the journey to develop a comprehensive strategy for the organization, yet the maps cannot anticipate every contingency. Managers will learn a great deal about their strategic plans as they manage them. Therefore, strategic managers will have to think, analyze, use intuition, and reinvent the strategy as they go. As the physicist David Bohm observed, the purpose of science is not the “accumulation of knowledge” but rather the creation of “mental maps” that guide and shape our perception and action.17

A model or map that accounts for both the analytical and the emergent views of strategic management is presented in Exhibit 1–1. This strategic thinking map serves as a general model for health care strategic managers, illustrates the interrelationships and organizes the major components, and provides the framework for much of the discussion in this book. As illustrated in Exhibit 1–1, strategic management has three elements – strategic thinking, strategic planning, and managing strategic momentum. These activities are interdependent; activities in each element affect, and are affected by, the others.

Strategic managers must become strategic thinkers with the ability to evaluate the changing environment, analyze data, question assumptions, and develop new ideas. Additionally, they must be able to develop and document a plan of action through strategic planning. Strategic planning is a decision-making and documentation process that creates the strategic plan. Once a strategic plan

Exhibit 1–1: Strategic Thinking Map of Strategic Management
is developed, strategic managers must manage 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. As indicated by the double-headed arrows in Exhibit 1–1, any one element of the model may initiate a rethinking of another element. For example, planning the implementation may provide new information that necessitates taking another look at strategy formulation. Similarly, managing strategic momentum may provide new insights for implementation planning, strategy formulation, or the situational analysis.

The distinction among the terms strategic thinking, strategic planning, and managing strategic momentum is important and all three activities must occur in truly strategically managed organizations. Therefore, each stage of the model is explored in more depth.

**Strategic Thinking**

The first stage depicted in Exhibit 1–1 is strategic thinking and is the fundamental intellectual activity underlying strategic management. It has been observed that leaders, similar to great athletes, must simultaneously play the game and observe it as a whole. Mired in a complex situation, the leader must rise above it to understand it. Preserving distance may be the only way to see the full picture. This skill is similar to leaving the playing field and going to the press box to observe the game and see its broader context. Thus, strategic managers must be able to keep perspective and see the big picture – not get lost in the action. But to truly understand the big picture, one must not only go to the press box to observe the “game,” but must also have a “quiet room” to periodically think about it, to understand it, and perhaps to change the strategy or players.

*Strategic thinking* is an individual intellectual process, a mindset, or method of intellectual analysis that asks people to position themselves as leaders and see the “big picture.” Vision and a sense of the future are inherent parts of strategic thinking. Strategic thinkers are constantly reinventing the future – creating windows on the world of tomorrow. James Kouzes and Barry Posner in *The Leadership Challenge* have indicated: “All enterprises or projects, big or small, begin in the mind’s eye; they begin with imagination and with the belief that what is merely an image can one day be made real.” Strategic thinkers draw upon the past, understand the present, and envision an even better future. Strategic thinking requires a mindset – a way of thinking or intellectual process that accepts change, analyzes the causes and outcomes of change, and attempts to direct an organization’s future to capitalize on the changes. More specifically, strategic thinking:

- acknowledges the reality of change,
- questions current assumptions and activities,
- builds on an understanding of systems,
- envisions possible futures,
- generates new ideas, and
- considers the organizational fit with the external environment.
Strategic thinking generates ideas about the future of an organization and ways to make it more relevant – more in tune with the world. Strategic thinking assesses the changing needs of the organization’s stakeholders and the changing technological, social and demographic, economic, legislative/political, and competitive demands of its world.

Strategic thinkers are always questioning: “What are we doing now that we should stop doing?” “What are we not doing now, but should start doing?” and “What are we doing now that we should continue to do but perhaps in a fundamentally different way?” For the strategic thinker, these questions are applicable to everything the organization does – its products and services, internal processes, policies and procedures, strategies, and so on. Successful strategies often require being what you haven’t been, thinking as you haven’t thought, and acting as you haven’t acted. Strategic thinkers examine assumptions, understand systems and their interrelationships, and develop alternative scenarios of the future. Strategic thinkers forecast external technological, social and demographic changes, as well as critical changes in the legislative and political arenas. As illustrated in Perspective 1–3, strategic thinking is very much a leadership activity and quite different from what subject matter experts do.

### Perspective 1–3

**Expert Thinking versus Strategic Thinking**

<table>
<thead>
<tr>
<th>Expert Thinking at its Best</th>
<th>Strategic Thinking at its Best</th>
</tr>
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<tbody>
<tr>
<td><strong>Focus</strong></td>
<td></td>
</tr>
<tr>
<td>• Pay rigorous attention to knowledge, evidence and data – focus on understanding.</td>
<td>• Act on intuition and “gut feel” when data is incomplete – focus on action and moving forward.</td>
</tr>
<tr>
<td>• Adhere to professional standards and ways of working – the right way of doing things.</td>
<td>• Focus relentlessly on outcomes and results; eschew excessive process.</td>
</tr>
<tr>
<td><strong>Knowledge</strong></td>
<td></td>
</tr>
<tr>
<td>• Specialize in well-defined disciplines and functions.</td>
<td>• Specialize in types of industry, activities or context.</td>
</tr>
<tr>
<td>• Respect peer review.</td>
<td>• Respect boss review.</td>
</tr>
<tr>
<td>• Utilize clear and definite prescriptions.</td>
<td>• Focus as much on how to move forward as on what to do.</td>
</tr>
</tbody>
</table>
EVERYONE A STRATEGIC THINKER

Strategic thinking provides the foundation for strategic management. However, strategic thinking is not just the task of the CEO, health officer, or top administrator of the organization. For strategic management to be successful, everyone must be encouraged to think strategically – think as a leader. Leadership is a performing art – a collection of practices and behaviors – not a position. Everyone, even the lowest paid employees, should be encouraged to think strategically and consider how to reinvent what he or she does. For example, understanding that a nursing home’s image is based in the customers’ perception of cleanliness can motivate custodians to think strategically and reinvent the way the nursing home is cleaned. Strategic thinking is supported by the continuous management of the strategy and documented through the periodic process of strategic planning.

Strategic Planning

Strategic planning is the next activity in the general model of strategic management illustrated in Exhibit 1–1. Strategic planning is the periodic process of developing a set of steps for an organization to accomplish its mission and vision using strategic thinking. Therefore, periodically, strategic thinkers come together to reach consensus on the desired future of the organization and develop decision rules
for achieving that future. The result of the strategic planning process is a plan or strategy. More specifically, strategic planning:

- provides a sequential, step-by-step process for creating a strategy,
- involves periodic group strategic thinking (brainstorming) sessions,
- requires data/information, but incorporates consensus and judgment,
- establishes organizational focus,
- facilitates consistent decision making,
- reaches consensus on what is required to fit the organization with the external environment, and
- results in a documented strategic plan.

The process of strategic planning defines where the organization is going, sometimes where it is not going, and provides focus. The plan sets direction for the organization and – through a common understanding of the vision and broad strategic goals – provides a template for everyone in the organization to make consistent decisions that move the organization toward its envisioned future.

Strategic planning, in large part, is a decision-making activity. Although these decisions are often supported by a great deal of quantifiable data, strategic decisions are fundamental judgments. Because strategic decisions cannot always be quantified, managers must rely on “informed judgment” in making this type of decision. As in our own lives, generally the more important the decision, the less quantifiable it is and the more we will have to rely on the opinions of others and our own best judgment. For example, our most important personal decisions – where to attend college, whether or not to get married, where to live, and so on – are largely informed judgments. Similarly, the most important organizational decisions, such as entering a market, introducing a new service, or acquiring a competitor, although based on information and analysis, are essentially judgments, perhaps based on considerable data analysis.

Decision consistency is central to strategy; when an organization exhibits a consistent behavior it has a strategy. Strategy is the set of guidelines or plan an organization chooses to ensure decision consistency and move it from where it is today to a desired state some time in the future – it is the road map to that future. Developing the road map (strategic plan) requires situational analysis, strategy formulation, and planning the implementation of the strategy.

Analyzing and understanding the situation is accomplished by three separate strategic thinking activities: (1) external environmental analysis; (2) internal environmental analysis; and (3) the development or refinement of the organization’s directional strategies. The interaction and results of these activities form the basis for the development of strategy. These three interrelated activities drive the strategy. Forces in the external environment suggest “what the organization should do.” That is, success is a matter of being effective in the environment – doing the “right” thing. Strategy is additionally influenced by the internal resources, competencies, and capabilities of the organization and represents “what the organization can do.” Finally, strategy is driven by a common mission, common vision, and common set of organizational values and goals – the directional strategies.
The directional strategies are the result of considerable thought and analysis by top management and indicate “what the organization wants to do.” Together, these forces are the essential input to strategy formulation. They are not completely distinct and separate; they overlap, interact with, and influence one another. Chapter 2 provides strategic thinking maps for examining the general and health care external environment and Chapter 3 addresses service area competitor analysis. Chapter 4 discusses the internal environment and provides strategic thinking maps for evaluating the organization’s strengths and weaknesses and the creation of competitive advantage. The development of the directional strategies through strategic thinking maps is explored in more detail in Chapter 5.

Whereas situational analysis involves a great deal of strategic thinking – gathering, classifying, and understanding information – strategy formulation involves decision making that uses the information to create a plan. Hence, strategy formulation involves directional, adaptive, market entry, and competitive strategy decisions and, typically, these decisions are made in strategic planning sessions. Strategic maps for strategy formulation are presented in Chapters 6 and 7.

Once the strategy for the organization has been formulated (including directional, adaptive, market entry, and competitive), implementation plans that accomplish the organizational strategy are developed. These implementation plans are made up of strategies developed in the key areas that create value for an organization – service delivery and support activities – and are typically discussed as part of strategic planning. Strategies must be developed that best deliver the products or services to the customers through pre-service, point-of-service, and after-service activities. In addition to service delivery strategies, strategies must be developed for value-adding support areas such as the organization’s culture, structure, and strategic resources. Strategy implementation is discussed further in Chapters 8 through 10.

A GROUP PROCESS OF KEY PLAYERS

The CEO can develop a strategy. A separate planning department can develop a strategy. However, such approaches run into trouble during implementation, as there is no common “ownership” of the plan or the tasks associated with it. Therefore strategic planning for organizations is typically a group process. It involves a number of key participants working together to develop a strategy. Although strategic planning provides the structure for thinking about strategic issues, effective strategic planning also requires an exchange of ideas, sharing perspectives, developing new insights, critical analysis, and give-and-take discussion. Strategic planning efforts will be diminished without future-oriented highly provocative thinking and dialog.23

For most organizations, it is not possible for everyone to be a full participant in the strategic planning process. Decision making is protracted if everyone must have a say – and a consensus may never be reached. A few key players – senior staff, top management, or a leadership team – are needed to provide balanced and informed points of view. Often representatives of important functional areas are included as well. An effective leader will incorporate a variety of individuals
with different backgrounds and perspectives to provide input to the process. Some participants may be mavericks and nudge the group in new ways. If everyone is pre-programmed to agree with the leader, participation is not required – but neither will an actionable plan be realized.

The key to successful strategic planning is to have a recurring group process. Having a periodic structured process initiates a reconsideration, discussion, and documentation of all the assumptions. Without a planned process, managers never quite get to it. Without a process, ideas are not discussed, conclusions are not reached, decisions are not made, strategies are not adopted, and strategic thinking is not documented. The nature of the group and the process are often the keys to success.

Managing Strategic Momentum

Sometimes a strategic plan is created but nothing really changes, strategic momentum is lost, and plans are never implemented. As the next year rolls around, it is once again time for the annual strategic planning retreat and the cycle repeats itself. This example is of one of strategic planning without managing strategic momentum. Alan Weiss, in his irreverent book, *Our Emperors Have No Clothes*, explains that in these situations the problem is that, “Strategy is usually viewed as an annual exercise at best, an event that creates a ‘product,’ and not a process to be used to actually run the business.”

The third element of strategic management shown in Exhibit 1–1, managing strategic momentum, concerns the day-to-day activities of managing the strategy to achieve the strategic goals of the organization. Once plans are developed, they must be actively managed and implemented to maintain the momentum of the strategy. Strategic thinking and periodic planning should never stop; they become ingrained in the culture and philosophy of a strategically managed organization. Managing strategic momentum:

- is the actual work to accomplish specific objectives,
- concerns decision-making processes and their consequences,
- provides the style and culture,
- evaluates strategy performance,
- is a learning process, and
- relies on and initiates new strategic thinking and new periodic strategic planning.

For many organizations strategic planning is the easiest part of strategic management and the planning process receives the greatest attention. However, plans must be implemented to create momentum and to realize strategic intent. Poor implementation or lack of implementation has rendered many strategic plans as worthless. Whereas the strategic plan and its underlying strategic thinking must be viewed as important, they fall apart without implementation and the decision-making guidelines provided for managers at all levels in the organization. If the strategy is not actively managed, it will not happen.
At the same time, managers often need to react to unanticipated developments and new competitive pressures. Such environmental shifts may be subtle, other times they can be discontinuous and extremely disruptive. When external changes occur, new opportunities emerge and new competencies are born, while others die or are rendered inconsequential. Inevitably, the basic rules of competing and survival will change. Managing strategic momentum is how an organization constructively manages change, evaluates strategy, and reinvents or renews the organization. As Henry Mintzberg has indicated, “. . . a key to managing strategy is the ability to detect emerging patterns and help them take shape.”

Different environmental characteristics and different organizational forms require new and different ways of defining strategy.27 Strategy may be an intuitive, entrepreneurial, political, culture-based, or learning process. In these cases, maps are of limited value. Managers must create and discover an unfolding future, using their ability to learn together in groups and interact politically in a spontaneous, self-organizing manner. However, learning is difficult in organizations. Learning requires engagement, mastering unfamiliar ideas, and adopting new behaviors. Engaged learning demands that executives share leadership, face harsh truths, and take learning personally. It requires them to fundamentally change the way they manage.28 It requires managing strategic momentum.

Clearly, rational strategies do not always work out as planned (an unrealized strategy). In other cases, an organization may end up with a strategy that was quite unexpected as a result of having been “swept away by events” (an emergent strategy). Leadership, vision, and “feeling our way along” (learning) often provide a general direction without a real sense of specific objectives or long-term outcomes. It is quite possible that a strategy may be developed and subsequently realized. However, we must be realistic enough to understand that when we engage in strategic management the theoretical ideal (strategy developed, then realized) may not, and in all probability will not, be the case. A great deal may change. The possibilities include:

1. There is a reformulation of the strategy during implementation as the organization gains new information and feeds that information back to the formulation process, thus modifying intentions en route.
2. The external environment is in a period of flux and strategists are unable to accurately predict conditions; the organization may therefore find itself unable to respond appropriately to a powerful external momentum.29
3. Organizations in the external environment implementing their own strategies may block a strategic initiative, forcing the activation of a contingency strategy or a period of “groping.”

Obviously, health care organizations formulate strategies and realize them to varying degrees. For instance, as a part of a deliberate strategy to broaden their market, improve service to the community, and retain referral patients, many community hospitals began offering cardiac services such as catheterization and open heart surgery. As a result, some of these hospitals have built market share and increased profitability. Other community hospitals have not fared as well. Their managers had unrealistic expectations concerning the profitability of cardiac
services and the number of procedures required. A large volume is crucial to cardiac services because it allows the hospital to order supplies in bulk and provides physician experience that produces better outcomes and shorter lengths of stay. In addition, some community hospital managers misjudged the level of reimbursement from Medicare, thereby further squeezing profitability. The strategies of those community hospitals that left the cardiac services market were not realized.

Still other community hospitals seemed to move into a full range of cardiac services without an explicit strategy to do so. In an effort to retain patients and enhance their images, these hospitals began by offering limited cardiac services but shortly found that they were not performing enough procedures to be “world class.” They added services, equipment, and facilities to help to create the required volume and, without really intending to at the outset, ended up with emergent strategies that resulted in significant market share in cardiac services.

**EVERYONE MUST MANAGE THE STRATEGIC MOMENTUM**

As with strategic thinking, everyone plays a role in managing strategic momentum. Everyone in the organization should be working for the strategy and understand how their work contributes to the accomplishment of the strategic goals. As Max DePree has suggested, “Leaders are obligated to provide and maintain momentum.” The only legitimate work in an organization is work that contributes to the accomplishment of the strategic plan. Although organizations may accomplish superior results for a brief period of time, it takes the orchestration of management as well as leadership to perpetuate these capabilities far into the future.

**The Benefits of Strategic Management**

The three stages of strategic management – strategic thinking, strategic planning, and managing strategic momentum – will provide many benefits to health care organizations. However, because strategic management is a philosophy or way of managing an organization, its benefits are not always quantifiable. Overall, strategic management:

- ties the organization together with a common sense of purpose and shared values;
- improves financial performance in many cases;
- provides the organization with a clear self-concept, specific goals, and guidance as well as consistency in decision making;
- helps managers to understand the present, think about the future, and recognize the signals that suggest change;
- requires managers to communicate both vertically and horizontally;
- improves overall coordination within the organization; and
- encourages innovation and change within the organization to meet the needs of dynamic situations.
Strategic management is a unique perspective that requires everyone in the organization to cease thinking solely in terms of internal operations and their own operational responsibilities. It insists that everyone adopts what may be a fundamentally new attitude – an external orientation and a concern for the big picture. It is basically optimistic in that it integrates “what is” with “what can be.” Perspective 1–4 illustrated some of the important elements of strategic thinking that have evolved over the past several decades.

Health care leaders require a comprehensive strategic management approach for guiding their organizations through societal and health care industry changes that will occur in the future. Strategic management concepts, activities, and methods presented in this text will prove to be valuable in coping with these changes. In addition, the internal, nonquantifiable benefits of strategic management will aid

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**Perspective 1–4**

**Ten Strategic Thinking Big Ideas**

Significant innovations in strategic thinking have appeared over the past half century. Below are 10 trusty tools of strategic thinking that have withstood the test of time.

1. **Long-range perspective.** When done correctly, strategic thinking propels managers to think about the long run – strategies and resource allocation beyond the current year.

2. **Strategic analysis.** Strategic thinking advanced through the development of new, sharper analytical tools. These tools help strategists to make better sense of their markets, competitors, and industries.

3. **Quality.** The recognition of quality as a strategic variable represented an important event in the evolution of strategic thinking. The use of targeted data to understand and control processes was a leap forward for competitive analysis.

4. **Portfolio theory.** This theory is based on the proposition that businesses can disaggregate their products, services, and markets into categories that better inform resource allocation decisions.

5. **Scenario planning.** Scenarios have proven to be a useful and practical way to think about the organization as a whole and its interaction with the environment. Scenario planning has become a “staple” of many strategic thinking processes.

6. **Resource allocation models.** Two primary resource allocation models exist in strategic thinking. One is the perspective of the industrial economists who think of the firm as applying its resources to opportunities created by the actions of competitors or the needs of consumers. The resource-based view, on the other hand, contends that successful strategies derive from a firm’s ability to leverage its own unique internal resources and capabilities.

7. **Corporate culture.** Strategies that are consistent with culture are more likely to succeed.

8. **Leadership.** Effective leadership is an essential variable in the strategy formulation and implementation processes. Leaders must ensure that strategy links to the values and vision of the organization.

9. **Metrics that matter.** For strategies to work, managers must monitor implementation. Good metrics are required for successful monitoring.

10. **Strategic organizational design.** Even though it was once a controversial idea, most agree that organizational design (structure) must follow and facilitate implementation of the strategy.

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health care organizations in better integrating functional areas to strategically utilize limited resources and to satisfy the various publics served. Strategic management is the exciting future of effective health care leadership.

**What Strategic Management Is Not**

Strategic management should not be regarded as a technique that will provide a “quick fix” for an organization that has fundamental problems. Quick fixes for organizations are rare; it often takes years to successfully integrate strategic management into the values and culture of an organization. If strategic management is regarded as a technique or gimmick, it is doomed to failure. Similarly, strategic management is not just strategic planning or a yearly retreat where the leadership of an organization meets to talk about key issues only to return to “business as usual.” Although retreats can be effective in refocusing management and for generating new thinking, strategic management must be adopted as a philosophy of leading and managing the organization.

Strategic management is not a process of completing paperwork. If strategic management has reached a point where it has become simply a process of filling in endless forms, meeting deadlines, drawing milestone charts, or changing the dates of last year’s goals and plans, it is not strategic management. Effective strategic management requires little paperwork. It is an attitude, not a series of documents. Similarly, strategic management should not be initiated merely to satisfy a regulatory body’s or an accrediting agency’s requirement for a “plan.” In these situations, no commitment is made on the part of key leadership, no participation is expected from those in the organization, and the plan may or may not be implemented.

Strategic management is not a process of simply extending the organization’s current activities into the future. It is not based solely on a forecast of present trends. Strategic management attempts to identify the issues that will be important in the future. Health care strategic managers should not simply ask the question, “How will we provide this service in the future?” Rather, they should be asking questions such as, “Should we provide this service in the future?” “What new services will be needed?” “What services are we providing now that are no longer needed?”

**A Systems Perspective**

The problems facing organizations are so complex that they defy simple solutions. Understanding the nature of the health care environment, the relationship of the organization to that environment, and the often-conflicting interests of internal functional departments requires a broad conceptual paradigm. Yet, it is difficult to comprehend so many complex and important relationships. Strategic managers have found general systems theory or a systems approach to be a useful perspective for organizing strategic thinking.
A system may be defined as “a perceived whole whose elements ‘hang together’ because they continually affect each other over time and operate toward a common purpose.” More simply, a system is a set of interrelated elements. Each element connects to every other element, directly or indirectly, and no subset of elements is unrelated to any other subset. Further, a system must have a unity of purpose in the accomplishment of its goals, functions, or desired outputs. Understanding the complex whole through a systems approach:

- aids in identifying and understanding the “big picture”;
- facilitates the identification of major components;
- helps to identify important relationships and provides proper perspective;
- avoids excessive attention to a single part;
- allows for a broad scope solution;
- fosters integration; and
- provides a basis for redesign.

The use of the systems approach requires strategic managers to define the organization in broad terms and to identify the important variables and interrelationships that will affect decisions. By defining systems, strategic managers are able to see the “big picture” in proper perspective and avoid devoting excessive attention to relatively minor aspects of the total system. A systems approach permits strategic managers to concentrate on those aspects of the problem that most deserve attention and allow a more focused attempt at a resolution. As Peter Senge has indicated, systems approaches help us to see the total system and how to change the pieces within the system more effectively and intelligently.

Recognizing the importance of a systems framework, health care managers commonly refer to “the health care system” or “the health care delivery system” and strive to develop logical internal organizational systems to deal with the environment. In a similar manner, health care strategic managers must use systems to aid in strategic thinking about the external environment. The community and region may be thought of as an integrated system with each part of the system (subsystem) providing a unique interdependent contribution.

The Level and Orientation of the Strategy

A systems perspective will be required to specify the level of the strategy and the relationship of the strategy to the other strategic management activities. Therefore, the organizational level and orientation should be carefully considered and specified before strategic planning begins. For example, strategies may be developed for large, complex organizations or small, well-focused units. The range of the strategic decisions that are considered in these two organizations is quite different, but both can benefit from strategic management.

A clear specification of the “level” of thinking will determine the type and range of decision to be made in strategic planning. For example, a large integrated health care system may develop strategy for a number of levels—
level, a divisional level, an organizational level, and a unit level. As illustrated in Exhibit 1–2, when considered together these strategic perspectives create a hierarchy of strategies and must be consistent and support one another. Each strategy provides the “means” for accomplishing the “ends” of the next higher level. Thus, the unit level provides the means for accomplishing the ends of the organizational level. The organizational level, in turn, provides the means for accomplishing the ends of the divisional level. Finally, the divisional level is the means to the ends established at the corporate level. As illustrated in Exhibit 1–2, part of the context for lower order strategy is provided by the strategic planning of higher order strategies.

Trinity Health is the fourth largest Catholic health system in the United States based on operating revenue and is an example of a health care organization that
should develop strategy for all four perspectives. As of 2007, Trinity had over $8.2 billion in assets, $6.1 billion in revenues, and was comprised of 46 hospitals, 379 outpatient facilities, 31 long-term care facilities, 28 home health offices, and 20 hospice programs located in seven US states. Clearly, strategies should be developed for the entire system (corporate level – Trinity Health), for each major division (business level – Eastern Division), for each distinct organization within the division (Saint Joseph Mercy Health System), and within the various units (clinical operations – Saint Joseph Mercy Saline Hospital).

**Corporate-Level Strategy**

*Corporate-level strategies* address the question “What business(es) should we be in?” Such strategies consider multiple, sometimes unrelated, markets and typically are based on return on investment, market share or potential market share, and system integration. For Trinity Health, clearly the corporate perspective is an important one. The question of “What businesses should we be in?” has resulted in several semi-autonomous “businesses” operating in a number of different markets, including hospitals, outpatient facilities, long-term care, home health, and hospices. Key strategic questions might include “What other types of businesses should Trinity consider?” For example, would wellness or mental health centers be an appropriate strategic move?

**Divisional-Level Strategy**

*Divisional-level strategies* are more focused and provide direction for a single business type. Divisional strategies are most often concerned with positioning the division to compete. These semi-autonomous organizations are often referred to as SBUs (*strategic business units*) or SSUs (*strategic service units*). Therefore, strategic managers for these units are most concerned with a specified set of competitors and well-defined markets (service areas).

For Trinity Health, strategies must be developed for the hospital division, outpatient facilities division, long-term care division, and so on. For the hospital division key strategic questions may include “How many hospitals are optimal?” or “Which markets should Trinity enter with a new hospital?” This perspective concerns a single business type and its markets. Therefore, it is quite different from the corporate perspective of what businesses Trinity should be in.

**Organizational-Level Strategy**

Within a division, individual organizational units may develop strategies as well. These *organizational-level strategies* typically concern one organization competing within a specific well-defined service area. For example, each hospital in Trinity’s hospital division may develop a strategic plan to address its own particular market conditions. Key strategic questions for this level of strategy may include “What combination of hospital services is most appropriate for this market?” and “What strategies are the competitors using to increase market share?”
UNIT-LEVEL STRATEGY

Unit-level strategies support organizational strategies through accomplishing specific objectives. Unit operational strategies may be developed within departments of an organization such as clinical operations, marketing, finance, information systems, human resources, and so on. Unit strategies address two issues. First, they are intended to integrate the various subfunctional activities. Second, they are designed to relate the various functional area policies with any changes in the functional area environment.

In addition, linkage strategies are directed toward integrating the functions themselves and creating internal capabilities across functions (for example, quality programs or changing the organization’s culture).

STRATEGY HIERARCHY

Strategic management may be employed independently at any organizational level of the organization. However, it is much more effective if there is a top-down support and strategies are integrated from one level to the next. For some organizations, of course, there is no corporate or divisional level, such as with a free-standing community hospital or independent long-term care organization. For these organizations the question of scope and perspective and integration of the strategy is much more straightforward.

The Importance of Leadership

Ultimately, strategic decision making for health care organizations is the responsibility of top management. The CEO is a strategic manager with the pre-eminent responsibility for positioning the organization for the future. The leader must be able to inspire, organize, and implement effective pursuit of a vision and maintain it even when sacrifices are required. As a result, the leader must have an ability to identify what needs to be done today and what can wait. They prioritize constantly; aware that wars are lost by fighting on too many fronts. They know the key messages to communicate from day-to-day, from audience to audience. If the CEO does not fully understand or faithfully support strategic management, it will not happen.

Leadership Roles throughout the Organization

In the past, strategy development was primarily a staff activity. The planning staff would create the strategy and submit it for approval to top management. This process resulted in plans that were often unrealistic, did not fully consider the realities and resources of the divisions or departments, and separated planning from leadership.

Over the past two decades, many large formal planning staffs have been dissolved as organizations learned that strategy development cannot take place in relative isolation. Therefore, the development of the strategy has become the
responsibility of key managers. The coordination and facilitation of strategic planning typically may be designated as the responsibility of a single key manager (often the CEO) but the entire leadership team is responsible for strategy development and its management. The rationale underlying this approach is that no one is more in touch with the external environment (regulations, technology, competition, social change, and so on) than the managers who must deal with it every day and lead change. The leadership team must coordinate the organization’s overall strategy and facilitate strategic thinking throughout the organization. As a result, the organization’s key top managers act as an extension of the CEO to ensure that an organized and used planning process ensues.\footnote{Perspective 1–5 illustrates the changing role of the strategic planner over the past decades.}

Leadership plays an important role in strategy development. Strategies cannot be created entirely by analysis, but their development can be enhanced by a logical approach. Therefore, planners have critical roles to play.\footnote{Planners can:}

- pose the right questions rather than find the right answers;
- provide alternative conceptual interpretations of situations;
- act as catalysts, encouraging managers to think about the future in creative ways;
• help to identify and provide information concerning important issues and emerging strategies;
• clarify and express the strategies in terms sufficiently clear to render them operational;
• break down strategies into substrategies, ad hoc programs, and action plans specifying what must be done to realize each strategy;
• consider the effects of the strategic changes on the organization’s operations; and
• communicate and control the strategy.  

In organizations that have seriously adopted strategic management, managers understand the organization’s strategy and take leadership roles. Increasingly, organizations are finding it unworkable for a single leader at the top to understand the full complexity of the industry and organization, build consensus throughout the organization, and make all the important decisions. Instead, many health care organizations are fostering leadership development throughout the organization. The many changes that have taken place in the work environment in the past decade have brought the challenges and opportunities of leadership down to the individual employee – contributors with no positional authority, who are not designated as “leader” but who have leadership challenges presented to them on a daily basis. As part of the job, every manager must be concerned with change, innovation, and excellence. Each must ask the critical questions “Should we be doing this in the future?” “How should we be doing this?” “What new things should we be doing?” Strategic thinking, strategic planning, and managing strategic momentum are the clearest manifestations of leadership in organizations.

Lessons for Health Care Managers

Strategic management is an often complex and difficult task. A model of strategic management provides a useful framework or intellectual map for conceptualizing and developing strategies for an organization. Strategic management includes strategic thinking, strategic planning, and managing strategic momentum. In reality, these elements are blended together as the strategy is formed and reformed through leadership, intuition, and organizational learning. Indeed, implementing the strategy may actually create an entirely new, unintended strategy.

The concept of strategic management has been successfully used by business organizations, the military, and in government agencies and health care managers are finding it essential for their organizations, as well. The strategic management model presented and discussed in this chapter may be applied to a variety of types of health care organizations operating in dramatically different environments, is useful for both large and small organizations, and facilitates strategic thinking at all levels of the organization.

The strategic planning portion of the model incorporates situational analysis, strategy formulation, and strategy implementation. The strategic thinking activities within situational analysis combine to influence strategy formulation.
Strategy formulation in turn affects planning the implementation. Finally, the strategy must be managed, evaluated, and modified as needed. Managing strategic momentum is an iterative process that may incorporate new understandings of the situation, change the fundamental strategy, or modify strategy implementation. Managing strategic momentum essentially continues strategic thinking and strategic planning.

The strategic thinking map presented in this text is designed to provide the essential logic of the activities involved in strategic management and therefore is based on both analytical (rational) as well as emergent (learning) approaches for understanding strategy making in organizations. The analytical model provides an excellent starting point for understanding the concept of strategy and a foundation for comparing and contrasting strategies. However, the strategic thinking map does not perfectly represent reality and must not be applied blindly or with the belief that “life always works that way.” Strategic management is not always a structured, well-thought-out exercise. In reality, thought does not always precede action, perfect information concerning the environment and organization never exists, and rationality and logic are not always superior to intuition and luck. Sometimes organizations “do” before they “know.” For instance, intended strategies are often not the realized strategies. Sometimes managers are able to just “muddle through.” Or, managers may have a broad master plan or logic underlying strategic decisions, but, because of the complexity of the external and internal environments, incremental adjustments or guided evolution is the best they can do.45

Managers must realize that, once introduced, strategies are subject to a variety of forces, both within and outside the organization. Sometimes we learn by doing. Yet, without a plan (a map) it is difficult to start the journey, difficult to create any type of momentum for the organization, and difficult to have consistent decision making. Thus, strategic managers begin with the most rational plan that can be developed and continue to engage in strategic thinking. Effective strategic managers become adept at “freezing” and “unfreezing” their thinking and strategic plans as the situation changes.

Health Care Manager’s Bookshelf


Henry Mintzberg declared that the publication of Corporate Strategy: An Analytical Approach to Business Policy for Growth and Expansion by H. Igor Ansoff was a major event in the world of management. The book “represented a kind of crescendo in the development of strategic planning theory, offering a degree of elaboration seldom attempted since.”1 Corporate Strategy is considered by many to be the first book devoted exclusively to business
strategy. Ansoff uses the term strategic to mean “pertaining to the relationship between the firm [organization] and its environment.” Hussey noted that with the publication of Corporate Strategy “managers were offered, for the first time, a book which took them through all the steps of a formal approach to strategic decision making” and provided a number of analytical tools for aiding strategic thinking.

Ansoff introduced the concept of synergy or the familiar business rule of $2 + 2 = 5$. Gilmore and Brandenburg acknowledge their debt to Ansoff for introducing this important concept which Ansoff developed while employed at Lockheed Aircraft Corporation and continues to be an essential part of much strategy formulation. Synergy is a critical concept as strategists evaluate the financial wisdom of entering into strategies such as vertical integration and differentiation.

Ansoff argued that an organization cannot define itself as simply being in the health care, transportation, or energy business. These definitions are too broad to define the common thread. The common thread is the relationship between present and future services, products, and markets which “enable outsiders to perceive where the organization is heading, and inside management to give it guidance” (p. 105). It was with regard to this common thread that Ansoff developed and introduced the product–market matrix. This matrix became so popular that even 30 years later Ansoff received a request to reprint the matrix every three or four months.

Ansoff’s Corporate Strategy is an important milestone in the evolution of strategic management. Strategic managers will appreciate the care with which Ansoff related his innovative concepts to leading organizations. Melvin Anshen emphasizes the value the book has to managers and scholars because it “identifies and precisely orders the discrete, sequential building blocks of logical analysis as applied to the design of planning for strategy growth.” Walter Schaffir underscored the importance of Corporate Strategy stating that it is “one of the first attempts to offer a professional, technical, and comprehensive approach to the problem of selecting long-range direction” for an organization.

Perhaps the best summary of Ansoff’s contributions is given by one who knew him well. Gen-ichi Nakamura stated that Ansoff’s construction of a coherent and dynamic conceptual framework for strategic management could be described as “Ansoff’s mountains.” He suggests that people “try to climb the Ansoff mountains. At the outset, you may find it difficult and tiresome. After some trial, however, you will find your effort most enjoyable, enriching, and rewarding.”

References
3. Ibid. p. 5.
Key Terms and Concepts in Strategic Management

Analytical Approach               Map/Compass                      Strategic Service Unit (SSU)
Corporate-Level Strategy           Organizational-Level Strategy    Strategic Thinking
Divisional-Level Strategy          Realized Strategies               Strategy
Emergent Strategy                 Situational Analysis             Strategy Formulation
Health Policy                     Strategic Business                Strategy Implementation
Intended Strategies               Unit (SBU)                       Systems Approach
Managing Strategic                Strategic Management               Unit-level Strategies
    Momentum                      Strategic Planning                Unrealized Strategies

QUESTIONS FOR CLASS DISCUSSION

1. Explain why strategic management has become crucial in today’s dynamic health care environment.
2. What is the rationale for health care organizations’ adoption of strategic management?
3. Trace the evolution of strategic management. Have the objectives of strategic management changed dramatically over its development?
4. How is strategic management different from health policy?
5. Compare and contrast the analytical model of strategic management with the emergent, learning model. Which is most appropriate for health care managers?
6. Why are conceptual models of management processes useful for practicing managers?
7. What is a strategic thinking map? How are strategic thinking maps useful? What are their limitations?
8. What are the major activities of strategic management? How are they linked together?
9. Differentiate among the terms strategic management, strategic thinking, strategic planning, and managing strategic momentum.
10. Who should be doing strategic thinking? Strategic planning? Managing strategic momentum?
11. Is strategic thinking enough? Why do we engage in strategic planning? What are the elements of strategic planning?
12. What is meant by realized strategies? How can strategies be realized if they were never intended?
13. What can change with well-thought-out strategies that were developed using all the steps in strategic planning?
14. Explain and illustrate the possible benefits of strategic management. What types of health care institutions may benefit most from strategic management?
15. Why is a “systems approach” helpful to strategic managers?
16. At what organizational level(s) may a strategy be developed? If at more than one level, how are these levels linked by the planning process?
17. How has the role of the strategic planner changed over the past several decades? What new skills will be essential for the strategic planner?
NOTES


2. Ibid.


32. After almost four decades of research, the effects of strategic planning on an organization’s performance are still unclear. Some studies have found significant benefits from planning, although others have found no relationship, or even small negative effects. For an extensive survey of the strategic planning/financial performance literature, see Lawrence C. Rhine, “The Relationship of Strategic Planning to Financial Performance,” *Strategic Management Journal* 7, no. 5 (September–October 1986), pp. 423–436; and Brian K. Boyd, “Strategic Planning and Financial Performance: A Meta-analytic Review,” *Journal of Management Studies* 28, no. 4 (July 1991), pp. 353–374.


43. Ibid.
