

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
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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.

Strategic Management in the Health Care System

Strategic management concepts have only been seriously employed within health care organizations since the adoption of prospective payment in 1983. Prior to that time, individual health care organizations had few incentives to employ strategic management because typically they were independent, freestanding, not-for-profit institutions, and health services reimbursement was on a cost-plus basis. The prospective payment system, established by Medicare (now the Centers for Medicare and Medicaid Services, or CMS), was a result of the Social Security Act of 1983 that created a fee structure (diagnosis-related groups or DRGs) for services to determine reimbursements. The change in reimbursement policy forced health care organizations to begin to develop strategies to deliver high-quality care and, at the same time, become more efficient.

Strategic management provided the tools for health care leaders to think through reimbursement and other changes taking place in the industry. As a result, in many respects, health care became a complex business using many of the same processes and much of the same language as the most sophisticated business corporations. Certainly, as the health care system continued to evolve, 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, were originally developed in the business sector.

Although the values and practices of business enterprises in the private sector have been advocated as appropriate models for managing health care organizations, a legitimate question arises concerning the appropriateness of the assumption that business practices are always relevant to the health care system. Certainly, not all the “big ideas” have delivered what was promised, even in business.¹¹ It has been pointed out that:

- Some strategic alternatives available to non-health care organizations may not be realistic for many health care organizations.
- Health care organizations have unique cultures that influence the style of and participation in strategic planning.
- Health care has always been subject to considerable outside control.
- Society and its values place special demands on health care organizations.¹²

Over time business approaches increasingly have been modified to fit the unique aspects of health care organizations, and today health care organizations have strategic management processes uniquely their own. Strategic management, especially when customized to health care, provides the necessary processes for health care organizations to cope with changes in health policy as well as other changes that have been occurring in the industry. As can be observed world-wide, referendums, elections, and changes in government can have a substantial impact on organizations and a clear understanding of the difference in health policy and strategic management is essential.

Strategic Management Versus Health Policy

There has been and continues to be substantial health planning (policy) in the United States. Health planning is initiated by either state or local governments

and the resulting health policies are implemented through legislation or private or non-governmental agencies. Generally, *health policy* sets the rules, regulations, legislation, and executive actions that apply to consumers and providers of health care. Many health policies 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).¹³ 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 Essentials for a Strategic Thinker 1–3, “What Is Health Policy?” 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 concerns the activities of only one organization. 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.

ESSENTIALS FOR A STRATEGIC THINKER 1–3

What Is Health Policy?



Formally, health policy is the development and maintenance of an infrastructure to efficiently enhance the health of the public. Informally, health policy determines the rules that apply to all consumers and providers.

An infrastructure need not imply a governmentally-financed health care system nor the delivery of services by a governmental entity. What it does imply is a set of institutions that meet the preferences of most of the society. These institutions can take many forms, ranging from unfettered markets to the provision of services by governments.

The role of health policy is to determine the preferences of the society and to develop and fine tune institutions that can efficiently meet those preferences. Satisfying preferences may mean defining the ground rules under which insurers and providers compete. It may mean

defining those services that will be provided by only a single provider, and then deciding whether that provider will be a public or private organization. It will certainly mean revisiting these decisions as new ways of doing things and new problems emerge.

Congress, the state legislatures, and the administrative authority given to executive branches and their agencies set health policy. Therefore, the Center for Medicare and Medicaid Services determines much of the health policy for federally funded Medicare and federal/state funded 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.

Many analytic tools come into play to help in determining 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. 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.

The Dimensions of Strategic Management

Many ways are possible to think about strategic management in organizations.¹⁴ These approaches can be broadly grouped into two distinct views – those that assume that with proper analysis a workable strategy can be prescribed in advance, then carried out, versus those with the underlying assumption that too much complexity and change exists for a complete and viable plan to be worked out in advance, thus the strategy will emerge over time. These two fundamental views of strategic management are referred to as the analytical or rational approach and the emergent approach.¹⁵ Specifically, *analytical* or *rational approaches* to strategic management rely on a logical sequence of steps or processes (linear thinking) to develop a predetermined logical plan and carry it out without change. An *emergent approach*, on the other hand, relies on intuitive thinking, leadership, and learning with the understanding that because of external change, strategic plans evolve as strategy unfolds and the organization learns what works and what does not. Both approaches are valid and useful in explaining an organization's strategy and neither the analytical approach nor the emergent view, by itself, is enough. As one author 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.¹⁶

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 industry, 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. A *map* is a convenient metaphor for a predetermined plan, guideline, or method. Maps are better in known worlds – worlds that have been charted before. A *compass* serves as a useful metaphor for an intuitive sense of direction and leadership. Compasses are helpful when leaders are not sure where they are and have only a general sense of direction.¹⁷

Managers may use the analytical approach to develop a strategy (map) as best they can from their understanding of the industry 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.”¹⁸ 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.¹⁹ Similar to the scientific method, which in theory has clear specific steps to be followed, in reality strategy making is a messy process with many starts and stops.

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 view their strategies in a cohesive, integrated, and systematic way.²⁰ Without a model or map, managers run the risk of becoming totally incoherent, confused in perception, and muddled in practice.²¹

Combining the Analytical and Emergent Views

In this text, a series of “strategic thinking maps” are presented. A *strategic thinking map* depicts an intellectual process guided by a logical plan of action (set of guidelines) and is used to describe approaches, guidelines, or analytical methods leading to a strategic plan or components of a strategic plan. These maps are designed to initiate strategic thinking as well as strategic planning and foster new thinking and planning when required. The strategic thinking maps start the journey to develop a comprehensive strategy for the organization, yet maps are not dynamic and cannot anticipate every change or 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 proceed. As the physicist David Bohm observed, the purpose of science is not the “accumulation of knowledge” but rather the creation of “mental maps” that start our journey to further discovery.²²

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, 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 interrelated components – strategic thinking, strategic planning, and strategic momentum. These activities are interdependent; activities in each element affect, and are affected by, the others.

EXHIBIT 1-1 Model of Strategic Management

Effective strategic managers are strategic thinkers with the ability to evaluate the changing industry, 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 is developed, strategic managers must manage and control 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 situational analysis.

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

Strategic Thinking

Strategic thinking is an intellectual activity underlying strategic management that is perceptive to emerging changes, considers strategic implications, and develops transformative responses. At its most fundamental level, strategic thinking includes the states of awareness, anticipation, analysis, interpretation, synthesis, and reflection. The abilities and behaviors associated with and supportive of each of the strategic thinking states are described in Exhibit 1-2.

EXHIBIT 1–2 Strategic Thinking Activities

Strategic Thinking States	Supporting Abilities and Behaviors
Awareness	Mindfulness and external orientation; perception of and hypersensitivity to change.
Anticipation	Projects the present; keenly considers/envisions (imagines) the future; links issues and finds new meanings; high level of expectancy; conceptualization.
Analysis	Systems perspectives and critical thinking to examine changing issues; combining and assessing quantitative and qualitative data.
Interpretation	Transformative, divergent, innovative, creative, and visionary perspectives; accurate assessment and use of data; ability to incorporate different perspectives.
Synthesis	Links issues and summarizes their implications using systems perspectives and vision grounded in reality.
Reflection	Re-consideration of interpretation and synthesis; reality testing; evaluation; and opinion seeking.

Strategic thinking may proceed as a linear process; however, most of the time these are non-linear activities and may occur in any order and in combination with each other. Indeed, reflection may occur before interpretation or with anticipation, and synthesis may occur simultaneously with all the states. More broadly, although strategic thinking is depicted in the model of strategic management in Exhibit 1–1 as a separate process from strategic planning and strategic momentum, it is inherent to both. Strategic thinking does not necessarily come first or before strategic planning takes place; it is a part of every step in the strategic planning process and managing strategic momentum. Strategic thinking affects and is affected by strategic planning and strategic momentum.

Central to Leadership Strategic thinking asks people to position themselves as leaders and see the “big picture.” It has been observed that leaders, similar to great athletes, must simultaneously play the game and observe it as a whole.²³ 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.²⁴ This skill is similar to an athlete 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. Continuing the sports metaphor, 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 thinkers see the future. 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 their book *The Leadership Challenge* 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.”²⁵ Strategic thinkers draw on 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.
- Considers context, organizational fit, and industry dynamics.

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 the world. In that assessment, strategic thinking includes and employs several types of thinking or framing perspectives, including thinking that is systems oriented, critical or logical, innovative, creative, transformative, divergent, and visionary. The essential focus of these framing perspectives is illustrated in Exhibit 1–3.

EXHIBIT 1–3 Strategic Thinking Framing Perspectives

Framing Perspectives	Essential Focus
Creative Thinking	Focuses on unique imaginative solutions that are new to the organization for all types of issues or problems.
Critical Thinking	Focuses on rationality; a logical, fact-based analysis and critique.
Divergent Thinking	Focuses on non-traditional solutions; explores different innovative responses rather than commonly accepted solutions.
Innovative Thinking	Focuses on introducing something new, better, or different – a pioneering breakthrough in processes, product/services, or solutions to issues.
Transformative Thinking	Focuses on challenging accepted beliefs, assumptions, perspectives, and premises; redefines issues using a different perspective.
Systems Thinking	Focuses on understanding the whole and the relationships of its components including interrelationships and interdependencies.
Visionary Thinking	Focuses on the future and possible future states.

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.²⁶ 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. Strategic thinking is very much a leadership activity and quite different from the work of subject matter experts. For example, strategic thinkers specialize in relationships and context, whereas expert thinkers specialize in well-defined disciplines and functions. Strategic thinkers act on intuition and “gut feel” when data is incomplete, whereas experts pay rigorous attention to knowledge, evidence, and existing data. Strategic thinkers focus on action and moving forward; experts focus on understanding.

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.²⁷ Everyone, at all levels, 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 on 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 should 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:

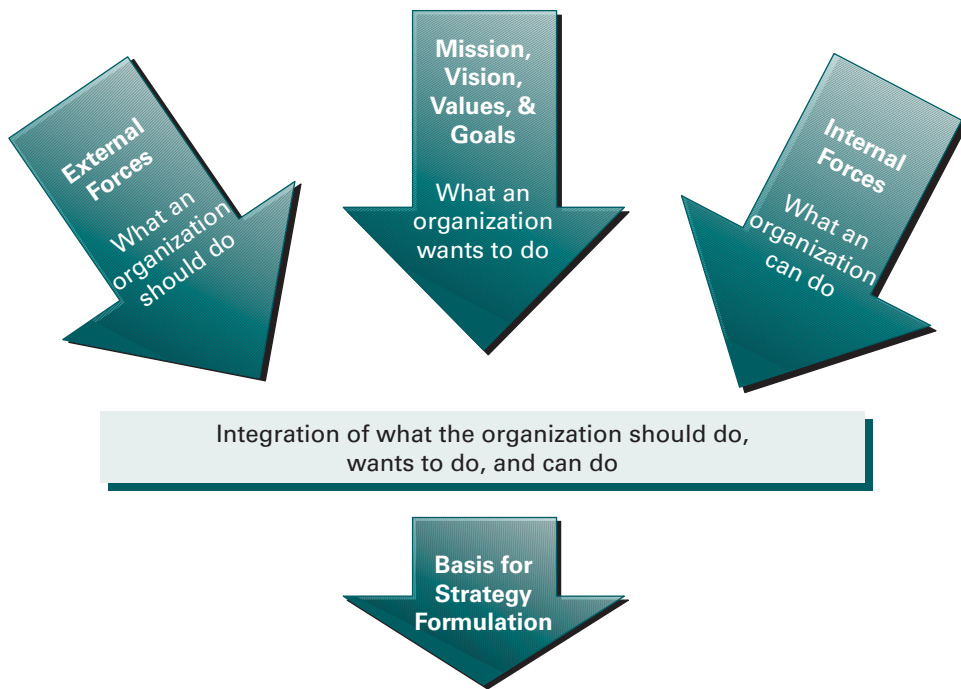
- Provides a sequential, step-by-step process for creating a strategy.
- Involves periodic group strategic thinking (brainstorming) sessions.
- Requires data/information, but incorporates consensus and judgment.
- Establishes organizational focus.
- Facilitates consistent decision making.
- Reaches consensus on how the organization fits within its industry.
- 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. Because strategic planning provides a platform for setting direction for an organization, it is seen as essential for all types of organizations. Bain and Company, a global consulting firm, tracks the trends in management concepts. They accomplish this tracking by means of a survey of executives throughout the world. In most years of the survey, strategic planning has ranked as the number one management concept used by the responding executives. In its most recent ranking, strategic planning was tied with benchmarking as the second most often used management tool.²⁸

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 fundamentally 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 such as where to attend college, whether or not to get married, and where to live are largely informed judgments or intuitions. 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.

Decision consistency is central to strategy; when an organization exhibits a consistent behavior it is, at least implicitly, manifesting a strategy. Therefore, strategy is the consistent behavior of an organization in coping with technological, social and demographic, economic, legislative/political, and competitive forces. Optimally, the strategy is well thought out and moves the organization from where it is today to a desired state in the future. The strategic plan is the set of decision-making guidelines or road map for carrying out the strategy and helps to ensure decision consistency. Developing the road map (strategic plan) requires situational analysis, strategy formulation, and planning the implementation of the strategy.

Situational analysis is a process of understanding and documenting an organization's: (1) external analysis; (2) internal 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 (see Exhibit 1–4). External forces, such as a change in health policy or an increase in competition, suggest “what the organization should do.” That is, success is a matter of being effective – 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 “what the organization wants to do.”

EXHIBIT 1-4 Interrelated Activities that Drive Strategy

The directional strategies are the result of considerable thought and analysis by top management. *Directional strategies* are the broadest strategies, set the fundamental direction of the organization, and generally include the organization's mission, vision, values, and strategic goals. 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.

Whereas situational analysis involves a great deal of strategic thinking – awareness, anticipation, analysis, interpretation, synthesis, and reflection – strategy formulation involves decision making that uses the synthesis to create a plan. Hence, *strategy formulation* is the process of developing strategic alternatives, evaluating alternatives, and making strategic choices. Typically, these decisions are made in strategic planning sessions.

Once the strategy for the organization has been formulated (including directional, adaptive, market entry/exit, and competitive), implementation plans that accomplish the organizational strategy are developed. An *implementation plan* is a series of steps/activities that are formulated to accomplish strategic goals and are developed in the key areas that create value for an organization – service delivery and support activities. 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.

A Group Process of Key Players The CEO or 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 typically should be 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, and critical analysis. Strategic planning efforts will be diminished without future-oriented highly provocative thinking and dialog.²⁹

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 and exciting plan be realized.

The key to successful strategic planning is to have a recurring group process. Having a periodic structured process initiates reflection, reconsideration, discussion, and documentation of all the assumptions. Without a planned process, managers may 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 pivotal to achieve the best possible outcome.

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 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 “[s]trategy 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.”³⁰

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

- Addresses the management of the actual work to accomplish specific objectives.
- Concerns decision-making processes and their consequences.

- Shapes the style and culture.
- Evaluates strategy performance.
- Controls strategy implementation by making necessary adjustments.
- Is a learning process.
- 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 realize strategic intent. Poor implementation or lack of adequate control has rendered many strategic plans worthless. Whereas the strategic plan and its underlying strategic thinking must be viewed as critical elements of the strategy-making process, without attentive implementation and the decision-making guidelines provided for managers at all levels in the organization, they become useless. If the strategy is not actively controlled, it will not happen. See Essentials for a Strategic Thinker 1–4, “What Is Management Control?” that examines the nature of management control.

ESSENTIALS FOR A STRATEGIC THINKER 1–4

What Is Management Control?



To control means to regulate, guide, or direct. To manage means to control, handle, or direct. Therefore, management and control both focus on guiding, influencing, and directing behavior; indeed, management is control and control is management. The very act of managing suggests controlling the behavior or outcome of some process, program, or plan. Vision, mission, values, and strategies are types of controls. Similarly, policies, procedures, rules, and performance evaluations are clearly organizational controls. All of these are attempts to focus organizational efforts toward a defined end. Yet, if these tools are improperly used, employees may perceive control to be dominating, overpowering, dictatorial, or manipulative.

When processes are poorly managed, control runs afoul as well. It is interpreted as domination when management enforces too much control and manages too closely by controlling

subprocesses or too many details. Management requires the right touch. If control is too far reaching, it can foster a hopeless bureaucracy. If control is too weak, there may be a lack of direction causing difficulty in accomplishing organizational goals. When there is too much management (control), then innovation, creativity, and individual initiative will be stifled; when there is too little, chaos ensues. Management should focus efforts but not be tyrannical or overbearing.

Given how easy it is to overdo management (control), a general rule of thumb is that “less is best.” Setting direction and empowering people to make their own decisions on how best to achieve the vision seems to work. Effective management (control) is essential if organizations are to renew themselves; however, over managing (over controlling) can destroy initiative and be viewed as meddling, often reducing motivation as well.

At the same time, managers often need to react to unanticipated developments and new competitive pressures. Such 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.³¹ Managing strategic momentum is how an organization constructively manages change, evaluates strategy, and reinvents or renews the organization. As management expert Henry Mintzberg has indicated, "... a key to managing strategy is the ability to detect emerging patterns and help them take shape."³²

Learning as the Strategy Unfolds Changing societal and industry characteristics and evolving organizational forms require new and different ways of defining strategy.³³ Strategy may be an intuitive, entrepreneurial, political, culture-based, or learning process. In these cases, past 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.³⁴ It requires a renewed concentration on managing strategic momentum.

Clearly, just because a strategy is rational does not mean that it will work out as envisioned or planned (an *unrealized strategy*). In other cases, an organization may end up with a strategy that was unexpected, developed as uncontrollable and unanticipated external events unfolded – 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 for a strategy to be developed and subsequently work out successfully (a *realized strategy*); 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:

- 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.
- Society or the industry 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 powerful external forces.³⁵
- Other organizations 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 broadened their

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 ultimately 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 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 leadership author Max DePree has suggested, “Leaders are obligated to provide and maintain momentum.”³⁶ 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.³⁷

The Benefits of Strategic Management

The three stages of strategic management – strategic thinking, strategic planning, and 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.
- Often improves financial performance.³⁸
- 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.
- 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 functions and operational

responsibilities. It insists that everyone adopt 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.”

Health care leaders require a comprehensive strategic management approach to guide their organizations through general environment and health care system changes. Strategic management concepts, activities, and methods presented in this text will prove to be valuable in coping with these changes. In addition, the internal, non-quantifiable benefits of strategic management will aid health care organizations in better integrating functional areas to strategically utilize limited resources and satisfy the various populations 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 ideas, 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 a process, not a series of documents. Similarly, strategic management should not be undertaken solely 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.³⁹

Strategic management is not 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

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.”⁴⁰ 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. A system must have a unity of purpose

in the accomplishment of its goals, functions, or desired outputs. Further, biological as well as organizational systems must continually adapt to their environments to survive.

The problems facing organizations are often so complex that they defy simple solutions. Understanding the nature of the health care system, the relationship of the organization to that industry, and the often-conflicting interests of the organization's internal departments requires a broad conceptual paradigm. Yet, it is difficult to comprehend so many multifaceted and important relationships. Strategic managers have found viewing organizations as *complex adaptive systems* – interacting structures evolving in response to change – to be useful for organizing their strategic thinking.⁴¹

A *systems perspective* is a way of understanding a phenomenon by perceiving the whole as well as its interactive elements (subsystems). Understanding complicated adaptive systems through a systems perspective:

- 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.
- Provides a basis for redesign.

Using a systems perspective and viewing organizations as complex adaptive systems requires strategic managers to define the organization in broad terms and to identify the relevant variables and interrelationships that will affect decisions. By defining systems, strategic managers are able to accurately see the “big picture” and avoid devoting excessive attention to relatively minor aspects of the total system. A systems perspective permits strategic managers to concentrate on those facets of the problem that deserve the most attention and allows for a more focused attempt at resolution. As American systems scientist and lecturer Peter Senge has indicated, systems perspectives help us to see the total system and how to change the pieces within the system more effectively and intelligently.⁴²

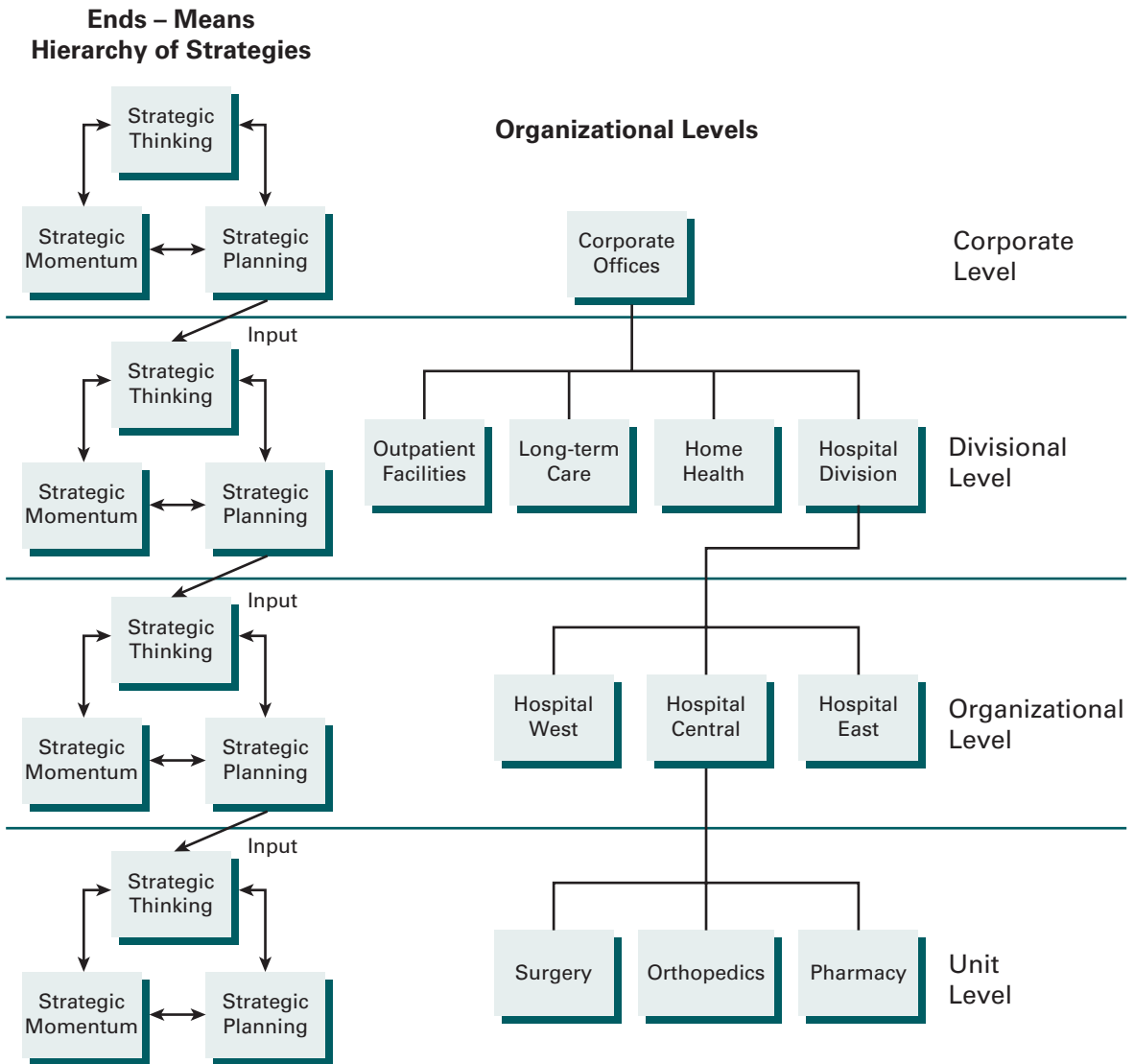
Recognizing the importance of a systems framework, health care managers commonly refer to “the health care system” or “the health care delivery system” and strive to develop logical internal organizational systems to succeed in the industry.⁴³ In a similar manner, health care strategic managers must use systems to aid in strategically thinking about the external conditions. 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, as illustrated in Exhibit 1-5, strategies may be developed for large, complex organizations, divisions within a broader organization, individual organizations such as for a hospital, or for well-focused functional units. The range of the strategic decisions that are considered at different organizational levels is quite different, but all entities can benefit from strategic management and all engage in strategic thinking, strategic planning, and strategic momentum.

EXHIBIT 1-5 The Link between Levels of Strategic Management



A large integrated health care system would likely develop strategy for a number of levels – a corporate level, a divisional level, an organizational level, and a unit level. When considered together, these strategic perspectives create a hierarchy of strategies that must be consistent and support one another. Each strategy provides the “means” for accomplishing the “ends” of the next 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 the hypothetical example in Exhibit 1–5, the strategic planning of higher-order strategies provides part of the context or input for lower-order strategy – the corporate strategic plan is an input to strategic thinking at the divisional level (Hospital Division). Similarly, the divisional strategic plan is an input to the organizational level strategic thinking (Hospital Central) and so on.

As a practical example, Trinity Health is an integrated health system that develops strategic plans at a number of organizational levels. Trinity Health is one of the largest multi-institutional Catholic health systems in the United States and serves people in 22 states. As of the beginning of 2017, Trinity had over \$23.4 billion in assets, \$15.9 billion in revenues, and was comprised of 93 hospitals, and 120 continuing care facilities, home care agencies, and outpatient centers. Clearly, strategies should be developed for the corporate level – Trinity Health, for each major division such as Saint Joseph Mercy Health System, for each distinct organization within the division such as Saint Joseph Mercy Ann Arbor Hospital, and within the various hospital units (clinical operations).

Corporate-Level Strategy A *corporate-level strategy* is an overall plan for the broadest organizational level that positions the organization in multiple markets served with multiple products and addresses 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, such as wellness or mental health centers, should Trinity consider?” Once consensus is reached regarding the corporate strategy, the process continues at the next organizational level – the divisional level.

Divisional-Level Strategy A *divisional-level strategy* is an overall plan for a corporate division or a single product, single market organization. These strategies are more focused than corporate-level strategies 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 in well-defined markets.

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 considering different types of businesses. Once divisional-level strategies have been developed, strategy making continues down the organizational chain to the organizations within the division.

Organizational-Level Strategy Within a division, individual organizations may develop strategies as well. An *organizational-level strategy* is an overall plan for one organization competing within a specified well-defined market. 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?” After organizational strategies have been developed, the process may continue within the departmental units of the organization.

Unit-Level Strategy A *unit-level strategy* is an overall plan for an individual department within an organization that supports higher-level 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 are intended to integrate the various subfunctional activities as well as creating internal capabilities across functions (for example, quality programs or changing the organization’s culture).⁴⁴

Strategy Hierarchy Strategic management may be employed independently at any organizational level. However, it is much more effective if there is 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. At this level of leadership, such an individual must be able to inspire, organize, and implement effective pursuit of a vision and maintain it even when sacrifices are required.⁴⁵ A 10-year study of CEO performance across all major industries found that the most effective CEOs: (1) were able to be decisive, recognizing that they could not wait for perfect information, (2) worked to understand the priorities of stakeholders

and incorporate those needs into goals of value creation, (3) were able to adjust to rapidly changing conditions, and (4) reliably produced results over time.⁴⁶

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 day to day, from audience to audience.⁴⁷ If the CEO, as the organization's leader, does not fully understand or faithfully support strategic management, it will not happen. The Essentials for a Strategic Thinker 1–5 further answers the question “What is Leadership?”

ESSENTIALS FOR A STRATEGIC THINKER 1–5

What Is Leadership?



Leadership involves creating a vision and sharing it, aligning individuals and building coalitions, motivating and inspiring.¹ Leadership is a choice, not a rank or a position. It is a behavior, not a trait. Behaviors can be learned and so can leadership. Some have argued that leaders are born; but the evidence suggests that anyone can become an effective leader.

We, the authors of this textbook, think of leaders as people who: (1) establish organizational direction and (2) shape organizational culture. Setting direction involves understanding the organization's industry and developing and communicating the mission, vision, values, and goals for the future that make the organization as relevant as possible. Internally, shaping culture is a matter of affecting the intrinsic habits, customs, and norms of individuals as well as the social, structural, and decision-making context of the organization.

Establishing direction is accomplished by shaping strategic consensus through the strategic management processes of strategic thinking, strategic planning, and strategic momentum. Shaping the organization's culture involves instilling attributes such as teamwork, quality, trust, innovation, customer orientation, and so on to make the organization adaptive to

change. In addition, leaders create an organizational context by creating an appropriate culture for adaptation and response to external change while shaping internal organizational practices, rules, procedures, decision making, and views of risk.

Although they are equally important to create efficient and effective organizations, leadership and management are different in many respects. Management is about efficiency and order while leadership is about change. More specifically, comparing managers and leaders indicates that:²

- Managers administer; leaders innovate.
- Managers are copies; leaders are originals.
- Managers focus on systems and structure; leaders focus on people.
- Managers rely on control; leaders inspire trust.
- Managers have a short-term view; leaders have a long-term perspective.
- Managers ask “how” and “when”; leaders ask “what” and “why.”
- Managers have an eye on the bottom line; leaders have an eye on the horizon.
- Managers initiate; leaders originate.

- Managers accept the status quo; leaders challenge it.
- Managers are classic good soldiers; leaders are their own person.
- Managers do things right; leaders do the right things.

There are no honorary leaders. Leadership is an art that must develop and evolve. Leadership is an achievement that no organization can bestow.

It is something that must be earned through hard work, enthusiasm, and commitment.

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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 all the contingencies 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 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 conditions (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 top managers act as an extension of the CEO to ensure that an organized – and one that is used – planning process ensues.⁴⁸

The remainder of this text provides processes for strategic management presented in the model of strategic management (Exhibit 1–1). Chapter 2 provides strategic thinking maps for examining the general environment and health care systems as well as the service area and Chapter 3 concentrates on service area competitor analysis. Chapter 4 discusses internal analysis 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. Strategic thinking maps for strategy formulation are presented in Chapters 6 and 7. Strategy implementation is discussed further in Chapters 8 through 10.

Chapter Summary

Strategic management is often a 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 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 government agencies; health care managers are finding it essential for their organizations as well. The strategic management model presented and discussed in this chapter is applicable to a variety of health care organizations operating in dramatically different segments of the industry, 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 – awareness, anticipation, analysis, interpretation, synthesis, and reflection – within situational analysis combine to influence strategy formulation. Strategy formulation in turn affects planning the implementation. Finally, the strategy must be managed, evaluated, controlled, 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. Strategic momentum essentially continues strategic thinking and strategic planning.

The model of strategic management (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 to understand 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 management model 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 industry 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 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 external and internal factors, incremental adjustments and guided evolution are the best they can do.⁴⁹

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, challenging to create any type of momentum for the organization, and hard to develop and maintain

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.

Practical Lessons for Health Care Strategic Thinkers

1. A conceptual model of strategic management is not just an academic exercise nor is it a passing fad. If managers are going to engage in strategic planning in an organization and be successful, they must understand how strategic thinking, strategic planning, and strategic momentum fit together and the nature of each.
2. The strategic management processes provide the “road map” for all the activities and decisions in the organization. They create organizational momentum and keep everyone informed – one has to have a plan to start a journey.
3. Even the best strategic plans may not work out; therefore, strategic managers must be ready to learn what is working and what is not working as the plan unfolds and adjust the implementation, the strategy itself, or their understanding of the situation.
4. All strategies are temporary; there is just too much social, economic, competitive, and political change for a strategy to be effective forever; therefore, in the long term, to be successful the strategy has to change.
5. In organizations, strategic management and leadership are the same thing; vision and a future orientation are essential.
6. Strategic managers should focus on keeping the organization relevant and creating momentum.

THE LANGUAGE OF STRATEGIC MANAGEMENT: KEY TERMS AND CONCEPTS

Analytical/Rational Approach	Leadership	Strategic Service Unit (SSU)
Compass	Long-Range Planning	Strategic Thinking
Complex Adaptive System	Map	Strategic Thinking Map
Corporate-Level Strategy	Organizational-Level Strategy	Strategy
Directional Strategies	Realized Strategy	Strategy Formulation
Divisional-Level Strategy	Situational Analysis	System
Emergent Approach	Strategic Business Unit (SBU)	Systems Perspective
Emergent Strategy	Strategic Management	Unit-Level Strategy
Health Policy	Strategic Momentum	Unrealized Strategy
Implementation Plan	Strategic Planning	

Questions for Class Discussion

1. Explain why strategic management has become crucial in today's dynamic health care system.
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 view of strategic management with the emergent, learning approach. 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 strategic momentum.
10. In an organization, 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 cause well-thought-out strategies that were developed using all the steps in strategic planning to change?
14. Explain and illustrate the possible benefits of strategic management. What types of health care institutions may benefit most from strategic management?
15. 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?

Notes

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