Chapter 1

The Nature of Strategic Management
1. Explain why strategic management has become crucial in today’s dynamic health care environment.
Chapter 1 Learning Objectives

1. Explain why strategic management has become crucial in today’s dynamic health care environment.

2. Trace the evolution of strategic management and discuss its conceptual foundations.
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3. Describe and explain the concept of strategic thinking maps.
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4. Define and differentiate between strategic management, strategic thinking, strategic planning, and managing strategic momentum.
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2. Trace the evolution of strategic management and discuss its conceptual foundations.

3. Describe and explain the concept of strategic thinking maps.

4. Define and differentiate between strategic management, strategic thinking, strategic planning, and managing strategic momentum.

5. Understand the necessity for both the analytic and emergent models of strategic management.
Chapter 1 Learning Objectives

6. Understand how an organization may realize a strategy that it never intended.
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7. Understand the benefits of strategic management for health care organizations.
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8. Understand the importance of systems approaches.
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9. Explain the links between the different levels of strategy within an organization.
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7. Understand the benefits of strategic management for health care organizations.

8. Understand the importance of systems approaches.

9. Explain the links between the different levels of strategy within an organization.

10. Describe the various leadership roles 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.
“American Health Care is in a state of hyper-turbulence characterized by accumulated waves of change in payment systems, delivery systems, technology, professional relations, and societal expectations. It can be likened to an earthquake in its relative unpredictability, lack of a sense of control, and resulting anxiety.”

S.A. Shortell, R.R. Gillies, and K.J. Devers
What has Changed?

<table>
<thead>
<tr>
<th>World?</th>
<th>Health Care?</th>
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<tbody>
<tr>
<td>1.</td>
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## What has Changed?

### External Environment

<table>
<thead>
<tr>
<th>TYPE OF CHANGE</th>
<th>CHANGES</th>
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</thead>
<tbody>
<tr>
<td>Technological</td>
<td>The Internet and Online Banking</td>
</tr>
<tr>
<td>Social/Cultural</td>
<td>“On Demand” consumer preferences, desire for 24hr service</td>
</tr>
<tr>
<td>Demographic</td>
<td>Preferences/needs of Baby Boomers vs. Generation “Y”</td>
</tr>
<tr>
<td>Political/Regulatory</td>
<td>Security, privacy of financial data</td>
</tr>
<tr>
<td>Economic</td>
<td>Housing boom, housing bust, mortgage debacle</td>
</tr>
<tr>
<td>Competitive</td>
<td>Online-only banks (visual banks), Consolidation</td>
</tr>
<tr>
<td>Customer</td>
<td>With online banks, customer no longer needs to be “local”</td>
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</tbody>
</table>
“The Only Constant is Change”

- Legislative healthcare reform
- Increasingly restrictive reimbursement env’t
- Demographic shifts
- The baby boomers
- Shortages of providers
- High costs of new tech
- Further consolidation within the industry
- Growth of outpatient care
- Growth of home health
- Changes in managed care strategies
- Increase physicians in executive leadership
- Emerging focus on prevention
- Pressure to reduce overhead costs
Greek word *stratēgōs*, meaning “a general” which in turn comes from roots meaning “army” and “lead”

Greek verb *stratēgēō* means “to plan the destruction of one’s enemies through effective use of resources”

Many terms we associate today with “strategy” (e.g., objectives, mission, strengths, weaknesses) were developed by the military
Development of Strategic Management

- Long-Range Planning
Development of Strategic Management

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- Long-Range Planning
- Strategic Planning
- Strategic Management
- Strategic Management in the Health Care Industry
Health Policy

- Determines the rules that apply to all consumers and providers.
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- Develops and maintains an infrastructure to efficiently enhance the health of the public.
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- Defines the institutions that meet the preferences of most of society.
- Develops the rules under which insurers and providers compete.
- Is set by congress, state legislatures, executive branches, and agencies such as health departments, the Centers for Disease Control and Prevention, the Food and Drug Administration and so on.
The Dimensions of Strategic Management

- Strategic management is a way of thinking – an approach for managing complex organizations

  - Strategic thinkers **draw upon the past, understand the present, and can envision a better future**

  - Planners, on the other hand, figure out how to get where the strategic thinkers want to go
The Map
- Analytical or Rational Approach
- Logical Sequence of Steps
- Specific Processes
- Better in Known Worlds

The Compass

The Map and the Compass
The Map and the Compass

**The Map**
- Analytical or Rational Approach
- Logical Sequence of Steps
- Specific Processes
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**The Compass**
- Emergent Approach
- Relies on Learning
- Leadership Sets Direction
- Better in Uncharted Worlds
# Map and Compass

<table>
<thead>
<tr>
<th>Map</th>
<th>Compass</th>
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<tbody>
<tr>
<td>Planned</td>
<td>Emergent</td>
</tr>
<tr>
<td>Rational</td>
<td>Non-rational</td>
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<tr>
<td>Sequential</td>
<td>Random</td>
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<tr>
<td>Performance</td>
<td>Learning</td>
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<tr>
<td>Consistency</td>
<td>Change</td>
</tr>
<tr>
<td>Logical</td>
<td>Illogical</td>
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<tr>
<td>Order</td>
<td>Discontinuity</td>
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<tr>
<td>Efficiency</td>
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<td>Prescriptive</td>
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<tr>
<td>Evolution</td>
<td>Revolution</td>
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<tr>
<td>Control</td>
<td>Risk</td>
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<tr>
<td>Present</td>
<td>Future</td>
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<tr>
<td>Management</td>
<td>Leadership</td>
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Analytical and Emergent Views

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.
Strategic Management Processes

Strategic Thinking

- External Orientation
- Analyze data
- Question Assumptions
- Generate New Ideas
Strategic Management Processes

Strategic Planning

- Situation Analysis
  - External Analysis
  - Internal Analysis
  - Directional Strategies

- Strategy Formulation
  - Directional Strategies
  - Adaptive Strategies
  - Market Entry Strategies
  - Competitive Strategies

- Planning the Implementation
  - Service Delivery Strategies
  - Support Strategies
  - Action Plans

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Managing Strategic Momentum

- Managerial Action
- Strategy Evaluation
- Emergent Learning
- Re-initiate Strategic Thinking

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- Managerial Action
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Leading Strategically

- **Strategic Thinking** — an intellectual orientation, a way of thinking or mindset

- **Strategic Planning** — the periodic process of creating organizational momentum (a strategy)

- **Managing Strategic Momentum** — a philosophy and process of continuously leading and managing an organization using strategic thinking and periodic strategic planning
# Leading Strategically

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<th>Description</th>
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<td>Process of Leading and Managing the Strategy using Thinking and Planning</td>
<td>Organizational Management Processes</td>
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</table>
Strategic Thinking

- Requires a mindset – a way of thinking that:
  - Acknowledges the reality of change
  - Questions current assumptions and activities
  - Builds an understanding of systems
  - Envisions possible futures
  - Generates new ideas
  - Considers fitting the organization to the environment
Strategic Thinkers

- Do not assume that the organization will continue to do what it is presently doing.
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- Do not assume that the organization will continue to do what it is presently doing.
- Determine what the organization should stop doing.
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- Determine what the organization should stop doing.
- Determine what the organization should start doing that it is presently not doing.
- Determine what the organization should continue to do but perhaps in a fundamentally different way.
Strategic Planning

- Provides a sequential, step-by-step process for creating a strategy
- Involves periodic group strategic thinking sessions
- Requires data/information, uses consensus and judgment
- Establishes organizational focus
- Facilitates consistent decision making
- Determines what is required to fit with the external environment
- Results in a documented strategic plan
Linking Today and Tomorrow

Profile of Today
Mission

Strategy

Profile of Tomorrow
Vision (hope for the future)

Plan: budgets
Year: 1, 2, 3, 4, 5
Managing Strategic Momentum

- Actual work to accomplish specific objectives
- Concerns decision making process and their consequences
- Provides the style and culture
- Evaluates strategy performance
- A learning process
- Relies on and initiates new strategic thinking and new periodic strategic planning
“Organizations whose internal attributes fail to fit with their external environment for any extended period of time will be unsuccessful.”

“Leaders, like great athletes, must simultaneously play the game and observe it as a whole.”

Ronald Heifetz Harvard Professor
Benefits of Strategic Management

- Ties the organization together with a common sense of purpose and shared values
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- Requires managers to communicate both vertically and horizontally
Benefits of Strategic Management

- Improves overall coordination within the organization
Benefits of Strategic Management

- Improves overall coordination within the organization
- Encourages innovation and change within the organization to meet the needs of dynamic situations
What Strategic Management is Not

- Not a quick fix
- Not a technique or gimmick
- Not just a yearly planning retreat
- Not paper intensive
- Not a regulatory document
- Not just an extension of last year’s plan
- Not just based on forecasts of current operations
Chapter 1 Conclusions

After reading Chapter 1, you should be able to define the following terms:

<table>
<thead>
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<th>Key Terms</th>
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<td>Analytical/Rational Approach</td>
<td>Strategic Business Unit (SBU)</td>
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<td>Corporate-Level Strategy</td>
<td>Strategic Management</td>
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<tr>
<td>Directional Strategies</td>
<td>Strategic Planning</td>
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<tr>
<td>Divisional-Level Strategy</td>
<td>Strategic Service Unit (SSU)</td>
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<td>Emergent Strategy</td>
<td>Strategic Thinking</td>
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<tr>
<td>Health Policy</td>
<td>Strategic Thinking Map</td>
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<tr>
<td>Implementation Plans</td>
<td>Strategy</td>
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<td>Systems Approach</td>
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<td>Organizational-Level Strategy</td>
<td>Unit-level Strategy</td>
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<tr>
<td>Rational Approach</td>
<td>Unrealized Strategy</td>
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