William Q. Judge, *Editor*

Strategic Management of Healthcare Organizations

A Stakeholder Management Approach

Jeffrey S. Harrison
Steven M. Thompson

BUSINESS EXPERT PRESS

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Abstract

Few industries are buffeted from as many strong forces as healthcare. The industry is highly regulated, thus dramatically increasing costs and sometimes even interfering with the ability to deliver healthcare. New drugs, treatments, and medical technologies are so common that keeping track of them can be overwhelming, and incorporating them into patient care or administration can be costly and complicated. On the social side, different groups have different opinions on any given topic and often the *right thing to do* depends on your point of view. Third party payers add another level of complexity, and competition adds yet another layer of difficulty as organizations seek to grow patient volume by positioning themselves as distinguished in terms of cost, quality, accessibility, and quality of patient experience.

Dealing with these strong dynamic forces requires innovative solutions that address the needs of a large number of constituents, which we call stakeholders. However, as any experienced healthcare executive knows, making changes to a healthcare delivery system is like trying to modify an aircraft while it is in flight. The process is complicated and the consequences of mistakes can quickly lead to disaster. What is needed is a new approach to managing healthcare organizations, an approach that will unlock innovation and create more value for a broad group of industry participants.

Fortunately, such an approach exists. Stakeholder theory was specifically developed to help managers deal with complex environments characterized by high levels of uncertainty and change, as well as a high level of interdependence among participants. The principles upon which stakeholder theory is based lead organizations to develop cooperative and trusting relationships with their major stakeholders. These relationships are a source of innovative ideas, efficiency, and reciprocity manifested through high levels of motivation, loyalty, and ultimately the creation of more value in the organization's system. This book lays a stakeholder foundation for managing a healthcare organization strategically. It contains step-by-step tactics as well as examples of HCOs that are having success with various aspects of the stakeholder approach in their organizations.

The book is especially suited to middle- and upper-level managers in healthcare organizations, as well as students of healthcare administration; however, anyone currently in the healthcare field will also find it useful.

Keywords

competitive advantage, efficiency, ethical management, healthcare, innovation, performance measurement, stakeholder management, stakeholder theory, strategic management

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Preface

We wrote this book to help healthcare firms and their administrators successfully navigate what is one of the most challenging industries of this century. In addition to high levels of regulation, increasing costs, and a constant flow of new technologies and drugs, health care is morally and ethically complicated.[1] Various groups such as patients, doctors, community leaders, nongovernmental organizations (NGOs), third party payers, and regulators have different opinions on any given topic, and finding a middle ground can be a challenging task. As the costliest health system in the world, health care organizations and the U.S. health care system in general make easy targets for politicians, NGOs, and the media.

Given this challenging and complex environment, it is not surprising to find dissatisfaction among some industry participants. Healthcare providers such as doctors often feel overwhelmed and dissatisfied. For example, a physician who left clinical practice describes "the stresses of practicing medicine in a health care system that often seemed blind to humanness, both mine and my patients."[2] Also, while the majority of patients may believe they are getting good care, others complain about high costs, long wait times, or the availability of particular types of care, whether as a result of scarcity, regulations, or third party payers unwilling to pay for them.

On the positive side, in spite of inefficiency and other problems in the current system, the vast majority of those who provide the care, as well as those who administer the programs, are genuinely committed to what they do, and for the right reasons. Furthermore, they tend to be some of the brightest, best-trained workers. So why is the healthcare industry in so much trouble? We suggest that it is not lack of healthcare knowledge and training that is the primary source of problems, but rather lack of appropriate administrative training is the culprit.

Many of the most popular business models that form the intellectual foundation of healthcare administration today are poorly suited to such a complex and turbulent environment. Many are built on the premise

that financial returns should be the superordinate goal of any organization. They are founded on a short-term philosophy that sometimes leads to the neglect of the needs of one stakeholder group or another. To some extent, these finance-driven models are also built on the idea that humans are completely self-interested; thus, leading to mistrust and a whole set of safeguards that are built into the administrative system in terms of the way the organization is run and how it interacts with other organizations. These safeguards are sometimes necessary, when they involve patient safety, but as they extend into the administrative processes of the firm they can stifle it a time when innovation is most needed to deal with the problems healthcare organizations are facing. In addition to the finance-based models, tools focused on operations tend to be focused on efficiency, and they make it difficult to factor in important variables like patient or staff satisfaction.

Stakeholder theory is based on important principles such as cooperation, relationship building, fairness, integrity, reciprocity, long-term thinking, and win-win solutions. Consequently, it is well suited to help managers deal with complex environments characterized by high levels of uncertainty and change, as well as a high level of interdependence among participants.[3] The practical application of stakeholder principles leads organizations to develop cooperative and trusting relationships with their major stakeholders, leading to higher levels of innovation, efficiency and value creation.[4]

Because of its practical approach to managing complexity and change, *managing for stakeholders* is becoming an increasingly popular management approach. We include in this book examples of HCOs that are having success with various aspects of this approach. However, we have observed many successful stakeholder oriented organizations across a variety of industries: Whole Foods, Harley Davidson, Ikea, and Honda are examples. We have been involved in some research with Andrew Wicks of the Darden School, University of Virginia, in which we interviewed very high-level executives from a variety of firms and industries regarding how they see stakeholder theory being applied today in their own firms as well as other firms. We would like to share just a few of their comments. Because the research is not published yet we will not include the names of the executives.

- Luck Companies, a large construction aggregates manufacturer: "What we said is we're going to bet the farm on an idea that doing good, positively impacting the lives of our associates, customers, and communities, is the best path to doing well, making money… We are betting the farm on stakeholder theory, betting the farm on it."
- SunTrust, a financial services holding company: "We agree that value creation for a firm extends beyond the traditional focus on shareholder return determined by quarterly financial results. It is important for companies to take a wider view of the stakeholders that they serve in order to predict the longer-term health of the company and its ability to deliver sustained value."
- MeadWestvaco, a diversified global industrial manufacturer and service provider: "I would say that the general trend over the last 10 years has been that more firms are paying attention to these issues."
- Unum Group, a large international insurance company: "… I think we very much support the concept of multiple stakeholders and the growing importance of those stakeholders and, frankly, it defines the brand of this company."

This book combines a stakeholder management approach with the most essential principles and practices of strategic management. Furthermore, it is designed specifically for healthcare organizations. We bring to this book decades of combined experience that makes us well suited to write it (see About the Authors on page 117). We are passionate about this subject matter, and want to do what we can to help healthcare organizations cope better with the administrative challenges they are facing.

We would be remiss if we did not acknowledge the influence of several great scholars and friends in the writing of this book. Our list is long, but the most influential include Edward Freeman, Andrew Wicks, Robert Phillips, Douglas Bosse, Caron St. John and Graham Kenny. We would also like to acknowledge the constant support of our wives, Marie and Kim, during this project and in all our other professional endeavors.

You are also one of our important stakeholders, and we would love to hear from you. Our e-mail addresses are harrison@richmond.edu and sthomps3@richmond.edu.

Jeff and Steve
University of Richmond
November 2014

CHAPTER 1

A Practical Approach to Strategic Management of Healthcare Organizations

In healthcare, effective leadership and the successful implementation of new initiatives are the result of collaboration among a variety of constituencies inside and outside the firm. While this statement may be true in other settings, healthcare administrators face an especially complex environment in which any one unit within an organization or even an entire organization rarely possesses all of the resources required to achieve its goals; consequently, effective collaboration with stakeholders both within and outside the organization is absolutely critical to goal achievement. Also, organizations in other industries often enjoy the benefits of unambiguous objectives among the various groups and individuals that must come together in order to achieve a goal. For instance, even though the various business units and employees of a multinational company such as General Electric Inc. have different priorities and compete in very different markets, they are all focused on maximizing earnings. While opinions may differ on how to achieve that objective, the presence of a shared ultimate objective serves to focus attention and sustain commitment.

Healthcare organizations (HCOs) face an environment in which the groups and individuals that need to come together are often not part of the same organization and, infrequently have a shared objective to guide them in a common direction. This fragmentation creates a management environment where decisions are rarely based on the interests of a single organization, and mutual agreement amongst key players is required in order to make progress on any significant initiative. Finding common ground can be one of the most difficult challenges for healthcare managers.

This book is focused on providing perspectives and techniques that can help managers develop solutions in collaboration with key players, whom we will refer to from here on as *stakeholders*. We will define a stakeholder as any group or individual that helps an organization create value, receives value from the organization, or does both. In healthcare, it is very common for a given group of stakeholders, for example, affiliated physicians, to be value creators and value recipients. When managing stakeholders, we must first determine who the key stakeholders are and then understand their objectives and priorities. The complexity of the healthcare environment can make that task seem daunting.

For example, consider Bon Secours Health System, a not-for-profit Catholic health system headquartered in Marriottsville, Maryland, with annual revenue of more than $3.3 billion. The organization owns, manages, or has joint ventures with 19 acute-care hospitals, 1 psychiatric hospital, 5 nursing care facilities, 4 assisted living facilities, and 14 home care and hospice services. Bon Secours, like virtually every other healthcare provider, faces a significant challenge to which it must respond. The financing and evaluation of healthcare delivery in the United States, the foundation of all prior strategic plans and growth initiatives, has shifted dramatically. On March 23, 2010, President Barack Obama signed the Patient Protection and Affordable Care Act into law. The new law was expansive and contained provisions impacting everything from how reimbursements are calculated, to how quality and outcomes are measured, to establishing incentives for the development of new delivery and financing models. Reporting and compliance mandates were overhauled and all 50 states and the District of Columbia would eventually have to offer insurance exchanges to improve affordability and accessibility of health insurance while expanding the availability of Medicaid programs.

Bon Secours' world had been completely transformed and they needed to determine both how to respond and how to proceed with their response plan. Many factors add complexity to the planning process, not the least of which is the extreme fragmentation of the U.S. healthcare system.

Even as it contemplates how to react to health reform legislation, Bon Secours must consider how to balance that response with current initiatives that may involve a number of stakeholders. Consistent with its mission "…to help bring people and communities to health and wholeness…," Bon Secours must invest in state-of-the-art medical technology.[1]

If they fall behind, other acute- care hospitals in their local markets will exploit their lack of technological sophistication, and Bon Secours would risk losing their status as the preferred provider in the communities they serve. At the same time, commitments to major technology investments can imply prioritizing certain service lines over others. For example, purchasing a Da Vinci Robotic Surgical System would compel an organization to focus on patient populations that can be treated with that technology, such as urology and gynecology. As a result, other service lines that do not utilize that technology, such as diabetic care, may receive lower priority and fewer resources, even though they are greatly in need. This illustrates an unfortunate reality—economic concerns can force organizations to make decisions that are necessary for their ongoing viability, but simultaneously result in a situation where certain at-risk populations are underserved, resulting in suffering and dissatisfaction.

The potential backlash goes far beyond patient dissatisfaction and can cascade even further as firms find themselves victims to costly, reputation-hurting bad press, boycotts, or legal suits. They may also alienate nongovernmental organizations (NGOs) formed to protect the interests of particular constituencies, and if firms rely on those constituencies for what they do, they can suffer tremendously. While harsh economic realities can force difficult decisions, societal forces and public opinion can be as much an influence on the final outcome as the underlying financial circumstances. Clearly, Bon Secours's ongoing strategic responses to industry changes will have to be the result of detailed planning and discussion with numerous stakeholder groups that will be impacted by the choices that are made.

Chapter 2 provides a detailed examination of the underlying principles of stakeholder theory and how they can be applied to create enhanced value. However, we would like to lay an appropriate foundation in strategic management and strategic thinking before moving to the specifics of stakeholder theory and how they can be used to enhance the strategic management process.

Strategic Management

The Industrial Revolution ushered in a wave of new business practices that formed a foundation upon which modern business management

was established. Eventually, business (beyond economics) was accepted as a legitimate area of study in universities, and some of the topics that were first embraced included financial management and accounting, production and operations management, marketing management, and personnel management (now human resources management). However, it was not until the middle of the last century that managers (and business schools) started to realize that there was no discipline that tied all of the other disciplines together in a meaningful way.[2] A field called business policy, fostered by major business schools such as Harvard and consulting firms such as Boston Consulting Group, began to emerge. In the 1970s, business policy morphed into what is now called strategic management. Strategic management describes efforts to guide organizations in an integrated manner, and to do so with purpose and over a long time horizon.

Effective strategic management entails both a process and a way of thinking. The strategic management process includes activities such as analysis of the firm and its environment, establishment of a strategic direction, evaluation of alternative strategies the firm might pursue to achieve this direction, and implementation planning. It is a step-by-step process for directing the firm's strategies, with the ultimate objective of guiding firm constituencies toward common goals. This process is important, especially in an environment that is complex and turbulent. However, a process like the one we just described is not enough in itself to ensure success. In fact, we have seen organizations stifled by their own rigid strategic management processes. For example, we were participating initially as observers in the strategic planning process of a large organization (to remain nameless for obvious reasons). For a day and a half, managers of this organization presented detailed plans to the president for the areas over which they had responsibility, using templates provided by the organization's planning department. After observing several presentations, we suggested to the president that this whole process was an exercise in futility. To our surprise, he agreed. Fortunately, this organization has come a long way since then.

What was wrong with the process? After all, the numbers were there, with detailed plans to support them. The problem was that the creative aspects of the planning process were almost completely absent. Instead of meetings to generate and evaluate novel solutions to challenges these

managers faced in their varied market settings, the whole program represented a reinforcement of previously held assumptions and strategies for dealing with them. Strategic thinking, the creative side of strategic management, was missing. We will discuss strategic thinking first and then incorporate this sort of thinking into a model of the strategic management process.

Strategic Thinking

Excellent strategic decisions have a creative as well as a rational process component. The creative component is what moves an organization to innovate. In a complex, turbulent, and highly regulated industry such as healthcare, this creative component is even more essential than in a more stable setting. In fact, some wrongly assume that heavy regulation reduces the need to innovate. Instead, heavy regulation just creates boundaries that make good ideas harder to find. You don't want managers to sit back and follow the rules; you need highly creative managers who can dream up new ways to create value. Regulations can be complex and daunting but they are not barriers to progress. They are essentially constraints that preclude certain courses of action. For example, the Stark Law places a number of constraints on things such as payments for referrals. State laws on clinical licensure define scopes of practice for clinicians and place constraints on what certain types of employees can be asked to do. The Emergency Medical Treatment and Labor Act (EMTALA) places constraints on how hospitals handle emergency department crowding and uninsured patients. So how can managers navigate a complex web of regulations, resource constraints, and the different priorities of different stakeholders and develop viable, innovative solutions?

One of the keys to innovation is to foster strategic thinking.[3] Strategic thinking is the term used to describe the innovative aspects of the strategic management process. As we suggested in the previous section, a rigid strategic planning process can drive out strategic thinking. For example, some firms require their managers to establish and follow very detailed plans that do not allow for deviations. Other firms harshly penalize their managers for failure, so they are afraid to try new ideas.

One challenge associated with fostering innovation is that energized brainstorming sessions and blue sky planning can result in ideas that, while creative, stray from the strategic objectives. To keep on track, thought processes should reflect six characteristics.[4]

1. *Purpose focused*. Some people think of creative processes as purely random and unstructured, much like brainstorming. However, strategic thinking is not a random process. It is based on the purpose of the HCO, its vision and objectives. This is sometimes called strategic intent—what are we intending to do? What does success look like?
2. *Long-term oriented*. Some managers are so concerned about short-term operating details that they have a hard time focusing on where the firm is going. While it is true that efficiency often requires attention to details, it is also true that sometimes managers need to mentally step away from their day-to-day problems in order to focus on the future.
3. *Consideration of past and present*. Although strategic thinking is long-term oriented, it also includes learning from the past and recognizing the present situation and the constraints it imposes.
4. *Systems perspective*. The HCO sits at the center of a system of stakeholders. Furthermore, the system of stakeholders exists in the broader context of the sociocultural, economic, technological, political and legal, and competitive environment (see Chapter 5). Strategic thinking considers the whole system and how the actions a firm is taking, or might take, are being influenced by, or influence, its system of stakeholders and the broader environment. This approach helps in the generation of strategic alternatives, in their thoughtful evaluation, and in anticipating the reactions of external stakeholders such as customers, competitors, or government regulators to the actions a firm intends to take.
5. *Opportunism.* HCO members or partners sometimes encounter unanticipated opportunities that can further the purpose of the firm. The strategic planning process should be flexible enough to allow managers to consider these opportunities when they occur, especially if they require a rapid decision.

6. *Hypothesis-testing approach*. A firm should generate ideas through a creative process and then, after they are evaluated and found to be worthy, test them to see if they will work. Ultimately, firms have to be willing to *pull the trigger* on ideas that make it through the analysis stage and actually try them, even if on a limited scale. This means they have to be willing to take risks, implement new ideas, evaluate performance, and if the results are favorable, apply the idea more broadly.

Strategic thinking happens all the time at many levels of the organization, as employees and managers think of ideas that could help the organization achieve its purpose and objectives. Unfortunately, not many organizations are good at taking advantage of strategic thinking when it occurs. So how can an HCO turn ideas into action? First, organizations need to have systems in place to identify and evaluate good ideas. Something as simple as an easily accessible online suggestion box can help with idea collection. Focus groups with patients, surveys of suppliers or donors, or open forums with community leaders and the public are other ways to obtain good ideas. Deliberately and systematically soliciting input from both internal and external stakeholders reinforces a feeling of engagement and commitment, letting everyone who will be impacted by the decision know that their thoughts and opinions matter.

Second, stakeholders that develop great ideas should be recognized and even rewarded when those ideas are subsequently utilized. Rewards may include things as simple as a thank you letter with a gift certificate for a fine restaurant (for a patient or community leader) or as elaborate as an awards ceremony (for an employee or technology provider). Employees might also receive financial rewards such as bonuses or salary increases, or a preferred parking space. While recognition and rewards do not have to be extravagant, they should be given consistently and fairly. Institutionalizing a system of stakeholder recognition reinforces feelings that the HCO is sharing the benefits it receives from strategic thinking, and motivates similar behavior in the future.

Finally, HCOs should integrate the elements of strategic thinking directly into their strategic planning processes. For example, managers can be invited to participate in a group process of evaluating forces in the external environment, resulting in the generation and evaluation of strategic

alternatives. Organizations might provide managers and employees with training and workshops to develop their strategic thinking skills. And, of course, an important component of integrating strategic thinking into the strategy-making process is to foster a risk-taking atmosphere, in part by not dismissing risky ideas or harshly penalizing failures when they occur. Ultimately it is the responsibility of managers to foster a culture focused on change rather than protecting the status quo.

Notice that this discussion of strategic thinking is foreshadowing the stakeholder management approach because it involves soliciting information from stakeholders and rewarding them for their participation—two important stakeholder management elements. Of course, it also suggests that strategic thinking should be inserted into the strategic management process, which will now be introduced.

The Strategic Planning Process

Strategic management is ultimately a decision-making process. HCO administrators make decisions about the direction their firms will head, the goals they will pursue, the strategies they will implement, how these strategies will be implemented, how resources will be allocated, and how rewards will be divided. The only way to make good decisions is to base them on good information, which we call strategic intelligence (see Figure 1.1). Strategic intelligence comes from an analysis of the firm, including its direction and resources, as well as information from primary stakeholders and an analysis of the firm's external environment.

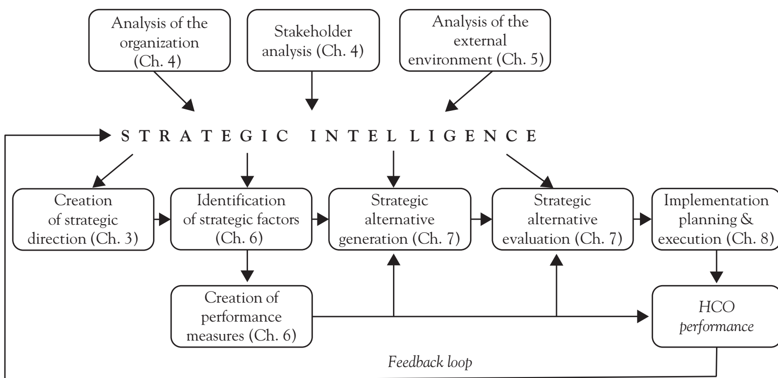

Figure 1.1 Strategic management process for HCOs

Chapter 3 examines the main elements associated with the direction of the firm—its core purpose as expressed in statements about mission, vision, and values. Chapter 4 provides a tool for examining the resources the firm possesses, with the purpose of identifying resources that do now or could lead to a competitive advantage. Some of the most important resources a firm possesses are associated with its relationships with primary stakeholders; consequently, much of Chapter 4 is devoted to examining these relationships. Chapter 5 takes a broader view of the firm's external environment and focuses on the important factors firms should evaluate in order to anticipate and plan for the changes that are coming.

Information regarding the direction of the firm and available resources; the objectives, needs, and priorities of primary stakeholders; and the external environment form the database of strategic intelligence available to the firm and its managers. Consistent with the principles of strategic thinking, HCO administrators should reflect on their organizations as a part of a larger system of value creation by seeking to understand how the elements of their external environment influence components of their firm's resources and direction. Consequently, Chapter 6 addresses how organizations can use this intelligence to identify key issues facing the firm and develop stakeholder centric performance measures that enable the organization to evaluate alternative courses of action.

Identifying alternative courses of action as a consequence of evaluating strategic intelligence (see Figure 1.1) is a highly creative process and is therefore closely associated with strategic thinking. The process should be focused on objectives to ensure that ideas are linked to areas of strategic importance. Sometimes administrators and others involved in the strategic planning process find themselves constrained during this part of the process simply because they are unaware of the range of possibilities that may exist to address particular purposes. To facilitate the idea generation process, we present in Chapter 7 a number of strategy formulas for specific situations, including business strategies geared toward generating growth, dynamic strategies, partnering approaches, and turnaround strategies. We then show how to evaluate different strategic alternatives against the stakeholder-centric performance measures developed in Chapter 6.

Finally, we have observed many companies develop some well-devised strategies through a strategic planning process, only to find out that a year later not much has changed. Consequently, Chapter 8 presents a few tried-and-proven ideas around the topics of implementation planning and execution.

As reflected in Figure 1.1, the intent of the strategic planning process is to improve the performance of the HCO along the established performance measures. The final aspect of the process, then, is to measure performance, compare it to desired performance, and feed this outcome information back into the process. It then becomes a part of the strategic intelligence of the HCO and can be used to prevent imitation of past mistakes, reinforce those things that have worked, and provide a basis for evaluating the performance of employees and other stakeholders.

Strategy in Action

The practicality of our approach to strategic management is that it is based on principles that are easy to understand and communicate. So although an HCO like Bon Secours is dealing with a multitude of challenges stemming from a complex and turbulent environment, its administrators need only unlock these principles and guide employees and other stakeholders through a process that will allow them to come up with innovative ways to seize opportunities and solve problems. The fundamental challenge HCOs face is then to develop a strategic planning process that embodies the following:

1. A comprehensive approach that includes (a) evaluating the organization, its stakeholders, and the external environment; (b) effectively gathering and communicating this strategic intelligence in order to identify strategic factors and create performance measures; (c) generating strategic alternatives and then evaluating them to arrive at recommended courses of action (strategies); and (d) developing implementation plans for those courses of actions, complete with delegation of responsibilities to ensure that they are actually executed.

2. Incorporates the creative elements of strategic thinking in order to stimulate innovative solutions. In other words, make sure the process is purpose focused, long-term oriented, considers past and present, incorporates a view of the firm as a part of a larger value-creation system, is flexible enough to take advantage of unanticipated opportunities, and encourages taking calculated risks by trying new ideas.

Some of this may be second nature to you—other ideas may be new, or perhaps it is just the approach that is new. Over the chapters that follow we will help you to understand these ideas and the process better. Figure 1.1 will serve as a conceptual roadmap for the book. However, before we dive too far into the strategic management process, we will discuss some of the principles of stakeholder management that will make the process both easier to manage and more successful.

CHAPTER 2

Managing for Stakeholders

Healthcare is fundamentally about the delivery and financing of a highly customized, very complex service. The complexity creates an environment where important decisions can require input from a variety of experts. While some managers receive formal business training, others are drawn from the pool of healthcare providers, such as doctors, nurses, and pharmacists. Although these business managers have expertise in financial management and process improvement techniques, they are cautious about encroaching on any aspect of care that might impact clinical autonomy and patient outcomes. On the other hand, clinical managers understand the physiological aspects of care delivery processes, but often feel somewhat unprepared to manage finances, labor, and operations so they turn to the business literature and learn from others in their organizations that have received formal training. The result is a situation in which management teams are heavily influenced by current business knowledge and practices.[1] We see the symptoms on a routine basis. How often does your organization talk about *identifying and implementing best practices*? This approach is actually very common in highly competitive industries.

There are a few problems with mimicking other organizations. First, if healthcare organizations (HCOs) attempt to borrow from the nonhealthcare *business world* they have to be careful to avoid its unhealthy and longstanding obsession with the current financial bottom line (to be discussed further in Chapter 6). While most healthcare professionals have heard the mantra *No Margin No Mission*, the singular focus on profitability found in other industries does not consider the direct impact decisions may have on the quality or longevity of human life. That is not to say that popular business models cannot be applied with success in the healthcare industry. Virginia Mason Medical Center (VMMC) was able to successfully adapt the Toyota Production System to simultaneously improve quality and

financial performance. The change management process was long, arduous, and required significant investments in training. Unfortunately, the adaptation of the Toyota Production System implemented at VMMC was not readily transferable to other HCOs. Many hospitals have attempted to adopt their process and culture with only mixed results.

Second, borrowing and adapting best practices is made even more challenging by healthcare regulations that place constraints on the ability of HCOs to provide financial incentives and share information. Many other factors also influence the firm-specific changes that need to occur in order to make a borrowed practice *fit* within a given organization. These factors include changes to culture, service lines, the financial situation, labor constraints, information technology barriers, and physician governance models. The list goes on, but the fundamental problem is that HCOs can't expect to rely solely on imitating programs that have worked elsewhere. Success in the future requires more than internal quality and efficiency improvement programs. It requires collaborative transformation of the entire process of care. HCOs must learn to innovate collectively, not in isolation.

Unfortunately, the bulk of what might be called the management science literature promotes a focus on financial outcomes rather than how much value a firm is creating and also tends to emphasize the financial performance of a single organization rather than promoting a win-win attitude among players in the whole system. Yet the job of a manager, regardless of industry, is really to consider the needs of a wide variety of stakeholders in the context of a complex and ever-changing environment, and make decisions that will work toward satisfying those stakeholders.[2]

A couple of popular management models, the *balanced scorecard* and the *triple bottom line*, have provided a slightly more balanced approach to assessing the performance of a firm. However, they have not gone far enough, and they provide only limited practical advice. A stakeholder approach, on the other hand, provides not only a broader perspective on performance, but also a way to determine what firms might do to collectively create more value. This approach is well suited for the healthcare industry because it formally considers the needs of all stakeholder groups, including patients, communities, physician partners, and employees. Managing for stakeholders provides HCOs with a more inclusive strategic management process and a framework that enables them to plan

collectively while cutting through the complexity that is inherent in group initiatives. Originally pushed aside by the strategic management field as pure corporate responsibility rather than a practical approach to management, stakeholder theory has now been accepted as mainstream in strategy, as reflected by the creation of a permanent group called Stakeholder Strategy within the international Strategic Management Society, the flagship organization for scholars and practitioners involved in the field.[3]

Stakeholder Fundamentals

Stakeholders are often defined as groups and individuals that have an interest in the activities and outcomes of an organization and upon whom the organization relies in order to achieve its own objectives.[4] For instance, patients are stakeholders because they acquire services from HCOs in exchange for money (directly or through third parties) that is then used to continue the firm's operations. Administrators and other employees are stakeholders because they provide time and energy to the organization in exchange for a salary, benefits, and other sources of utility they derive through participating within the organization. Physicians are stakeholders because HCOs depend on them for a steady stream of patients and their subsequent medical management. Local, state, and federal government agencies are stakeholders because in addition to wielding regulatory power, they depend on HCOs to promote the health and wellness of the communities they serve, which is essential to economic growth. The list of stakeholders can be long and vary from one organization to another depending on its local circumstances and its position within the healthcare industry.

A typical stakeholder map is shown in Figure 2.1. Note that the arrows going into and out of the organization are reflective of resource flows. Stakeholder-based books almost always have a map like this one, although we hesitated to include it for several reasons. First, the boundaries of an organization are blurry (as indicated by the dashed line around the organization). For example, physicians who work exclusively for an HCO are employees and thus a formal part of the organization. Also, patients are members in member-owned HCOs. The boundaries among stakeholders are blurry too. Local government agencies often reflect the

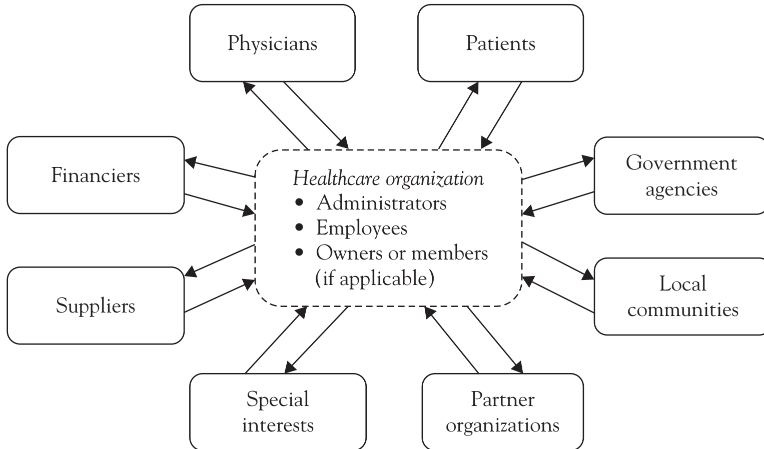

Figure 2.1 A typical stakeholder map for HCOs

communities in which the HCOs operate. Financiers can be communities, government agencies (through grants), or suppliers (through credit). Partner organizations can fit into a lot of other stakeholder categories. Also, it is important to note that the relationships among a firm's stakeholders are important as well (i.e., physicians with partner organizations, suppliers with financiers, local communities with patients, and so forth).[5] However, in the end we chose to include a map to visually emphasize the dependence of an organization on its stakeholders and vice versa.

The most important consideration is that each and every stakeholder requires some level of utility from the organization if it can be expected to continue to engage with it.[6] For example, just as a hospital can't expect nurses to work without receiving pay, physicians can't expect hospitals to provide expensive medical technologies without sufficient patient volume to offset the cost of those technologies. There is a sort of breakeven point that must be met before it is possible to form a relationship between the two groups. Firms that go beyond that breakeven point and provide more utility to stakeholders than this minimum level are said to be "managing for stakeholders."[7] At its heart, managing for stakeholders invokes long-term planning and rejects a zero-sum game mentality. It is possible for each stakeholder to receive more than the minimum because collaboration and long-term planning can create greater value than any of the stakeholders could have achieved acting independently. In other

words, managing for stakeholders is not about arguing over who gets the biggest piece of the pie, it is about motivating everyone involved to create a bigger pie.

At the same time, as we will discuss in more detail later in the chapter, it is not the case that every stakeholder will receive the same amount of attention or benefit. Other factors, such as how much a stakeholder contributes to the value created by the organization, impact how much attention they warrant. Nevertheless, while all stakeholders may not receive the same benefits, they should all be treated fairly.

Organizational Justice and Reciprocity

How does a manager motivate a group of stakeholders, possibly representing different organizations, all of whom have different priorities and objectives? The cornerstone of managing for stakeholders is the core principle that in all transactions and encounters, stakeholders will be treated with justice (also called fairness).[8] The basic idea is that stakeholders are humans, and respond positively or negatively to an organization based on what they perceive as fair. Organizational justice has three components: distributional justice, procedural justice, and interactional justice.

Distributional justice occurs when a stakeholder perceives that its allocation of value (e.g., financial reward or some other tangible benefit) from the firm is fair relative to what other stakeholders receive or what the stakeholders of similar firms receive. For instance, nurses on a medical or surgical floor may feel their salary and benefits are fair compared to what other employees receive within the firm or compared to what people who perform similar tasks in other firms receive. However, that perception of fairness could change if those nurses were subjected to heavier on-call responsibilities or more weekend shift obligations than nurses on the orthopedic floor.

Procedural justice is defined in terms of a stakeholder's perception of the fairness of an organization's decision-making processes. Surgeons, for example, may not like the fact that hospitals and surgical centers grant orthopedic and cardiovascular surgeons with first choice of large amounts of dedicated time in the operating room (OR). The idea that some surgeons are treated preferentially because they bring greater

financial rewards is often perceived as unfair. However, if the process is perceived as fair, for example, each surgeon is granted enough OR time to provide a consistent level of service and access, the corresponding time allocations are perceived as fair. Procedural justice means that a certain level of transparency should exist, and an organization should be open to input from important stakeholders when making decisions that will influence them.

Interactional justice deals the way stakeholders are treated in day-to-day transactions and communications with the firm. A basic principle of stakeholder theory is that firms should exhibit trustworthy behavior, and should treat everyone with respect and honesty. Thus, cooperative relationships are developed based on trust and mutual respect. Interactional justice obviously has ethical undertones and that is one of its strengths. Too often decision makers try to differentiate economic decisions from ethical considerations, yet the reality is that all organizational decisions have ethical implications, in that they all influence outcomes for multiple stakeholders. For instance, when administrators tolerate belligerent staff because "we are short on nurses" or "she is a world-renowned physician," they are creating an environment that lacks interactional justice. The decision to tolerate the behavior is based on economic expediency, yet sends a powerful, negative message to all other employees. The attempt to consider business decisions in the absence of ethical considerations is referred to as the *separation fallacy*. When managing for stakeholders, the ethical dimensions of alternatives are explicitly considered when choices are made, not as an afterthought or a tangential secondary concern.

Note that of the three types of organizational justice, only distributional justice deals directly with tangible outcomes such as monetary distributions. As we will discuss further in Chapters 4 and 6, a lot of the value a firm produces is nonmonetary and comes from the way a stakeholder is treated by the organization, the satisfaction one gets from interacting with the organization or being otherwise affiliated, and other sources of utility. Patients receive utility as they make use of the services of the firm and by the way they are treated, employees in a positive work environment may receive personal enrichment and growth from the work they perform, communities may benefit from a cadre of organizational

volunteers who provide services to local organizations, and organizations often benefit from community volunteers who dedicate time to improving the experiences of patients and their families.

Cooperation is therefore an essential component of managing for stakeholders. While managers are always challenged to balance the competing interests of various stakeholders, the most important emphasis is on finding solutions that don't harm any stakeholder or make them feel *worse off* in some way. At a minimum, managing for stakeholders involves finding Pareto solutions. Those are solutions such that while only some stakeholders are actually better off; it is also the case that none are worse off. The most effective managers find ways that stakeholders can cooperate in joint production of value that benefits all of the parties involved, the elusive *win-win*.

Henrico Doctors' Hospital (HDH) in Richmond, Virginia, was able to find a mutually beneficial solution to OR block time allocation by working closely with its affiliated physicians. The problem was that HDH was staffing too many hours of OR time each day relative to actual demand. When the subject was broached during OR governance meetings, most of the higher volume physicians took an adversarial stance while lower volume surgeons felt unappreciated. In fact, many of the lower volume surgeons were not guaranteed any OR time at all and had to wait until the last minute to see if there was unused time available. Even on days when staffing was high and plenty of time was available on the schedule, they still had to wait until the last minute to schedule cases because the time was earmarked for other surgeons. The initial conversations were tense with many surgeons threatening to end their affiliation with HDH rather than cooperate with the design of a new scheduling system and OR time allocation mechanism. HDH was able to shift the discussion away from a *turf war* by focusing on the benefits to all parties if high service levels could be achieved. When the physicians realized that HDH was not focused on cutting OR time but on *right sizing* time allocations to ensure high service levels for all, they realized there was a possibility to get more OR time. Indeed, while some saw their time reduced, others were granted more time and all surgeons received the same high level of service in terms of predictable, reliable access to OR suites.

Why Managing for Stakeholders Works

When organizations manage for stakeholders, they provide *more* value to their stakeholders than is necessary simply to keep them engaged with the organization. This type of generous behavior is not altruism. When combined with fairness stemming from organizational justice, it leads to trusting, respectful, and mutually beneficial relationships. It also leads to a high level of reciprocity. Reciprocity is the magic ingredient that makes the stakeholder approach successful. Studies show that people tend to respond to positive behavior in positive ways and negative behavior in negative ways.[9] So a stakeholder would be expected to respond to generous behavior with generous behavior and unfair behavior with unproductive behavior. Reciprocity has been called a *hypernorm*, which means it is found universally across cultures, time frames, and settings.[10]

Reciprocity can manifest itself in many ways that add value to the organization. One of the recurring themes of this book is that HCOs have to find innovative solutions to the challenges they face. Stakeholders are one of the best and most relevant sources of information leading to these types of solutions. They are more likely to share valuable information with a firm that manages for stakeholders because they trust the organization with the information, trust that the organization will actually listen to the information (interactional justice) and respond appropriately (procedural justice), and are more motivated to be helpful. In fact, a stakeholder that has been treated well in the past might expect to receive an additional portion of value as a result of sharing the valuable information (distributive justice).

Consider, for example, Owens & Minor, a supplier of medical and surgical supplies, that has developed systems and processes that can dramatically decrease the inventory levels of expensive medical and surgical supplies and equipment. Implementing these new processes requires hospitals and ambulatory surgical centers to invest in some information system enhancements. The early adopters were often the HCOs that had already derived substantial value from their existing relationships with Owens & Minor. These organizations had experienced Owens & Minor's generosity in the form of distributional justice in the past. Rather than keep the lion's share of the value derived from improvements in

supply chain efficiency, leaving hospitals and surgical centers with just enough value to keep them engaged, Owens & Minor has a culture of *overdelivering*. This treatment motivates providers to connect more deeply and share more information with Owens & Minor under the belief that Owens & Minor will again overdeliver on value creation. In contrast, any firm that lacks responsiveness, loyalty, and concern for the performance of their business partners and major constituencies is unlikely to benefit from such goodwill and sharing of information.

Firms that manage for stakeholders accrue many other benefits beyond excellent information.[11]

1. *Reputation.* Stakeholder-focused firms tend to enjoy excellent reputations. Consequently, stakeholders get satisfaction from being affiliated with them.
2. *Stakeholder attraction.* Firms with excellent reputations draw stakeholders to them. They are more attractive as employers, customers, business partners, and community participants.
3. *Better resources.* Because stakeholders are attracted to them, firms that manage for stakeholders can obtain the very best resources. For example, they can hire the most skilled employees, obtain the best supplies, and expand to the most attractive locations.
4. *Loyalty.* Not only are stakeholders drawn to firms that manage for stakeholders, but they are also more loyal to them and thus less likely to abandon them when times get tough.
5. *Ability to plan.* The information stakeholder-focused companies obtain, along with superior and more reliable resources, means their managers have a greater ability to plan for the future of their organizations.
6. *Strategic flexibility.* Firms that manage for stakeholders simply have more attractive options available to them than firms that treat their stakeholders poorly or with indifference. This increases flexibility. That is, stakeholder-focused firms are in a better position to make course corrections due to unforeseen consequences or unexpected events. Their stakeholders are much more likely to alter a contract with the firm, for example, because the firm has a reserve of goodwill and stakeholders trust that they are not going to be dealt with opportunistically.

The obvious consequences from these strategic benefits include firm growth; higher efficiency; fewer negative stakeholder actions such as strikes, boycotts, bad press, or legal suits; less risk; and yes, a more attractive financial situation. Research has shown that firms that manage for stakeholders simply run better and perform better.[12]

The Limits to Generous Treatment of Stakeholders

Managing for stakeholders entails additional costs that other organizations do not incur. Incorporating distributional, procedural, and interactional justice into decision-making processes takes more time and can result in higher costs than traditional alternatives. From a purely economic perspective, the only way managing for stakeholders makes sense is if the marginal benefits in terms of value creation exceed the marginal costs.[13] In other words, even as the organization spends more time interacting with stakeholders and possibly shares more of the financial benefits and other types of value, this approach only works if the organization is ultimately better off than if it had not taken these extra steps in managing its stakeholders. Fortunately, at least in the corporate literature, there is ample evidence that managing for stakeholders is associated with higher financial performance.[14] Further, these bottom line numbers don't capture the nonfinancial value associated with an improved culture, better relationships with key partners, and a sense of belonging and being part of a respectable organization that truly exists to realize its mission and vision.

Interactional justice is the least expensive to implement but requires complete buy-in at all levels of the organization. Firms that institutionalize a culture of honesty and respect for others enjoy many long-term benefits without incurring additional costs. For example, on their website Bon Secours states: "[Our] mission is further cemented by our Values and Heritage, which provides the foundation for who we are and what we do... providing an environment in the spirit of Christ where healing and hope can flourish. And while the ministry has evolved over the years, the values of Bon Secours remain the same—providing quality healthcare with an emphasis on respect, quality, justice, compassion, stewardship, integrity, growth and innovation."[15] These are not empty words on a website. Bon Secours was named one of the 80 best places to work in

Virginia in 2013 and the only health system to make the list. Bon Secours lives their values each and every day and things like *respect*, *quality*, and *justice* don't drain value, they create it. Those values are why Bon Secours is nationally recognized for excellence in services ranging from cardiovascular care and stroke care to home care. And their financial performance is strong enough to enable them to invest millions of dollars every year into charity care.

Procedural justice can be more costly to implement than interactional justice, but in terms of time rather than money. Procedural justice involves soliciting information from a variety of stakeholders, recording it, and using it to make decisions. Eliciting information obviously takes time, but implementing procedural justice requires the firm do more than listen. It must incorporate the information into its decisions so that no stakeholder feels ignored, disenfranchised, or otherwise worse off. The practical limit to this type of management occurs when the firm's decision-making processes become too complex to manage effectively, to the point at which process inefficiency threatens productivity. Taken to the extreme, an organization can fall into the *analysis paralysis* trap where a nearly endless stream of meetings culminates with nothing getting done. This may happen when one particular stakeholder is given too much input into the decision process or when the firm is soliciting input from every conceivable stakeholder. At this point it is time to reign in the information collection and decision processes. A good way to determine if the firm has the appropriate information to make a particular decision is when new and relevant information about the decision is no longer forthcoming from the key stakeholders who will be most influenced by the outcome of the decision.

Distributional justice is the most expensive to implement, from a financial perspective, because it entails allocations of financial and nonfinancial value back to the stakeholders who helped to create it. Fortunately, the implementation of distributional justice is not limited to organizations in a strong financial position. Even organizations that are struggling with weak financial performance can benefit by distributing value to the stakeholders that helped create it. During late 2000, Virginia Mason Medical Center in Seattle, Washington, was facing a strategic crisis. Local competition, falling reimbursements, and poor efficiency were

translating into multimillion dollar annual operating losses. Part of the turn-around solution involved a change in how physicians were reimbursed. As part of an incentive compensation system,10 percent of all distributed dollars were based on physician engagement with strategic initiatives designed to lower costs and reduce errors. While the full turn-around strategy involved far more than an incentive compensation system, the point is that even firms experiencing poor financial performance can benefit from the proper implementation of distributional justice. Virginia Mason wasn't giving money away. It was sharing part of the value it gained with the physicians who helped create it. Everyone involved was better off under the system.

There is no secret recipe for how distributional justice is operationalized. Every stakeholder has different objectives and priorities. As a result, organizations need to understand their stakeholders and jointly develop a plan to fairly distribute the value created through collaborative efforts. Under the new healthcare law, distributional justice will be more critical to success than ever before. The Affordable Care Act contains numerous provisions designed to spur innovation in patient care delivery and financing. Accountable Care Organizations comprised of several independent healthcare providers are jointly contracting with insurance companies and Medicare. As a group, the providers receive a predetermined set amount to provide care to a population for the year. If actual costs are below the set amount, the providers share the proceeds. Under bundle payments a set fee is provided to cover the entire continuum of care. For example, in exchange for a set payment of $30,000 a hospital, skilled nursing facility, and home health agency must provide complete care to the patient and determine how to share the payment. Similar pay-for-performance initiatives are proliferating and their long-term viability hinges on compensation mechanisms that embed distributional fairness.

Although there is no magic formula for knowing how much value to distribute back to stakeholders, there is a principle that can help managers make these kinds of decisions. In order to unlock the benefits of reciprocity, stakeholders must feel as though they are getting a better deal from the organization than they would get elsewhere, and the difference

must be noticeable to them. It is not just a numbers game. Employees, for example, don't just consider financial compensation when determining how much value they are receiving. Their utility functions include the way they are treated, the satisfaction they get in working for the organization, whether they believe they are making a difference in their firm, and so forth. We will expand on the concept of a stakeholder utility function in Chapters 4 and 6, but at this point it is probably worthwhile to say that organizations should endeavor to provide a level of utility to their stakeholders that is noticeable enough to a make a difference in the way they respond and engage with the organization. Giving value beyond this level could put the firm in the unattractive situation of giving so much that it no longer has the resources needed to sustain its own financial health.

Strategy in Action

This chapter laid a foundation of stakeholder-based principles that work in concert with strategic thinking and the strategic management process. Strategic thinking requires excellent information from a system of stakeholders so that the firm can take advantage of opportunities and devise forward-looking, innovative strategies that move the firm towards its goal. This sort of thinking is a part of a strategic management process that includes evaluation of a firm's stakeholders, its internal resources, and its external environment. Firms that manage for stakeholders are provided with the kind of quality information necessary to make the strategic planning process a success. Furthermore, enhanced relationships with stakeholders facilitate implementation of strategies that come out of the strategic planning process. In practical terms, this means to:

1. Treat all stakeholders with dignity and respect. Tell the truth so they will trust you;
2. Really listen to the stakeholders that are most involved in the value creating processes of the organization. Solicit input from them. Use the information they provide in making better decisions. Make sure they feel as though the decision process is fair;

3. Distribute value generously back to the stakeholders who helped to create it. Make sure that they feel as though they are getting a better deal from their relationship and interactions with the firm than they would get elsewhere. This unlocks reciprocity, which leads to a variety of very attractive outcomes for the firm.

These are the basic principles associated with managing for stakeholders. Firms that practice these principles enjoy advantages, including financial benefits that are not available to other organizations.

CHAPTER 3

Strategic Direction

High-performing healthcare organizations (HCOs) tend to have an organizational identity, or strategic direction, that is understood by both internal and external stakeholders. Strategic direction can be defined in terms of a firm's mission, a vision of where it is heading, and its purpose, as reflected in the values of the organization.[1] It is documented and communicated through tools such as mission and vision statements, values statements, sustainability statements, and codes of ethics. However, it is important to distinguish between these written artifacts and the actual strategic direction of a firm. Some firms don't have a physical mission statement, but they still have a strategic direction, although it may or may not be well defined or communicated. Other firms may have written statements that reflect strategic direction, but they don't seem to follow them. Neither of these situations is optimal.

A well-crafted strategic direction that is successfully communicated internally and integrated into the planning processes of a firm can provide direction to employees and managers as they make decisions and take actions. It can also help the firm establish a solid reputation with stakeholders such as patients, physicians, and the communities in which it operates.

Creation of Strategic Direction

Strategic direction results from influences both inside and outside the firm. Top managers have the primary responsibility for creating, communicating, and implementing strategic direction; however, they should not (and typically don't) work in a vacuum. Broad participation by organizational members in the creation of strategic direction means that there is likely to be more acceptance of the direction once it is established. Figure 3.1 illustrates that portion of the strategic planning process that pertains to

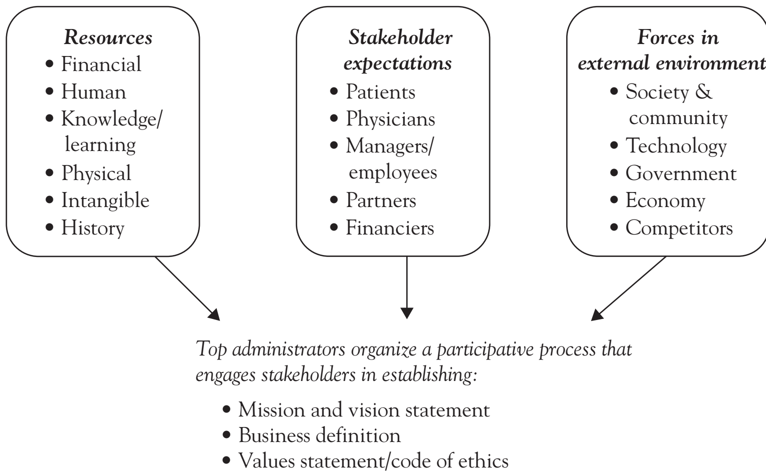

Figure 3.1 Creation of strategic direction

establishment of strategic direction. The three top boxes pertain to the three types of analysis that become a part of the strategic intelligence of the organization. Inside those boxes are detailed descriptions of the resources, stakeholders, and external influences that are likely to influence the strategic direction of an HCO. Note that a firm's history is included under the resource category.

Although broad stakeholder input is helpful in establishing strategic direction, and especially participation from employees, in our experience with HCOs lower-level employees typically have input only in smaller organizations and have minimal voice in establishing the strategic direction of larger health systems. This is unfortunate because it is as self-limiting as it is unnecessary. It is certainly a task that even the largest organizations in the world can accomplish. Recently IBM invited all of its employees around the globe to provide feedback when the company created its new values statement. The *healthcare is different* refrain does not hold. Many of the largest health systems, including Hospital Corporation of America Inc. and Bon Secours, routinely conduct employee satisfaction surveys that elicit responses on a broad range of topics including those related to whether employees feel the actions of their managers are consistent with the mission, vision, and values of the organization.

Of course, soliciting input is one thing, but actually incorporating the feedback is an entirely different challenge. It turns out that history has a

potent influence on an organization's strategic direction. Strategic thinking means that an organization should learn from its past, but the past should not shackle the organization with predetermined answers regarding its direction in the future. Especially if they have been highly successful in the past, organizations often suffer from strategic inertia, the term for forces at work to maintain the status quo.[2] These forces can include systems, structures, processes, culture, sunk costs, internal politics, and barriers to entry and exit. Anything that favors the status quo has the potential to cause inertia.

Strategic inertia is also related to human nature.[3] Most people desire a certain amount of predictability in their work. In other words, they have learned to cope with their organizational environment—they are comfortable. They may also fear that changes will reduce their own power or position in the organization or that they will no longer be considered a relevant, valuable contributor. If the forces favoring inertia are strong and if the organization has been successful in the past, people will be highly resistant to changes. This is one of the reasons that wise administrators engage as many stakeholders as possible (within reason) in the processes associated with creating strategic direction. Doing so is a form of procedural justice, and it makes those same stakeholders much more accepting of the changes that are forthcoming.

Missions and Visions

One of the most common means to communicate strategic direction is a written mission statement. An organization's mission provides an important vehicle for communicating ideals and a sense of direction and purpose to all stakeholders. It can also help guide organizational managers as they make decisions, including decisions about how resources are allocated.

Sometimes there is confusion between the terms *mission* and *vision*. In general, an organizational mission is what the organization is trying to accomplish, whereas a vision is a forward-looking view of what the organization wants to become. Often a vision is expressed in terms of an aspiration to be the best in an industry at doing something, thus providing superior value to particular stakeholders, such as patients. Vision statements are not always published separately from mission statements.

Frequently they are embedded in the formal mission statement. The labels a firm uses for its written documents are not nearly as important as including in them all of the essential elements of strategic direction. In one form or another, a firm should define *what it is* and *what it is trying to become*, including what it strives to do for its key stakeholders. A review of the mission statements of 25 of the largest HCOs in the United States found that the top three most mentioned stakeholder-oriented goals were: high quality care (90 percent of the time), service to the community (85 percent of the time), and integrated or holistic care (65 percent of the time). Vanguard Health Systems' mission statement mentions four specific stakeholders:

> The mission of Vanguard Health Systems is to help people achieve health for life. We are pursuing this by fundamentally re-designing the ways health and healthcare are delivered in the communities we serve. To fully commit to health, Vanguard is using specific measurable objectives to improve employee, patient, community and environmental health. By using this construct we are calling out environmental sustainability as a critical component of health. Through all of our efforts we are committed to the use of science and the best available evidence as a basis for our choices and standards, in our hospitals, other facilities, business processes and culture.[4]

If used properly, an organization's mission and vision can provide an initial screen for evaluating opportunities and proposals and making decisions. Many organizations prominently display their mission and vision statements or print them on identification cards or key chains for their employees. If top managers are not deliberate in the process of communicating missions and visions to internal stakeholders, they will have no positive effect on their behavior.

In addition to providing direction for internal stakeholders, organizations often prepare written mission statements as a way of communicating with the public. For example, mission statements are frequently included in annual financial reports, press releases, or letters to various stakeholders. However, creating a mission or vision statement should not be an exercise in slogan writing. They should have real meaning and accurately reflect the true direction of the organization.

It is easy to fall into the trap of following a firm-centric mission rather than a stakeholder-centric mission. For example, patients are by far the most important stakeholder group reflected in the mission statements of HCOs. Mission statements broadcast a strong desire to provide holistic, high-quality care. So it is somewhat puzzling that in 1999 the Institute of Medicine issued a report estimating as many as 98,000 Americans die each year from medical mistakes, many due to poor coordination and poor communication. Fast-forward to 2007 and a report issued by the Commonwealth Fund found that the United States ranks near the bottom of all industrialized nations with respect to safety, coordination, and patient centeredness. One would think that the death of tens of thousands of the most important stakeholders would be a call to action. Surprisingly, it took the HITECH Act of 2009 to spur all healthcare providers to address the situation with meaningful initiatives. First came the carrot of financial bonuses and then came the stick of lower Medicare reimbursements—now all providers have been compelled by the federal government to have (and use) high quality information systems.

The preceding course of events begs the question: Why did the federal government have to get involved at all? Why didn't providers independently conclude that if poor information management was killing patients, their most important stakeholder, they needed better information management systems? Part of the answer is that although HCOs tend to have mission statements that focus on patient welfare, their administrators weren't doing enough to make sure that those mission statements were reflected in organizational decisions and practices. Another part of the answer may have been that there was something missing from the mission statements—something that caused them to serve as poor guides in helping management identify the correct courses of action. Since an organization can't do everything, it is important to clearly identify what it does so that it can do it very well. In other words, an important part of strategic direction is clearly defining the organization's business.

Defining the Business

For an organization's mission to be a management tool, it must be grounded in the realities of the business. One of the first steps in creating

a clear sense of mission is to fully understand the nature of the business in which the organization participates. A clear business definition is the starting point of all strategic planning and management. It provides a framework for evaluating the effects of planned change and for planning the steps needed to move the organization forward.[5] The question *What is our business?* should be answered from two perspectives: *Who are we primarily attempting to serve?* and *What are we doing for them?* The first question refers to the markets that the organization serves, while the second question deals with the specific services provided to the stakeholders identified in the first question. The greatest strength of this approach is that it focuses on the primary stakeholders of the firm. The answers to these questions are critical to directing the firm's activities. They allow members of the organization to focus their efforts and avoid getting distracted by other activities.

Decisions related to whether an HCO should change either its markets or what it does in those markets should be made through deliberate awareness and planning rather than on an ad hoc basis. Consequently, a firm's business definition, as a part of the firm's mission, is not *set in stone*, but should be revisited periodically to determine if it is too broad or too narrow. In this regard, the question is not only *What is our business?* but *What should it be?* Answers to this latter question are closely linked to a firm's vision.

Healthcare reform has triggered a wave of soul searching among HCOs, all of which are revisiting these fundamental questions. As reimbursement policies shift toward payment for outcomes rather than activities, and collaboration among providers is increasingly important, many mission statements have lost some of their guiding light. The missions of many hospitals and health systems remain rooted in the past. Common elements include *compassionate and high quality care*, *cost effective*, *access regardless of ability to pay*, and *excellence*. While certainly admirable, do those competencies reflect the true needs of patients? While a patient needing cardiac bypass surgery would certainly appreciate all of them, the ideal situation is that bypass surgery is not needed at all. But are prevention and the promotion of wellness really the responsibility of a hospital? If not directly, is there some indirect role? If so, how is that role defined? How should hospitals redefine their mission to reflect that role?

In fact, many hospitals are already responding and adapting to the changing environment. Yale New Haven Hospital in New Haven, Connecticut, specifically mentions collaboration with other providers and promotion of public health in the mission statement. The Yale New Haven Hospital portal is concrete evidence that the organization is seeking to fulfill its mission. The portal (www.ynhh.org/portal) enables patients to access their clinical information and information related to the various providers involved in their care. It enables providers across the entire spectrum of care to access information and process support. Such a sophisticated portal is a substantial investment both up front and ongoing due to costs associated with maintenance, security, and system upgrades. Hospitals like Yale New Haven are engaging in such efforts as a reflection of their culture and values, which are both pivotal in defining an HCO's strategic direction.

Values Statements and Ethical Climate

The values of an organization define what matters when making decisions and what is rewarded and reinforced. On the inside, well-established values can provide guidance to managers at all levels as they make decisions by serving as a practical application of business ethics. For instance, if an organization places value on treating patients with compassion and respect, then presumably nurses who incur overtime as a result of extensive engagement with a family in a difficult situation will be acknowledged and rewarded rather than chastised. Likewise, nurses who share the values of the organization will strive to incur overtime only in situations where it is unavoidable, thereby ensuring that financial resources are used efficiently. Fundamentally, values help a firm define its purpose by answering the fundamental question, *What do we stand for?* In so doing, they help define the way stakeholders are treated and the importance they are given in the decisions a firm makes.

Values are simple yet foundational principles upon which a firm operates such as honesty, safety, or respect of others. Codes of ethics provide more refined guidelines for behavior, and should be based on the values of the organization. Both values statements and codes of ethics can help organizations resolve ethical dilemmas, which occur when the values of various stakeholders are in conflict over a particular issue. Consider

the issue of emergency department (ED) overcrowding. It is a complex problem with many causes, but one the most significant root causes is the boarding of patients who have been admitted to the hospital but for whom no bed is available (due to staffing or unit capacity). The situation often results in a fight between the ED and the inpatient units. Each side makes the argument that taking care of this particular patient will result in excessive work and potentially create an unsafe working environment. Lost in the melee is the individual patient at the center of the storm. In limbo, she is an important stakeholder that, at the moment, no one seems to want.

So who is responsible for that patient? Everyone. There is no such thing as *ER patients*, *orthopedic patients*, or any other categorization. The discussion should not be about who has to *take* the patient, as though it were some form of punishment. The focus should be on what needs to happen to get the patient to where she needs to be as quickly as possible. This may involve expediting discharges, admitting the patient to a different qualified unit, or clinical managers assisting staff until workloads are in line with staffing. If the problem occurs often, then the focus needs to shift from mitigation to prevention, which could involve some combination of training, capacity expansion, and increased staffing. The focus should be on the patient experience and not the employee.

Reactive decisions that do not reflect the values broadcast by the organization can also damage stakeholder relationships. We encountered a cardiologist in Connecticut who, if at all possible, would keep patients inside his practice if they were in need of an inpatient bed and one was not available, rather than allowing them to be kept in the ED. This physician would monitor his own patient, sometimes for hours, until a bed became available. This was incredibly disruptive to his practice and inconvenient for his other patients, but he felt it was in the best interests of the patient. Eventually, he became very frustrated as this situation repeatedly unfolded, and he resented hospital administrators for not resolving the problem. He felt as though his sacrifice was being taken for granted and the relationship became tense and adversarial rather than collaborative and productive.

Ethical dilemmas can also be related to the gray areas surrounding legal behavior: The definition of what society views as right and wrong.

Organizational members face decisions every day that have ethical implications, such as whether to tell a patient the truth about a mistake that was made. Research suggests that honesty is the best policy and that full disclosure is associated with fewer malpractice suits.[6] The reason is that patients and their family members perceive the disclosure and offer of remediation as a form of fairness. Their subsequent decision to accept the apology and proposed remedy is a form of reciprocity.

Healthcare is rife with ethical dilemmas that manifest as seemingly small choices. Things such as improper hand washing, mandatory influenza vaccinations, and proper documentation all have an ethical component because whatever choice is made will positively or negatively impact the health and wellbeing of someone else. Although some of these examples concern personal honesty more than a defined business practice, the organization's stated ethics help determine how employees deal with them.

One of the reasons organizations sometimes fall into patterns of poor ethical behavior is that people often do not personalize ethical issues. It is as if the *organization* is responsible, and the individuals are not. Even individuals who see themselves as very ethical in their personal lives may pass through an ethical dilemma without recognizing it as one, or will view the dilemma as ultimately someone else's problem. For many ethical dilemmas, one person is not physically capable of correcting the problem alone. If strong guiding values are not reinforced in an organization, then decision makers may not know what to do in the event of a crisis, such as a finding that a popular procedure is dangerous in some circumstances. If organizational values emphasize safety above other concerns, then the decision is easy. This sounds self-evident, but unfortunately it is not. The case of the Veterans Health Administration is illustrative of the point. In 2014, it became public that the Veterans Health Administration was falsifying information related to patient wait times. A furor erupted and families levied accusations that loved ones suffered and died while on secret waiting lists.

And let's not delude ourselves into thinking the preceding example is merely reflective of the inevitable ethical failings of big government bureaucracy more focused on perceptions in Washington than on their mission. The U.S. Office of Management and Budget reported that improper Medicare payments in 2010 amounted to $47.8 billion,

nearly 10 percent of total Medicare payments that year. Medicare fraud can take different forms. Phantom billing involves submitting claims for services either not needed or not actually rendered. False patient billing involves Medicare-eligible patients receiving kickbacks in exchange for their Medicare number and allowing providers to bill for services not needed or rendered. Finally, upcoding or upbilling involves seeking additional Medicare funds by submitting a claim code that is unwarranted but results in the need for additional tests and services thereby yielding greater remuneration. As an example of upcoding, the Shasta Regional Medical Center in Southern California came under investigation when apparently 16.1 percent of its Medicare patients suffered from Kwashiorkor, a rare disease related to malnutrition. This enabled Shasta Regional to receive higher reimbursements as they treated the debilitating condition, but struck fraud investigators as odd given that the prevalence of Kwashiorkor in California is only 0.02 percent.

While values statements and codes of ethics are helpful in guiding behavior, they do not ensure compliance. One of the most difficult tasks associated with establishing strategic direction is ensuring that values statements are translated into organizational actions. The key is to create and sustain a values-based and ethical culture in which managers and other employees behave in particular ways as a matter of routine. Some of the tools firms can use to create and reinforce values-based cultures are the following:

1. *Documentation.* Write down values and create codes of ethics based on those values. This is important but not sufficient to ensure values-based behavior.
2. *Communication.* Communicate values regularly through personal contacts with employees and other stakeholders, public speeches and announcements, posting in highly visible places, e-mails, tweets, a prominent position on the website, and inclusion in annual reports and other documents.
3. *Example.* Top administrators have to adhere to the values in their decisions and behavior (this sends a very strong signal).
4. *Rewards.* Rewards systems for employees and other stakeholders should be consistent with the values of the organization.

5. *Programs.* If necessary, ethical compliance programs can be created that include things like values-based audits and reporting, anonymous tip lines for inappropriate conduct, and anonymous surveys of employees and other stakeholders.

Strategy in Action

Strategic direction is an important means to communicate the firm's intent to its internal and external stakeholders. Top administrators have the primary responsibility to make sure strategic direction is established. With input from organizational employees and other important stakeholders, strategic direction includes the following:

1. A mission, which is a statement of what the firm is now, including its business definition.
2. A vision of where the firm is heading—what will or should the firm be and accomplish in the future.
3. A statement of values and, if appropriate, a more detailed code of ethics to guide the behavior of employees and other stakeholders over whom the firm has influence.

In practice, all of these things may be incorporated into a single mission statement. After strategic direction is established or revised, it must be regularly communicated and reinforced if it is going to be effective. Follow-up activities can help organizations avoid missteps and keep all members of the organization focused on what is most important.

CHAPTER 4

Analysis of the Organization and Its Stakeholders

Perhaps now, more than any other time in history, knowledge is power. For our purposes, knowledge is facts, information, and skills possessed by individuals and organizations. Strategic intelligence, on the other hand, is knowledge about the firm and its environment that is vital to effective management now and to guiding the firm successfully into the future. In other words, it is knowledge that is relevant to creating value in the healthcare industry. Strategic intelligence enables healthcare organizations (HCOs) to make good decisions in a complex and turbulent environment. It supports innovation and transformation, facilitating the creation of innovative new delivery systems that provide high quality, quickly accessible care more efficiently (in terms of cost and labor) than ever before. Some of it is gained through analysis of the organization—its direction and purpose, its resources, and its primary stakeholders. Other types of strategic intelligence are obtained from the firm's external environment. Strategic intelligence is collected, combined, and evaluated as a foundation for the strategic management process.

HCOs face a unique challenge with respect to strategic intelligence. Data, information, and even detailed knowledge of firm-specific processes and initiatives provide strategic intelligence only when they are framed and interpreted from the perspective of stakeholders. That is, in an environment where major initiatives can only be implemented if stakeholders engage willingly, framing of the intelligence that drives strategic planning has to reflect the priorities, objectives, and constraints of the stakeholders that need to be on board in order to implement the strategy.

While information systems that collect, summarize, and analyze data are very important components of a robust strategic intelligence foundation, they are not the most important components. This is because

strategic intelligence is as much a learning process as it is a gathering process. As an analogy, consider hospital acquired infections, one of the greatest challenges facing HCOs. The goal is clear to all: Zero hospital acquired infections. While it is important to have information systems in place to quickly identify an upward trend in nosocomial infections, the most important abilities are to be able to gather relevant stakeholders, identify root causes, and develop and implement a corrective action plan. And so most hospitals have developed a mechanism to achieve the goal: Rapid interdisciplinary response teams. This might require attending physicians, infectious disease specialists, nurses, respiratory therapists, and numerous other individuals to come together, interpret the data, and *make sense* of the situation. The collective interpretation and response approach reflects a learning and adaptation process that unfolds over time. While the information provided by monitoring systems is clearly important, it is but one element supporting a multistakeholder initiative. It is the ongoing collaboration of stakeholders that achieves the goal.

This particular clinical example, like many others, unfolds routinely in HCOs throughout the world. It is much less common for HCOs to adopt a similarly collaborative process when it comes to strategic planning. When managing for stakeholders, collaboration is essential, and effective strategic planning requires an understanding of the firm's strategic direction, identification of distinctive resources, and a thorough evaluation of primary stakeholders so that administrators can begin to understand how to bring these important individuals and organizations into the formal planning process. We discussed the important elements of strategic direction in the last chapter. In this chapter, we examine a firm's competitive resources and stakeholders.

Resource Analysis

The most successful organizations typically have managers who understand the most valuable resources and capabilities their firms possess and how to take full advantage of them to create value for the organization and its stakeholders. Resources can be thought of as inputs, something the organization could potentially use to its advantage. Capabilities are human or process factors that enable an organization to actually use a

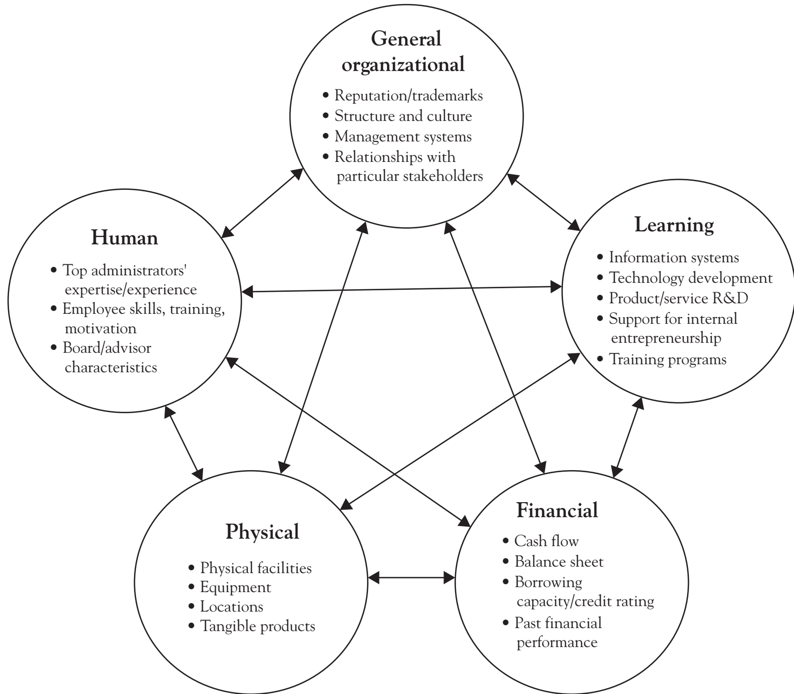

Figure 4.1 Interconnectedness of organizational resources and capabilities

given resource to its advantage. For example, an electronic medical record system is a resource. Configuring, implementing, and effectively training people to use the system to its full potential are capabilities. Consequently, once managers understand their firms' strategic direction, a logical next step in intelligence gathering is a full assessment of the organization's resources and capabilities. They tend to fall into five general categories: human, physical, financial, learning, and general organizational. Examples of these types of resources are found in Figure 4.1.

Typically, when managers think about the resources of the organization, they think about things that are tangible and easily visible, such as people, physical facilities and equipment, and money. These are all necessary resources and should not be neglected, but the learning and general organizational resources have qualities that make them especially attractive from a strategic perspective.[1] For example, learning resources such as information systems, employee development programs, and technology development, or R&D are key to innovation within the firm, thus

allowing for changes that can help the firm respond to the challenges it faces and the changes that are transpiring in its competitive environment. General organizational resources such as reputation and relationships create a certain level of longevity or sustainability to the organization. We will further explain these advantages in the next section.

The whole of the resources and capabilities of an organization comprise a system of value creation. The double arrowheads in Figure 4.1 are indicative of the interrelationships among these resources and capabilities, and also represent a way to understand what may be preventing an organization from creating more value. To illustrate, a firm with weak human resources may fail to effectively recruit new talent, which leads to poor staffing. Poor staffing results in poor working conditions and can lead to an increase in attrition. This vicious cycle can result in staffing levels so low that quality of care suffers, which can lead to physician attrition, as they admit their patients to hospitals able to maintain higher standards. Fewer patients might bring nurse to patient ratios back in line, but also represents lower revenue and less ability to invest in new medical technologies. The weak resource area that is holding back value creation, human resources in this example, warrants additional managerial attention because it is not just causing problems in one area, but in the entire system of value creation.

Identification of Strategic Resources

HCOs compete for resources with other HCOs in their same markets. Consequently, it is useful to identify specific resources that provide sources of competitive advantage. According to resource-based theory, resources and capabilities need two characteristics to hold the potential for being sources of competitive advantage.[2]

1. The resources or capabilities are *valuable*. They allow the firm to exploit opportunities in the external environment or overcome threats. In general, value comes from the ability to use the resource to provide a service or a good at a lower cost or to provide a service or good that is differentiated (i.e., more desirable to the consumer). Nevertheless, value itself does not make a resource a source of competitive advantage. Additional conditions must be met.

2. The resources or capabilities are *unique*. If numerous organizations possess a particular resource or capability, then the situation is described as competitive parity—no firm has the advantage. On the other hand, if only one organization or a small group of organizations possesses a valuable resource or capability, then that resource or capability may be a source of competitive advantage.

In addition, a unique and valuable resource or capability actually becomes a source of competitive advantage if the following additional conditions are met:

3. The *organization* is suited to exploitation of the resource or capability. This means that the structure and systems of the firm are appropriate for taking advantage of the competitive advantage.
4. The firm's managers are *aware* of the potential of the resource or capability to lead to a competitive advantage and have taken steps to realize the advantage.

Finally, a resource or capability can be a source of *sustainable* competitive advantage, which is an advantage enjoyed over a long time frame, if the following two additional conditions are met:

5. The resources or capabilities are *difficult or expensive to imitate*. In these situations, competing firms face a cost disadvantage in imitating a resource or capability. The more difficult or costly a resource or capability is, the more valuable it is in producing a sustainable competitive advantage.
6. There are *no readily available substitutes.* If other products or services can easily serve as substitutes, then the benefits associated with competitive advantage are mitigated to some extent.

Resources or capabilities that have all of these characteristics may also be called a core competency or distinctive competence. Establishing core competencies is becoming increasingly difficult due to technological advances, rapidly changing business and regulatory environments, and the increasing speed of competitive response. The implication is that a resource providing a competitive advantage at present may become outmoded or irrelevant in a very short period of time. This is especially true for tangible resources, which are resources that can be seen, touched,

quantified, or all the previously mentioned. [3] Because of their tangibility, they tend to be easy to imitate. For example, while acquiring the latest medical technology or adopting a new procedure may provide a short-term advantage and spur an increase in demand, they do not provide a sustained competitive advantage because both are easy to emulate.

However, some of the most important resources don't take the form of defined medical procedures, technologies, or information systems. The most important resources, from a competitiveness perspective, are the *intangible* resources, which include knowledge and ideas, scientific capabilities, the ability to innovate, reputation and relationships with stakeholders, and managerial capabilities. Because these are among the most difficult resources to imitate, they tend to be strong and enduring potential sources of sustainable competitive advantage.

Creating a competitive advantage often requires combining tangible and intangible resources. For instance, a hand held optical scanner for melanoma detection is a tangible asset that provides little competitive value unless it is complemented by highly trained oncologists who understand best practices for the treatment of melanoma at all stages. Likewise expert oncologists will not be able to help an HCO differentiate itself from its peers if they are deprived of the most advanced detection tools. Ultimately, a competitive advantage is created when expert oncologists are combined with cutting edge technologies, holistic treatment modalities, and a system of coordinated care that follows the patient during and after treatment.

An HCO's general resources are also hard to imitate. Among the most difficult are an organization's reputation, unique configurations of stakeholder relationships, an organization's culture, and its management systems. An organization's reputation and long-standing relationships with important stakeholders allow the firm a certain amount of confidence in its future performance, or some might call this slack. For instance, a firm with a stellar reputation and excellent relationships with stakeholders has some flexibility in what it does. It can take more risks (which facilitates innovation), knowing that if minor mistakes are made its stakeholders are likely to put these mistakes in the larger context of the firm's record and reputation, and be more understanding.[4]

In terms of longevity, excellent structure, culture, and internal systems tend to perpetuate a particular type of behavior among employees

and other stakeholders, thus allowing some predictability in performance. Management systems can be an excellent source of sustainable competitive advantage because of causal ambiguity. That is, it can be difficult or impossible for outside observers to understand *how* the company is able to do what it does. In fact, a study in the scholarly journal *Management Science* found that the institution was a better predictor of patient outcome than the treating physician, even when a given physician had admitting privileges at more than one hospital.[5]

So how can an HCO use the strategic intelligence gained from a strategic resource analysis to direct its strategy? While the HCO may offer a variety of service lines, the strategy of the firm should be based on what the organization does well relative to competitors *or* on the capabilities and resources the firm *wants to develop* that will create a competitive advantage in the future. There are many ways an HCO can develop new skills and competencies they may be lacking. On the one hand, they can develop them internally through research, training, and hiring. On the other hand, they can acquire them through strategic alliances with other firms or through participation in business groups or networks. Note also that any important resource deficiencies that could be holding back the rest of the value creation system should be given high strategic priority (see Figure 4.1).

In short, a strategic resource analysis helps administrators understand the resources that provide a high level of competitiveness (which should be utilized to a maximum extent when devising strategies), the resource areas that are holding back the firm's system of value creation (and thus require attention), and the resources the firm wants to develop as future sources of sustainable competitive advantage. A value chain analysis can also provide direction for strategic planning efforts.

Value Chain Analysis

While identifying competitive resources is important, it is equally important to understand how those resources translate into distinct activities that create value for the customer. The process of decomposing processes into distinct value-adding activities is called a value chain analysis.[6] By examining a firm's value chain, managers can identify key resources

and processes that represent strengths, areas that need improvement, and opportunities to develop a competitive advantage. The value chain concept is fairly well understood and even applied to healthcare, however, some presentations of it seem to draw arbitrary distinctions that involve separating the *delivery* of healthcare from the *business* of healthcare, when in reality they are intimately connected. We suggest a more integrative value chain.

Figure 4.2 contains a model of a simplified value chain for a Patient-Centered Medical Home (PCMH) with processes focused on creating value for stakeholders. Notice in Figure 4.2 that many of the activities involve engaging stakeholders who are exogenous to the practice. For example, population health management involves engaging community members before they become sick and are actually considered *patients*. Ongoing disease state management involves effective communication and coordination with the patient and an array of allied health and community service providers. For a PCMH to achieve its quality targets it must excel at activities that are embedded in interorganizational processes.

One of the most important features of a value chain is that it partitions activities into primary activities and support activities. Primary activities directly touch the customer—in this example, a patient will be directly touched during risk profiling, differential diagnostics, treatment planning, and disease state management. HCOs tend to focus on achieving excellence in these high-touch, primary activities because it is immediately clear how excellence in these areas creates value for the patient. However, their efforts are too often developed in isolation and without regard to the additional value that could be created for the patient and

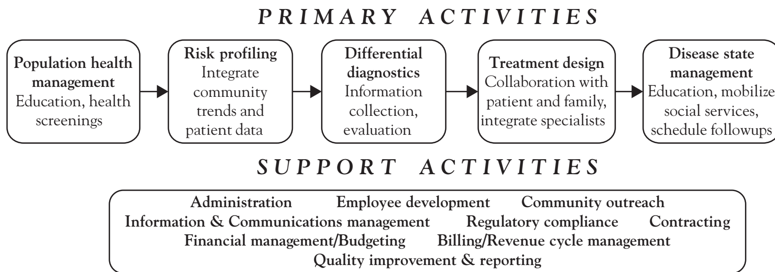

Figure 4.2 Simplified value chain for a Patient-Centered Medical Home

other stakeholders. Collaborating with community health organizations and ensuring that easily avoidable problems do not derail the plan of care can benefit the patient, the PCMH, other providers, and payers.

One example of the benefits of collaboration and managing for stakeholders is the PCMH initiative spearheaded in Vermont by The Vermont Blueprint for Health (VBH). PCMHs can earn quality-of-care bonus payments by achieving certain targets on outcome measures. These quality payments are funded by the commercial payers writing policies in the state of Vermont. This is an example of distributional fairness. PCMHs that are successful at maintaining wellness will see fewer patients and perform fewer treatments and procedures, with potentially negative financial consequences. The payers would appropriate all of the benefits because their medical loss ratio would be lower. Payer funded quality bonuses ensure that PCMHs share in the financial value created by their efforts.

The VBH also funded community-based health teams, each staffed and configured based on local needs, to collaborate with the PCMHs and to ensure that basic patient needs were being met. In some cases this takes the form of supplemental education, whereas in other cases it might be arranging transportation to and from follow up visits, or possibly arranging for prescriptions to be delivered to the patient's residence. In each of those examples, at very little cost, the community-based health teams are able to ward off costly events such as a hospital readmission due to missed medications or lack of food. The patients obviously benefit from the health teams' efforts. The PCMHs benefit as well—with community health teams on the ground looking after patients, they are able to show even higher levels of quality. Payers benefit because of a reduction in adverse events such as diabetic complications from poorly managed diabetes and myocardial infarctions or stroke from poorly managed blood pressure. These are very expensive healthcare events.

While primary activities certainly benefit from the stakeholder approach, such a collaborative approach renders most processes even more dependent upon the successful execution of a number of support activities displayed at the bottom of Figure 4.2. While support activities do not directly impact the patient, they are just as important to a successful outcome as the primary activities and are often vitally important to the successful management of the organization.

Ideally, support activities should receive the same attention as primary activities when it comes to measurement and the pursuit of performance excellence, but often this is not the case. For example, seemingly mundane tasks such as insurance prior authorization and effective communication of copayment and coinsurance responsibilities can have a dramatic effect on the patient's perception of HCO effectiveness. Failure to establish insurance eligibility can result in the delay or cancellation of the procedure. Failure to explain to the patient they are obligated to pay $500 coinsurance on the facility fee in addition to a $250 deductible can result in a frustrated patient who perceives they have been treated unfairly. On the other hand, effectively communicating these charges and helping the patient to select a payment plan can result in a much more satisfactory experience overall.

The results of a resource and value chain analysis become important aspects of a firm's strategic intelligence upon which the entire strategic planning process rests—what strengths do we have that we can build upon, which resource areas or value chain activities are holding us back, and where should we be focusing our attention to develop strategic advantages in the future. At the same time, a thorough evaluation of the firm's primary stakeholders is of equal importance because many of the resources and activities invoked in healthcare delivery processes reflect the knowledge, skills, and abilities of individuals, groups, and organizations that are separate entities from the HCO. If excellence is to be established and a sustainable competitive advantage created, it will require the engagement of these primary stakeholders. Also, stakeholders are themselves excellent sources of strategic intelligence.

Primary Stakeholder Analysis

In Chapter 1, stakeholders were defined as groups and individuals that have an interest in the activities and outcomes of an organization and upon whom the organization relies in order to achieve its own objectives. A firm that engages in a high level of procedural justice will give voice to and genuinely care about its primary stakeholders. But in order to do that, the firm must answer two important questions. The first question is: *Who are the stakeholders?* The second question is: *Who are the primary*

stakeholders? The second question is subtle, and distinguishing between primary and other stakeholders is partly a function of the extent to which the HCO relies on a given stakeholder group to achieve its mission. One way to look at this issue is to determine which stakeholders wield power in the relationship.

Power can manifest in many different ways. Stakeholders can have formal power, political power, or economic power.[7] Formal power comes from laws, contracts, or well-understood position power. That is, a firm is sometimes obliged to give priority to a particular stakeholder's needs. Regulatory bodies such as the Joint Commission and the Department of Health and Human Services wield formal power because they legally compel organizations to abide by certain rules. Position power is another manifestation of formal power that might be wielded by, for example, a respected physician or chief executive.

Political power comes from the ability of a stakeholder to influence the political process in its favor or against the firm. One type of political power is opinion leadership, the ability to sway public opinion about a firm. Stakeholders such as special-interest groups and community activists have a certain degree of political power. However, any of a firm's stakeholders may possess it. For example, a large supplier with strong ties to political leaders may actually have more political power than an activist. Stakeholders with political power take actions that can alter the firm's environment and cause organizations to invest money, which can influence cost structures. In addition, some stakeholders are well-positioned relative to other firms and enjoy an additional source of power as a result of network centrality. For instance, a hospital system may have a strong network of close ties with regional doctors, medical equipment suppliers, and nonprofit medical research organizations.

Economic power comes from the ability of a stakeholder to directly influence the economic outcomes of the organization. In this sense, a stakeholder influences both the operating efficiency of the firm and the risk it faces. So a large orthopedic group with a longstanding relationship with a hospital has economic power because it generates substantial facility fees and inpatient volume. At the same time, if the group schedules cases inefficiently and creates substantial amounts of downtime in the operating room, it can result in significant avoidable costs. Several factors

determine economic power and even though the hypothetical orthopedic group influences financial performance, the extent to which it has economic power depends on whether:

1. *The hospital has no other orthopedic option*. That is, if there are other large orthopedic groups in the area that are willing to cooperate with the hospital on efficient case scheduling, the hospital is not at the mercy of this group.
2. *This particular orthopedic group is differentiated from other orthopedic groups in the area in some way.* For instance, if the hospital has a large inpatient pediatric service and this group is the only one that offers pediatric orthopedics (and is not willing to carve out services), then the group has economic power over the hospital.
3. *There are few or no substitutes for their services.* If the hospital was primarily servicing spinal procedures, it might be able to contract with a neurosurgery group instead.
4. *It is costly or difficult to switch partners.* Even if other options are present, specialized equipment, instrumentation, and procedure preferences that require staff training can introduce a substantial switching cost that may override any potential benefit.
5. *Information asymmetry.* In many markets, a given surgical practice will have surgical and admitting privileges at more than one hospital. If a given hospital attempts to challenge the scheduling practices of the orthopedic group, it may threaten to shift its cases to competing hospitals in the area. Is the threat viable? The hospital does not know for sure, so it is at a disadvantage during the negotiation.

These basic questions: *Are there any alternatives? Are the alternatives comparable? Is there an equivalent substitute? How large are the switching costs?* and *Do they know something we don't?* can be applied to all of a firm's stakeholders to determine their true economic power

Consistent with the three elements of power, determining which stakeholders are most important (primary) to the firm also relies on three critical questions: (1) Do they have a fundamental impact on the ability of the organization to create value? (2) Can you clearly identify their interest in the organization, that is, what they want from you? and (3) Can you clearly identify what you want from them?[8] The answers to

these questions moderate the power analysis to some degree. For example, an otherwise powerful stakeholder still may not be included as primary to the firm if the firm cannot determine what that stakeholder wants.

Other factors play a role in determining which stakeholders receive the most attention during the strategic planning process. The first is the firm's strategic direction, including its values. The purpose of an organization may put an emphasis on employees or patients or the community or even investors. Moral reasoning may also be manifested here, as part of the mission of many health systems is to offer services to help at-risk groups like single, underprivileged mothers. For example, a hospital might vaccinate single mothers to ward off situations in which she is asthmatic, gets the flu, which progresses to pneumonia, and is hospitalized. There are both moral and practical considerations here because the well-being of the mother and her children is preserved, but the situation could also result in the hospital not getting paid for what might become a long inpatient stay.

Also, the principle of fairness should play a role in determining which stakeholders are primary. The principle, simply stated, is that stakeholders that make greater contributions to the value creation process deserve to enjoy greater rewards through association with the organization.[9] This is, of course, a distributive justice factor, and we recognize that many of these stakeholders will already be recognized due to their power. However, sometimes stakeholders may not possess a great deal of power, but make large contributions to value creation.[10] These stakeholders can potentially be neglected during strategic planning, and they should not be.

Firms that manage for stakeholders treat both primary and other stakeholders with honesty and respect. However, the strategic planning process is focused on those that are primary to the organization. In summary, these are the stakeholders that are powerful, are a central part of the firm's mission, and make substantial contributions to the value created within the system.

Stakeholder Utility Functions

The next step in stakeholder analysis is to determine what primary stakeholders want from the organization—to identify their utility functions.[11]

This is important to understanding how much value the firm is creating and how it can create more. So what do stakeholders want? The truth is that each stakeholder is going to want different things, but some of what they want can be grouped by the type of stakeholder they are. Consider a possible utility function for a patient:

> Total Utility (patient) = f (resolution of health issue, cost of services, time of treatment, wait time, difficulty of paperwork, availability of best treatment, respect given, explanation of treatment and options, comfort of facility, and attitude of staff)

As a second example, consider a possible utility function for a staff member:

> Total Utility (staff) = f (pay, benefits, flexibility in scheduling, culture of firm to include honesty and reliability, treatment from organizational members and administrators, advancement opportunities, educational opportunities, pride from association with firm, quality of facility, and access to needed supplies)

The factors are not going to be weighted equally, nor will they be weighted the same by each member of a given stakeholder group. Since all healthcare is local, you can expect significant variance in the factors and weights that define the utility functions of stakeholders in different markets. Surveys and focus groups are good mechanisms for determining what each primary stakeholder group values most. The importance of ongoing communication to ensure that the HCO is in step with stakeholder expectations is one more reason why strong, collaborative relationships are important. A stakeholder that perceives the HCO as a partner is more likely to communicate openly and honestly than one that views the HCO as an adversary.

Strategic intelligence gained from knowledge regarding stakeholder utility functions is instrumental to strategic planning. As we will discuss in Chapter 6, an accurate understanding of what stakeholders value is central to the establishment of relevant performance objectives. Also,

identification of unmet needs or not fully satisfied desires can lead to innovation as firms work to improve in the areas that are lacking. The resulting increase in stakeholder utility can lead to reciprocity manifested through increased motivation to perform well for the organization, loyalty, increased engagement, and revelation of even more information of use to the firm.

Competing Utility Functions

Sometimes conflict will exist between the utility functions of various stakeholders. That is, something an organization does may please one set of stakeholders and displease others. Another way to look at it is to say that because firms have limited resources, actions that move resources to satisfying one stakeholder may hurt another stakeholder. This thinking is based on a zero sum game mentality—that is, it is impossible to improve the welfare of one stakeholder without reducing the welfare of another stakeholder. However, stakeholder theory rejects this notion. Win-win solutions are sought to the extent possible.

As an example of a win-win situation, suppose an HCO determines that the community desperately needs a new trauma center. Opening the center will serve the community and its citizens, but it is also likely to provide more employment for doctors, nurses, and other staff. Construction of the facility will provide the added economic benefits of increased employment of construction workers and revenues from the purchase of local supplier. Even payers may benefit from reduced transportation costs and a reduction in complications that result from treating injuries more quickly. Also, financiers will receive interest payments from a rather secure source. If the HCO is a public corporation, shareholders will benefit through increased revenues over the longer term, provided the analysis of a need for a trauma center is accurate.

Of course, not all initiatives are going to be so universally attractive. However, judging changes an organization is considering against the utility functions of stakeholders is a helpful way to judge whether those changes are likely to be effective and lasting. Consider a simple setting where a proposed initiative is only judged on two factors that are

important to hospital administrators, physicians, and nurses—economic attractiveness and convenience. The initiative involves physicians rounding more often throughout the day.

- *Hospital administrators*: Love it. The hospital reaps financial benefit because length of stay shortens and variable costs such as staffing are reduced.
- *Physicians*: Not thrilled. They may receive some financial benefit by hitting length-of-stay goals. One could argue that more frequent rounding would help spot complications sooner and yield some quality of care bonus under some reimbursement arrangements. However, nothing is certain except that the physicians will have to spend more time away from their practice.
- *Nurses*: Not too happy. While they don't really have to do anything other than possibly deal with another set of physician orders, the lower census would result in fewer overtime opportunities. This is a serious negative for some nurses.

We might conclude, based on this simple analysis that the initiative as proposed would be (a) hard to sell and (b) difficult to sustain.

As a second example, note how perceptions might change if the initiative were modified such that the hospital invests in information technology systems that ensure physicians can access all labs, consults, radiological images, and so forth and write orders from their homes or office. The hospital would have to allow for the fact that a physician is unlikely to be willing to discharge a patient without seeing them in person, but simply by managing the patient more frequently throughout their hospitalization should help put them in a position to be sent home a little sooner. The hospital would also have to agree to maintain staffing levels so that there are nurses available to handle the increased order volume coming from the physicians. The perceptions are now quite different:

- *Hospital administrators*: Like it. While it is no longer as economically attractive due to concessions and the cost of the new technology, it still creates value.

- *Physicians*: Fine with it, mild inconvenience but the ability to access all patient information from anywhere is pretty cool.
- *Nurses*: Okay with it. Maintaining robust staffing levels helps minimize the decrease in overtime opportunities.

We will discuss the potential for win-win situations further in Chapter 6 when we discuss the establishment of performance objectives.

Resources and Stakeholder Relationships

Having evaluated resources and stakeholders separately, we now need to combine the two because many of the most important resources flow from, or depend upon, our primary stakeholders. Figure 4.3 provides a graphical representation of how external stakeholders may be linked to the internal resources of the firm.

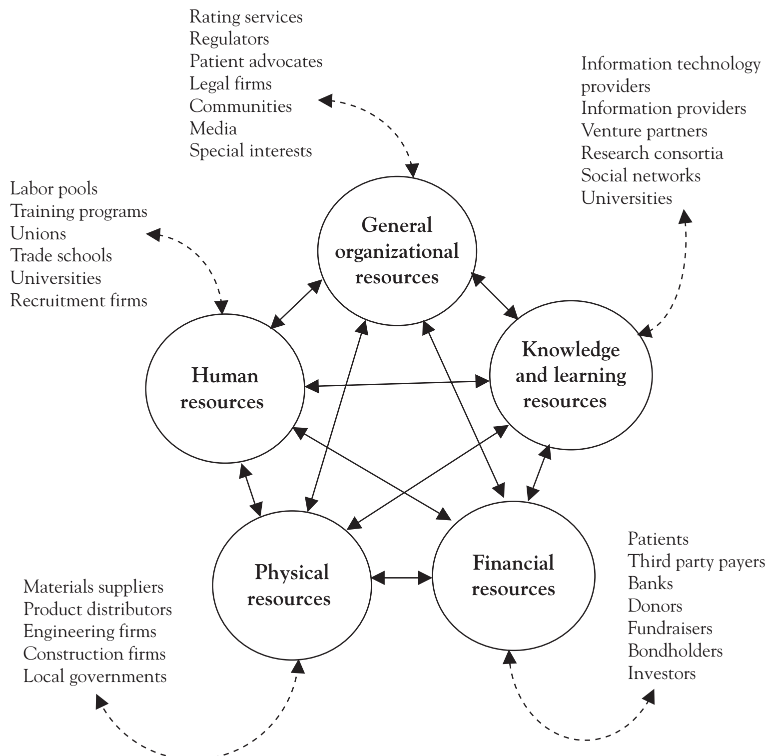

Figure 4.3 Examples of external stakeholders connected to resources

Some of the external stakeholders listed may not be primary stakeholders, either because they are not powerful, do not seem to contribute much to the value the firm creates, or because the firm has not made them a priority in its strategic direction. They could nonetheless be important to the firm because they may be linked to an internal resource that is a problem in the firm. Consequently, it is important to consider all potential links between internal resources and stakeholders.

Strategy in Action

Careful evaluation of the firm and its stakeholders is essential to understanding what is influencing the amount of value the firm is creating, what might be holding back creation of more value, and where the organization should head in the future. Obtaining this essential strategic intelligence involves:

1. Examining the resources the firm possesses to determine which ones are leading to high performance in the creation of value, which ones might be holding back firm performance, and which ones the firm may want to develop as a source of strategic advantage in the future;
2. Evaluating each of the firm's value chain activities;
3. Identifying which stakeholders should be given highest priority in the strategic planning process because of their power, centrality to strategic direction, or their contributions to the value creating processes of the firm;
4. Examining links between firm resources and the stakeholders that help provide them to determine if there are any bottlenecks or opportunities for improvements.

Notice how closely tied these processes are to managing for stakeholders. The reality is that the primary responsibility of an administrator is to manage stakeholders and other resources to create value, and since resources are so closely linked to stakeholders anyways, the job of an administrator is almost entirely stakeholder management.

CHAPTER 5

Analysis of the External Environment

While humans have been attempting to treat disease since before Hippocrates developed his famous oath, the rise of what can be termed *modern medicine* is fairly recent. The first antibiotic was not in widespread use until the 1940s, positive pressure mechanical ventilators became common in the 1950s, the CT scanner was invented in 1972, and magnetic resonance imaging was introduced in 1977.

Throughout the past several decades, as healthcare delivery became more complex, the roles and functions of healthcare providers and the institutions that support them were largely compartmentalized. Hospitals focused on inpatient care had little incentive or interest in working closely with community-based physicians. Specialists had few, if any, reasons to work closely with general practitioners to develop treatment plans. In this setting, most administrators believed that the most effective way to manage was to isolate an organization as much as possible from the influences of its external environment and then focus on making the internal workings of the firm as efficient as possible. Finance departments would interface with suppliers and third party payers, personnel departments would engage the labor markets, pharmacy departments would concern themselves with managing the formulary and dispensing drugs, purchasing departments would handle any needed supplies, and so forth. Physicians, nurses, and other direct care clinicians would deliver healthcare services without any concern for external factors.

While a system of rigid specialization of labor yields efficiency on some metrics, the approach is increasingly seen as not particularly realistic or practical. The fundamental problem is that adopting a *closed system* approach, where each department meets its own objectives in isolation, artificially fragments healthcare delivery into a series of encounters that

are not well integrated. In fact, the resulting fragmentation of care led to many undesirable outcomes and has been associated with medical errors and numerous patient deaths every year. As a result, we increasingly see managers shifting from a closed systems perspective to a more of an *open systems* perspective.

The *open systems* perspective, which we will simply refer to as the systems perspective, was first introduced in our discussion of strategic thinking. It envisions the organization as a part of a larger system and recognizes in a very deliberate way that it relies on the external environment for survival.[1] In other words, the systems perspective treats the broader environment, and the relationships a firm has with other organizations and entities, as essential components of the maintenance and restoration of wellness. Embracing the broader environment suggests that firms do not remain passive in the face of detrimental exogenous forces.

For example, hospitals have long struggled with emergency department (ED) overuse, where individuals come to the ED seeking treatment for minor ailments that could be treated effectively in a physician's office. The extent to which the ED is utilized as a treatment place of last resort is often associated with local economic conditions and the proportion of individuals in the community who lack health insurance. Since those individuals are not able to make use of private practice physicians and clinics, they gravitate to the one source of healthcare that cannot turn them away—the ED. Uninsured individuals with more complex conditions often visit the ED repeatedly because their illness is not being managed effectively. Recurring complications and adverse events result in expensive, often uncompensated care that could have been avoided if the patient had health insurance and better access to all aspects of the healthcare system.

Although local economic and social conditions are not generally considered something that a hospital or health system has much control over, they are not powerless to alter the situation. Swedish American Hospital in Rockford, Illinois proactively hired a nurse case manager to follow up with uninsured patients that make a visit to the ED. The goal is to manage the disease state and prevent future visits. While the effort falls short of the ideal solution in which all individuals have health insurance, it is an example of a healthcare organization (HCO) actively managing the

environment in which it finds itself. The term for this sort of activity, when an organization proactively alters its environment, is enactment.

While enactment can be powerful, the reality is that sometimes firms simply have to adapt to the forces and changes in their external environments.[2] Consequently, adaptation and enactment are both reasonable positions for a firm to take, depending on the situation. The challenge is often determining whether an undesirable situation can be altered through an enactment strategy or whether the organization is better off trying to adapt instead. For example, if a large number of individuals in the community are uninsured, then an organization might be able to mitigate its exposure via programs to educate and enroll people in Medicaid and State Children's Health Insurance Program (SCHIP). As a general rule, firms have success with enactment strategies when they involve some of the external stakeholders with which they interact on a regular basis.[3]

Broadly speaking, five categories of forces and actors are most influential in the external environment.[4] Figure 5.1 illustrates these five categories. The relative strength of each category can vary over time and from one geographic region to another. Likewise, the ability of any given organization to mitigate the negative impact of any category is situational and will vary from one organization to another. Indeed, a firm's unique internal resources and capabilities are often linked to its ability to deal effectively with its external environment.

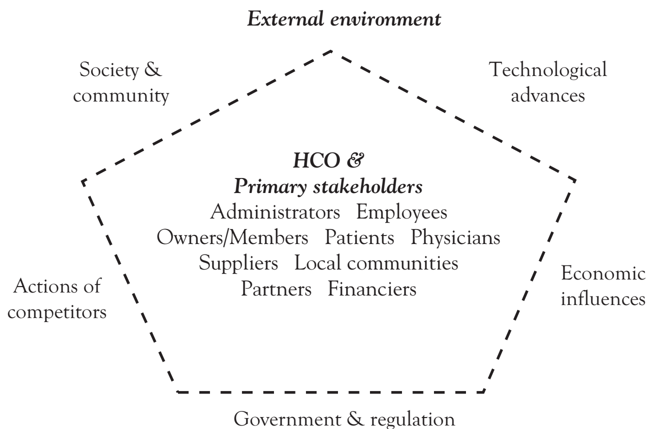

Figure 5.1 Primary components of the external environment

Sociocultural Trends and Local Communities

Analysis of societal trends is important for a variety of reasons. Certainly, most HCOs are aware of the need to assess demographic changes, such as an aging population. The aging trend suggests the impending growth of some service lines, such as orthopedic surgery, and the decline of others, such as obstetrics. However, beyond simple demographics, there are additional reasons to closely evaluate sociocultural trends. For instance, all stakeholder groups are also members of society, so some of their values and beliefs are derived from broader societal influences.

Healthcare is a highly personalized service, and cultural norms and beliefs can influence how individuals interact with HCOs and shape their expectations in terms of process of care and desired outcomes. This goes far beyond the obvious need to be sure that individuals for whom English is a second language understand information given to educate them about their condition and plan of care. More subtle cultural differences abound. For example, in some Latino cultures, many still seek folk medicine and traditional healers as a complement to the medical care they receive under the supervision of a physician. This can create complications as traditional remedies can interact with pharmaceuticals. Some Asian cultures practice coin rubbing, a technique in which an object is used to irritate the skin and cause bruising that will release toxins and thereby allow for the regulation of blood and energy. This practice has on occasion been mistaken for abuse. Some individuals of Arab decent perceive the hospital as a place where people go to die, and may resist inpatient therapies. Certainly, the beliefs outlined above are not held by all individuals in those cultures, or even a majority. However, the only way for healthcare providers to understand the details and implications of cultural norms and practices is to actively engage with the local community on a cultural level.

Understanding and adapting to social and cultural influences not only helps avoid misunderstandings and delivery complications but also creates a perception of high quality service and stimulates good will and loyalty, factors that are related to the ability of a firm to create value. White Plains Hospital in White Plains, New York, has a Hispanic–Latino outreach program designed to build partnerships with local Hispanic–Latino organizations, learn about their culture, educate hospital staff, and build

trust within the community. In addition to helping the HCO provide high quality care, these actions are also a good marketing strategy. Consistent with managing for stakeholders, an organization that has the trust and loyalty of a large segment of the community will also command a larger share of the local healthcare market.

Societal trends may also be reflective of future business opportunities. For example, societal interest in health and fitness and increasing comfort with Internet-based technologies has led to new opportunities to interact with, monitor, and educate patients. Health Diagnostic Laboratory Inc. in Richmond, Virginia, offers patients who have received their testing services to join a portal that enables them to monitor their risk profile based on lab values, monitor trends over time, and access an array of information related to dietary and lifestyle changes that can help them better manage their health. In addition, patients can communicate by instant message or phone with specialized clinical health consultants who can provide more detailed information and advice.[5] Health Diagnostic Laboratory's blood and genetic screenings are generally considered ancillary and not the type of healthcare service that will trigger loyalty and repeat business. However, patients and physicians are enthused, and patients exhibit increased loyalty due to the ongoing relationship Health Diagnostic Laboratory has established.

Finally, ongoing assessment of sociocultural trends can also help businesses avoid restrictive legislation. Many of the laws that restrict the activities of HCOs are rooted in the failure of industry participants to police themselves. For instance, *patient dumping* in the 1980s led to the Emergency Medical Treatment and Labor Act (EMTALA), and physician self-referrals and kick-backs led to the enactment of ongoing refinement of the Stark Law. Each new law potentially adds layers of bureaucracy and compliance costs that do not create any direct value.

Technological Advances

Technology refers to human knowledge about products and services and the way they are made and delivered. New ideas emerge every day as researchers in laboratories and universities, as well as individuals and employees in a variety of contexts, invent new products, new processes, and new technologies. Technological change creates new products,

services, and, in some cases, entire new industries. It can also change the way society behaves and what society expects. Handheld computers, direct satellite systems, and smartphones are technological innovations that have experienced extraordinary growth in recent years, leaving formerly well-established industries stunned, creating new industry segments, and influencing the way many people approach work and leisure. Computers and telecommunications technologies, for example, have reshaped how we think about, store, analyze, and share healthcare information in every facet of the industry.[6]

Many of the innovations that occur within industries are a result of applying a technology that was previously developed in another industry. Healthcare has a long history of borrowing from other industries. Cyanoacrylate, a powerful adhesive used for binding plastics and metals, found its way into medical use as a wound sealant. As the dotcom boom was taking off, Beth Israel Deaconess Medical Center borrowed web-based technologies and agile information system design concepts from Silicon Valley to build a pioneering electronic medical record system with, at the time, unprecedented accessibility for patients and physician partners. From the previously mentioned adaptation of the Toyota Production System, to the practice of outsourcing noncritical business processes, healthcare firms have realized significant benefits as a direct result of adopting technology and process innovations that originated in other industries sometimes for very different purposes. Healthcare is a complex industry and staying abreast of the changes is certainly a challenge. But healthcare managers should make the effort to investigate trends and innovations in other industries, because future opportunities to *borrow* good ideas are certain to arrive.

Government Involvement and Regulation

Political forces are significant determinants of organizational actions. Government organizations enforce the rules by which organizations operate. In the healthcare industry, government is an increasing and ever-changing force that causes a lot of uncertainty. Any single firm generally has only a minimal influence on government forces; however, firms tend to join forces within the industry to lobby and influence government

regulation. Also, astute managers can have a large influence on the relationships that exist between the firm and the regulators with whom they interact on a regular basis.

Some laws and regulations pertain to only one industry, whereas others cut across industry boundaries and apply more generally to all organizations, such as those promulgated by the Occupational Safety and Health Administration in the United States. The laws and regulatory agencies that govern and oversee HCOs are legion and complex, and maintaining compliance can be costly and time consuming. The larger pharmaceuticals organizations employ entire departments of analysts that are dedicated to studying regulations and ensuring compliance.

While a complete discussion of the laws and agencies that impact HCOs is beyond the scope of this book, an important trend has been emerging over the years. Increasingly, healthcare providers are being held accountable for the cost, quality, and accessibility of healthcare services. In the past, HCOs were primarily concerned with quality of care and aspired to achieve strong performance on process and outcome measures. Accessibility and cost were seen as the responsibility of other stakeholders. That has changed and many HCOs are finding themselves pressured by the government and payers to improve access and timeliness of service. Pressure can take the form of explicit requests by commercial insurance companies to reduce the wait time to see specialists or indirectly such as the Joint Commission's ongoing critique of ED wait times.

The transfer of financial risk to providers manifests in a variety of forms. Capitation, shared savings initiatives, and accountable care organizations are a few examples. The common theme is that healthcare providers are asked to provide the infrastructure and resources needed to deliver prompt service and achieve excellent outcomes, but are left exposed to financial risk if utilization is higher or lower than anticipated. If utilization is low, providers incur the cost of surplus capacity. If utilization is high, HCOs don't receive additional payments for the additional services rendered.

Economic Influences

Economic forces can have a profound influence on firm behavior and performance. For example, economic growth can have a large impact

on demand for services and products, even in the healthcare industry. Indeed, there are many economists who suspect the moderation in the growth of healthcare spending during 2011 and 2012 was not due to increased efficiency but was actually a by-product of the economic turmoil of 2008 and 2009. Given the high fixed costs associated with most healthcare capacity investments, organizations should consider forecasts of economic growth and the corresponding impact on patient volume and insurance coverage. While the national media and Washington, DC, tend to focus on aggregate statistics such as the gross domestic product (GDP), measures of local economic conditions are more important statistics for most healthcare providers. Trends in employment rates, median household income, and the local business climate are very relevant to future expectations of insurance coverage types and the likelihood that individuals will have the financial resources to handle copayments and coinsurance obligations.

Inflation rates can also influence a variety of business decisions and outcomes, both directly through the prices firms pay for factors of production and in terms of the interest firms have to pay on loans to fund capital investments. High inflation can lead to high interest, and high interest payments can constrain the strategic flexibility of firms by making new ventures and capacity expansions prohibitively expensive. High inflation will also lead to higher labor costs, as employees seek higher pay to offset higher prices.

In other industries, firms can offset higher costs associated with inflation by charging higher prices, seeking lower cost production opportunities, or both, such as outsourcing or offshoring labor. However, healthcare providers are limited in terms of their ability to react to inflationary pressures. First, healthcare is a high touch service, so with the exception of some business and back-office functions, there are few substantial opportunities for outsourcing. Second, the prices healthcare providers receive for their services are not set in a vacuum. They reflect ongoing negotiations with third party fiscal intermediaries that include commercial insurance companies, Medicare, Medicaid, and a variety of other agencies created to provide health insurance coverage. Most often, the fiscal intermediaries have the advantage when it comes to price negotiations. If a provider finds itself in the all-too-common situation in which a small

number of commercial insurance companies cover the majority of the community, it might have little or no ability to increase prices in response to inflationary pressures.

The sociocultural forces discussed in the previous section often interact with economic forces. In the United States, birthrates (a sociocultural force) are low, and because of improved healthcare and better lifestyle choices such as the decrease in the proportion of adults who smoke (another sociocultural force), more people are living longer. This demographic shift toward an older population is influencing economic forces in society. For example, the aging population means that demand for premium services is high, but simultaneously there are shortages of young workers to fill the entry-level jobs in some industries, which may ultimately drive up wage rates and lead to inflation. So, for example, a service firm tracking these trends may project that its demand will go up as it sells its services to the older customers, but its wage rates will have to increase as well, leading to lower unit profitability.

Actions of Competitors

Industries are composed of a group of organizations that compete directly with each other to win orders or sales in the marketplace. An interesting debate has emerged in the stakeholder research literature whether competitors are stakeholders.[7] Our definition of a stakeholder suggests a two-way relationship: Stakeholders have an interest in the firm *and* the firm needs them. Competitors certainly satisfy the first condition regarding interest; however, it is arguable that a firm may not absolutely need a competitor to survive. The alternative perspective is that each firm sits at the center of a network of stakeholders that competes with another firm that sits in the middle of its own network. What makes the debate so interesting is that competitors tend to share many (but not all) of the same stakeholders. There is value in examining competitors as part of the external environment. There is also value in treating them as stakeholders. Therefore, we will deal with both perspectives in this section.

As members of a firm's external environment, competitive actions clearly have an enormous influence on a firm. If one competitor lowers prices, this action puts pressure on other firms in the industry. If a

competitor innovates, or invests in a new medical technology, then others may have to follow suit or lose market share. Advertising, establishment of exclusive partnerships, expansions, efficiency programs, and community programs are additional examples of competitive actions that require an evaluation and intentional reaction from competing firms (even if the reaction is sometimes to do nothing). Competitive rivalry is more intense when industry growth is slower, when there are more suppliers of the same goods and services, and when it is harder to differentiate the products and services offered to clients, customers, or patients.[8]

Examining competitors as stakeholders allows us to see them in a very different light. Competitors can form cooperative relationships with each other or in groups to lobby government leaders, conduct research, advertise, share rare resources, serve in the community, and in many other ways. Cooperative strategies are a critical part of today's business world.[9] In the United States, about the only thing competitors can't do cooperatively is fix prices (e.g., collusion). Of course, the collusion factor does add a level of regulatory oversight that requires careful administration of cooperative ventures. However, the benefits of what is now called *co-opetition* are making this an increasingly popular strategy. Indeed, many of the principles discussed in Chapter 2 regarding stakeholder power apply to co-opetition.

Forecasting and Scenario Planning

Many of the broader environmental forces associated with technology, the economy, society, and government can have a tremendous impact on a firm; however, individual firms typically have only a marginal ability to influence these forces. In rare cases, individual firms can influence trends in the broad environment, as when innovations in a large pharmaceutical or medical technology company influence technological trends. This sort of influence is rare, however. For those forces that a firm cannot influence, adaptation is necessary. Adaptation entails monitoring, predicting, and then responding.

To avoid being blindsided by a new technology, organizations should monitor technological developments in their own and other industries, evaluate the possible consequences for their own services, products, and

markets, and create strategies that take advantage of changes. Similarly, it is important to keep up with sociocultural changes to avoid risks and identify opportunities to enhance the value created by the firm. Because of the pervasiveness of the government in regulating healthcare, this particular area of the broad environment requires significant attention. Also, the national economy and competitive actions should not be ignored. So how exactly can an HCO monitor these influences?

A great deal of information on those trends are readily available from a variety of sources. Trade magazines and outside experts, including consultants, can quickly provide valuable information at very little cost. As organizations get larger, they should devote more resources in terms of personnel and information technology to monitoring and predicting environmental influences. In general, a firm should devote the most resources to areas that (1) have the most significant influence on the firm and its ability to create value and (2) are not already adequately reported from external sources. For example, the economy tends to have a strong influence on many healthcare firms, but economic forecasts are abundant, and a healthcare firm is unlikely to produce better forecasts than professional economists.

Forecasting can be as simple as extrapolating the future based on current trends. For example, the growth of certain ethnic groups, the prevalence of chronic disease, and obesity have been following consistent patterns over the past few decades. They are also related to the prevalence of certain adverse health events and corresponding treatment services. Other, less publicized trends can also impact healthcare providers and should be the focus of internal monitoring efforts. For example, over the past several years individuals with commercial health insurance have seen an increase in coinsurance rates and maximum out-of-pocket expenses. More individuals are opting for *low cost, high deductible* plans. In the future, providers should expect and prepare for more individuals with health insurance who are not able to meet copayment, coinsurance obligations, or both.

Some influences, however, are not represented by observable, steadily increasing (or decreasing) patterns. For example, the Patient Protection and Affordable Care Act (PPACA) was a one-time action with sweeping implications for the healthcare industry that will take many years to be

fully realized. In order to understand the potential implications of various trends and events that may or may not happen in the future, organizations engage in a practice known as scenario analysis.[10]

Scenario analysis is useful because it allows firms to evaluate the interdependent effects of sociocultural, technological, government, and economic forces, and competitive actions. Scenarios are often framed as *optimistic*, *pessimistic*, and *most likely* by applying different assumptions and interpretations of various government, technological, economic, and sociocultural trend data. For example, when contemplating the impact of the PPACA, a hospital might start by acknowledging that reimbursement rates will be under pressure but that the final outcome might still be favorable depending on how consumers react to the insurance exchanges. A first analysis might consider the lower reimbursement rates in the context of the following scenarios:

- Best case: Individuals embrace the exchanges and the number of insured decreases by 50 percent, patient volume increases by 20 percent, and uncompensated care decreases by 50 percent.
- Expected: No material impact on coverage levels, patient volume, or uncompensated care.
- Worst case: Young people pay the penalty and remain uninsured. The number of uninsured increases by 10 percent, patient volume is unchanged, and uncompensated care increases by 30 percent.

Firms can use various demand, interest rate, and wage rate assumptions, combined with likely sociocultural and technological influences, to build several different possible future scenarios as a way to of evaluating various growth options. These scenarios can be updated as information becomes more certain. Managers can then evaluate *what if* scenarios to help them assess risks associated with different courses of action, such as capacity expansions or investments in medical technologies.

In addition to forecasting and scenario analysis, many firms establish strategic alliances with outside organizations to help them stay abreast of what is happening in the broad environment. For example, an HCO may form an alliance with universities or other companies to engage in

joint research and development projects. One instance of this is the common practice of established pharmaceutical firms partnering with smaller, innovative biotechnology research firms in order to capture the next generation of biotech-driven product and process technology. In some cases, alliances take the form of *open innovation*, which means that collaborators and competitors openly share knowledge and enter or exit the network as they please. These networks consist of even close competitors. For example, hospitals and health systems across the country are engaging in technology alliances to enable access to sophisticated electronic medical record systems at a fraction of the cost of implementing the systems individually. In many cases, these HCOs are responding to *meaningful use* mandates set by the Federal government. In some cases, the providers had no prior interaction with each other. In other cases, they are fierce competitors for local market share. In all cases, they recognized that establishing a partnership was mutually beneficial and essential for long-term financial success.

With a well-thought-out plan for monitoring the broader environment, an organization can better prepare itself to receive early warnings about trends that will create opportunities and pose threats. Forecasting and scenario planning can help firms devise effective strategies for managing or adapting to those trends. Alternative strategies can be devised that integrate the observations of trends in the external environment with information gained from the internal resource, stakeholder, and external analyses. In other words, a particular idea may come out of one section of the firm's situation analysis, but then it is evaluated on the basis of all of the strategic intelligence a firm has at its disposal.

Strategy in Action

This chapter demonstrated the importance of the external environment in both providing stresses and opportunities to the HCO. Some of the key takeaways for HCO administrators include the following:

1. It is important to monitor what is happening in the societal or community, technological, governmental or regulatory, economic and competitive environments.

2. The resulting strategic intelligence should be used to guide overall firm strategies both to adapt to what is happening in the environment and to effect changes in the environment when possible, a strategy called enactment.
3. One of the most effective ways to influence the external environment is through cooperation with important stakeholders.
4. Forecasting and scenario analysis are useful in examining potential HCO strategies as responses to forces in the external environment.

It might be useful at this point to adopt a broader perspective on what we have covered thus far in this book and how it relates to what is coming in the last three chapters. Figure 5.2 is a repeat of the strategic management process model found in Chapter 1, with the material not yet discussed in grey. Chapters 1 and 2 provided a conceptual foundation based on strategic thinking and managing for stakeholders—this foundation is part of every aspect of the strategic management process and is therefore not found in the figure. Chapters 4 and 5 described the factors that need to be analyzed both inside and outside the organization to provide high quality strategic intelligence for strategic planning. The feedback loop from the performance block indicates that past performance is also important intelligence that needs to be considered during the strategic planning process. Strategic intelligence, including feedback on past performance, is used to help create strategic direction, including mission, vision, and purpose, as reflected in what it values. Strategic intelligence was the topic of Chapter 3.

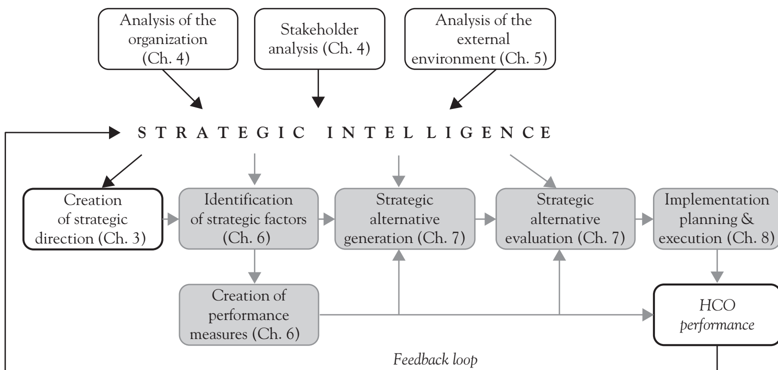

Figure 5.2 Strategic management process for HCOs

With the overall direction of the firm set, we are now ready to explore more specific and detailed concepts. In Chapter 6, we will be discussing strategic factors, which are those things that bring utility to stakeholders. In that chapter, we will also discuss stakeholder-based performance measures, which involve what the firm would like from stakeholders. Chapter 7 explores the generation of strategic alternatives and how to evaluate them to arrive at a sound set of recommendations for the organization. Note that strategic intelligence is integral to these processes, as indicated by the downward pointing arrows. Finally, to wrap things up, we will make some recommendations regarding what a firm should do to ensure that the recommendations are actually implemented. Thus, Chapter 8 deals with implementation planning and execution.

CHAPTER 6

Strategic Factors and Performance Measures

People tend to act rationally in most cases in spite of their inherent biases, and one aspect of rationality is that people respond to rewards in a positive fashion. There are a wide variety of rewards that people may value. Some of them are intrinsic, such as the good feeling we get when we do something well. Many of them are extrinsic, such as recognition from other people, special privileges, financial rewards, and other forms of compensation. So a firm that desires to motivate employees and other stakeholders to participate with the organization in productive ways needs to make sure that systems reward such behavior.[1]

Using Stakeholder Utility Functions

In order to better understand how individuals will respond to various incentives, economists introduced the idea of a utility function, which we first discussed in Chapter 4. Utility functions help us assess the value a given stakeholder derives from engaging with the organization. For example, assume that a nurse has the following simplified utility function with regard to her employment:

Total Utility (Nurse) = f (wages, insurance, advancement opportunities, perquisites)

Although most utility functions are far more complex than this example, these are the factors that are most important to her in her employment. She may not ever systematically evaluate the total utility from her current employment against the total utility she might obtain from another employer, but she will nonetheless have an opinion with regard to

what that utility might be. Since wages, insurance plans, and perquisites such as childcare or flex time are easy to observe, much of her perception with regard to the utility she might receive is likely to be based on those factors. If she perceives that she is getting a better deal with her current employer than she would at a comparable employer for doing similar work, she is likely to reciprocate. In this case, reciprocity might take the form of offering to lead quality improvement initiatives, volunteering for difficult assignments, or treating patients and doctors better.

Also important is the feeling that what she does matters in the sense that additional value created through her efforts will influence her own utility. That is, the firm will reward her through loyalty, increases in wages, or, consistent with her utility function, advancement opportunities. As a result, a positive feedback loop is formed. As the organization strives to create more utility for its stakeholders, those stakeholders act to increase the utility they provide to the organization, which in turn puts the organization in a position to create even more value for its stakeholders.[2]

Of course, in all settings there are real constraints that limit how generous or flexible an organization can be. It is not the case that the firm must provide extremely high wages, significantly better insurance, and a lot more perquisites than competing firms. The firm only needs to provide a noticeably better deal overall for its employees.[3] For example, it is not at all unusual for people to work at jobs that pay less but provide more in utility associated with other factors such as working conditions, job sharing, flexible scheduling, or on-site day care. As we explained in Chapter 4, a firm that understands its stakeholders, based on years of excellent relationships and a high level of honest communication, is well positioned to understand what a better deal includes.

Even as firms seek to understand the utility functions of their stakeholders, they need to develop mechanisms to monitor and record the actions and behaviors that generate utility. But it is not true that merely focusing on creating utility for stakeholders will automatically lead to high performance in all of the areas that are important to the health and longevity to the firm. A firm first has to be able to measure and record its accomplishments in areas that are important to those stakeholders and also facilitates the achievement of the firm's overall objectives.[4] Remember that managing for stakeholders implies a two-way dependence relationship:

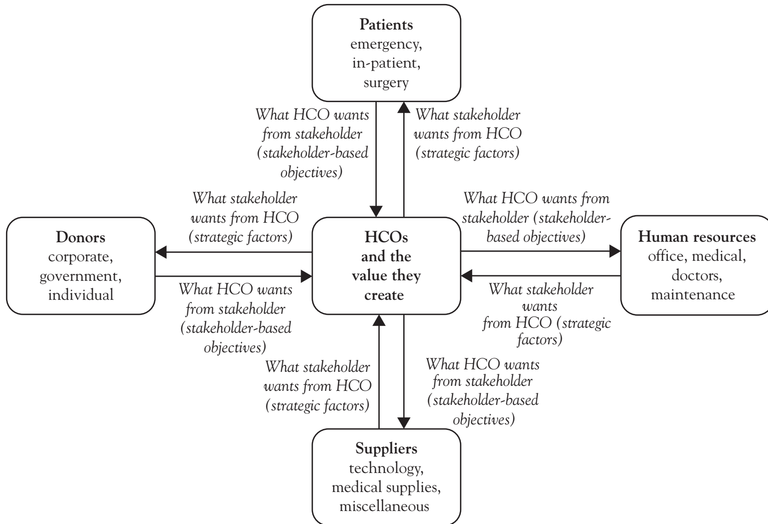

Figure 6.1 HCOs, strategic factors, and stakeholder-based objectives

The firm depends on its stakeholders and its stakeholders depend on the firm (see Figure 6.1). If a firm wants efficiency, then measures need to be established that are associated with systems and processes that create efficiency. If a firm wants a high level of patient satisfaction, then a different set of measures needs to be established. Since firms have multiple performance objectives, then multiple measures should be established. Furthermore, organizational rewards should be linked to those measures.

None of this thinking is new, but it is strangely controversial.[5] Finance scholars for many years have been advocating for a single objective function (in most cases, financial returns), arguing that it is impossible for organizations to maximize more than one objective function. However compelling this argument may be in theory, it simply does not mirror real life. Managers have to consider multiple objectives simultaneously because their firms interact with a variety of different stakeholders with different interests.

For example, consider the perspective of a private physician with admitting privileges at a local community hospital. The physician has little interest in the financial performance of the hospital. In fact, the physician would prefer her patients never require inpatient services. So while hospital administrators may consider growth of invasive cardiovascular services

to be a *good thing*, a primary care physician sees them as reflective of poor long-term medical management of a treatable condition. More important to the physician are how the hospital performs with regards to quality of care, infection control practices, bedside manner, and effective communication with patients and their families. Insurance companies and regulators bring entirely different priorities, and, even internally, various departments and units can have wildly different priorities and perspectives. This setting creates a distinctly challenging management environment where the only viable decisions and courses of action are those that consider the utility created by a given course of action from the perspective of multiple different utility functions. In order to determine whether common ground exists among the utility functions of key stakeholders, firms must define and measure progress on the strategic factors that drive performance.

Defining Strategic Factors

Chapter 4 provided you with tools for determining your most important stakeholders and understanding their utility functions. Chapter 5 examined external factors and trends that are important to the success of your organization in performing well, thus creating value for stakeholders. Examining stakeholder utility functions in the context of what is happening in the external environment can provide an organization with information essential to determining which factors are most important to organizational success. These are the strategic factors—the things that an organization must get right if it is going to be successful.[6]

Generating a full listing of the strategic factors relevant to each stakeholder can begin as a brainstorming exercise. However, the resulting factors represent a hypothesis to be confirmed through actual contact with each stakeholder. That's right. Effective stakeholder management requires contacting stakeholders to determine what is most important to them. This can be done through a variety of mechanisms, but the best approaches include focus groups and personal interviews that provide a richer exchange of information and help build and strengthen the relationships and open lines of communication. This sort of stakeholder intelligence can also help organizations work toward win-win solutions when there seems to be conflict between the utility functions of various stakeholders, as discussed in Chapter 4.

For example, we worked with a group of hospitals that were having a difficult time improving the efficiency of their operating room suites. While surgical services can generate substantial cash flow, they are very expensive to maintain. Poor utilization can turn a potential profit center into a financial sinkhole. The problem had a few related causal factors. First, these hospitals engaged in the common practice of block time allocation, where operating room suites are reserved for specific surgeons on certain days of the week for certain amounts of time. Second, surgeons were allowed to schedule their cases in whatever manner they chose. This led to *lumpy* usage where block time utilization might be high one week, but low the next. A historical review showed that average utilization of block time allocations was only slightly above 50 percent.

It certainly seemed that at least some surgeons had more reserved operating room time than they needed. If these hospitals reduced the time granted to levels more in line with what the surgeons actually needed, they could use the open time to recruit new surgeons. Alternatively, if there was no additional volume in the market, they could reduce the number of operating rooms they staffed, modify their anesthesia contracts, and reduce operating costs. However, when these hospitals proposed reducing the amount of time granted, the surgeons balked and some even threatened to end their affiliation with these hospitals.

At the root of the disagreement were two very different perspectives on the benefit of block time. The hospital saw block time as a way to capture pipeline; that is, by providing high volume surgeons with guaranteed access to the operating room that would discourage them from scheduling cases at competing hospitals. When surgeons asked for perhaps eight hours of blocked time per week, the hospital assumed the surgeon would consistently bring close to eight hours of surgical procedures per week.

The surgeons had a different view. Since they were not burdened with the cost of maintaining staffed suites, their request reflected an attempt to manage a worst case scenario. The surgeons were actually telling the hospital they could not envision needing more than eight hours of time per week. Requesting as much time as they might conceivably need makes perfect sense when you consider the utility function of a surgeon. For the most part, they only make money from procedure fees. The revenue generated by copayments and office visit fees are miniscule. They need to

be able to schedule a sufficiently large number of office visits each week to yield the subset of patients that will actually need surgery in the coming weeks. In order to do that efficiently, they tend to have a very structured schedule that is broken down into days spent in the office screening referred patients, days in the clinic doing minor procedures, and days in the hospital performing major procedures. Early morning hours are spent rounding on patients in the hospital before and after surgery and typically many late nights are spent dealing with emergency procedures. While the hours are long and arduous, their schedule needs to have some structure for things to work.

The surgeons placed a much higher value on preserving the structure of their schedules than the hospitals realized. If their block time were reduced, it could potentially mean that some cases might have to be performed on days reserved for office visits or clinic duties. That would be highly disruptive and have a negative economic impact on the surgeons. The hospitals and surgeons were able to find common ground. Block time allocations were reduced, but scheduling was also modified to achieve load balancing. When the block time was filled, nonurgent cases were scheduled for the following week. For urgent cases and instances where the patient did not want to wait, the hospitals staffed two operating room suites to handle overflow. These release valves were shared by surgeons and utilization was monitored and evaluated monthly to ensure sufficient capacity was available. The final solution was not the economic optimum the hospitals initially envisioned, but they were able to achieve better performance and in a manner that worked for their key stakeholders.[7] This illustrates procedural and distributional fairness. The stakeholders that were impacted by the decision had a voice in the process and the economic impact was shared.

To some managers, this process of actively engaging stakeholders and collaboratively developing solutions may seem intuitive and obviously important. Far too often, it is perceived as too labor intensive and expensive relative to the potential benefits. Many managers and executives firmly believe they already know what their stakeholders want. Why would they believe this? A lot of managers spend a considerable amount of time dealing with stakeholder complaints of one sort or other. From those experiences, they may believe that they know what stakeholders

want. But what they actually know is what (hopefully) a small percentage of their stakeholders believe they are not getting. This information may help determine some of the weaknesses of their organization that need to be addressed, and this is good strategic intelligence to have, but it does not really reflect what the stakeholders need or want.

Another barrier to investing so much energy is that many managers barely have time to handle their assigned responsibilities, let alone conduct this sort of research and analysis. To skeptics, we say that this may be a different type of management from that to which they have become accustomed. It is certainly not a *put out the fires* or *shoot from the hip* style of management. Managers who are aware of the strategic factors for the stakeholders for whom they have responsibility have a greater ability to prioritize where they spend their time. Understanding the strategic factors of stakeholders helps avoid the fires and crises that emerge from unresolved issues and incompatible perspectives. Unfortunately, many managers fall into the trap of treating symptoms rather than curing the disease. A long day spent dealing with the outcomes of a bad process may create the illusion of productivity. But managing for stakeholders and investing time and energy into building relationships and understanding their priorities ultimately leads to more efficient and effective managers.

Stakeholder-Oriented Objectives

At the beginning of this chapter, we mentioned that in order to enhance performance a firm first has to be able to measure and record its accomplishments in areas that are important to key stakeholders and also facilitate the achievement of the firm's overall objectives. The last section described how stakeholder utility functions can be used to determine strategic factors, things a firm must get right for its stakeholders to unlock reciprocity and its associated benefits. Since reciprocity is a two-way construct, firms can also expect to receive resources they want or need from stakeholders. This is consistent also with the process used to determine whether a stakeholder is primary to the organization—whether you can clearly determine what you want or need from them. If you can't, then it is unlikely that they are adding to the value creating processes of the organization.

Returning to the operating room example, it is clear what the hospitals want from the surgeons. That is, as many surgical procedures as possible! By engaging with all of the surgeons and learning more about their utility functions and priorities, they found something interesting. While the hospitals were focused on high volume surgeons to whom they had allocated block time, they had essentially ignored low volume surgeons who did not perform enough procedures to even qualify for block time. They learned that those surgeons essentially *shopped around* for operating room access. They had admitting privileges at a number of hospitals but did not have block time at any of them. When they needed to conduct a procedure in a hospital, they called around to find one that could accommodate them. The first hospital that said *yes* got the procedure.

An analysis of these low volume surgeons showed that, as a group, they could easily fill a couple of days per week if they agreed to share the time. Since some surgical subspecialties have more lead time than others, the low volume surgeons were segmented into groups based on historical lead times and shared one of several four hour weekly blocks of time with a few other surgeons. This shared block mechanism enabled these hospitals to capture 100 percent of the volume they had previously unwittingly shared with local competitors—an opportunity they exploited simply by opening up the lines of communication and asking the simple question *What can we do to help?*

Of course, asking *What can we do to help?* can be a potential disaster if you don't have a process for vetting the responses. In the previous example, it made perfect sense for the hospitals to collaborate with low volume surgeons to find a way to enable them to conveniently and predictably schedule their cases. But what if stakeholders ask for something that would make your overall system of value creation worse off? While you should be focused on creating value for stakeholders, value creation is a two-way street. Screening potential initiatives and evaluating the impact of ongoing initiatives requires firms to establish strategic performance measures.

Establishing Strategic Performance Measures

Understanding the strategic factors that matter to stakeholders and defining what the HCO wants stakeholders to provide in return is an important

first step. Equally important is an ongoing assessment of whether the stakeholders are getting what they want and whether your organization is actually receiving what it expected in return. This entails setting strategic objectives for (1) each of the strategic factors and (2) each of the stakeholder-based objectives. So what is worth measuring and how do you measure it? Strategic objectives should have the following characteristics:

1. They are *high enough* to motivate a new level of energy and commitment. That is, the level of change the organization hopes to realize is substantial enough to have a material impact.
2. They are *realistic*, not so high that they discourage people from trying to achieve them. They reflect internal resource constraints related to budget limits and human resource availability.
3. They are *measurable*; otherwise, it will be impossible to determine if they are achieved. Determining whether something is measureable should not be a theoretical exercise. If you require data from another organization in order to obtain accurate measurements, you need to determine whether those organizations are willing to share that data.
4. They are *specific* to one of the strategic factors or stakeholder-based objectives.
5. They are *communicated and understood* by everyone in the organization that can help accomplish them.
6. They are set through *participation* from those people who are going to be responsible for accomplishing them.
7. They cover a specific *time frame* for accomplishment.
8. They are assigned to *specific individuals or groups* who will then work with others in the organization to develop plans for accomplishing them. These assigned people will also take responsibility for reporting back on their progress.
9. They are *consistent with the mission, vision, and values* of the organization.
10. They make sense in terms of what is happening in the *external environment*. For example, strategic objectives should consider whether there is something happening externally, over which the organization has little or no control, that is causing an undesirable change in a strategic factor or a stakeholder-based objective, and should make adjustments accordingly.[8]

A systematic approach to setting and measuring strategic objectives helps identify patterns and progress toward those things that are most important to the organization and its stakeholders.

How Strategic Objectives (Should) Influence Decisions and Behavior

Strategic objectives are stakeholder-based, consider the resource needs of the organization, are consistent with the strategic direction of the HCO, and consider external influences and internal resource constraints (or opportunities for allocation of new resources). In principle, they should have the greatest impact on the myriad of decisions (big and small) managers make every day. For that to happen, strategic objectives should be widely communicated and explained to those people who can influence their achievement.

A typical organization may end up with 20 or more strategic objectives. That is a lot to process, and many of these objectives might not be relevant to everyone in the organization. One way to reduce the decision-making complexity is to carefully focus the attention of the people most responsible for a given strategic objective on the subset of objectives most relevant to them. For example, the operating room block time allocation process illustrated in this chapter is probably not relevant to an emergency department director. And as we will discuss further in Chapter 8, each and every one of the objectives has to be assigned to a person to make sure the organization is moving toward completion. Delegation has to occur to avoid the *file drawer problem* in which an objective is agreed upon and then it is figuratively filed away until the next planning session in which administrators realize that no real progress has been made.

Familiarity is also important if strategic objectives are going to influence the behavior of organizational members. Consequently, repetition is very helpful. After organizations ask for participation in the objective setting process, the strategic objectives and progress toward them should be regularly broadcast through every appropriate channel. One of the most effective ways to make strategic objectives a way of life is if administrators address them consistently in progress reports and meetings. If the

topic at hand is not related to a strategic objective, then it is either a low priority or the set of strategic objectives needs to be revisited. Administrators should also be transparent in how the decisions they make are influenced by the objectives. And, of course, administrators have to allocate sufficient time and other resources to facilitate their accomplishment. In these ways, the strategic objectives become woven into the culture of the organization.

Strategy in Action

Things that are measured get done. Consistent with managing for stakeholders, then, stakeholder utility factors should be measured. However, the stakeholder perspective implies a two-way dependence relationship. Firms should also create stakeholder-based objectives that measure whether they are getting what they want (and need) from their stakeholders. In summary:

1. Using strategic intelligence about primary stakeholders (discussed in Chapter 4), HCOs should identify strategic factors—those things that must be done right for the organization to be successful. These factors should flow from what is important to stakeholders (their utility functions).
2. HCOs should also identify what they need from stakeholders if they are to be successful. These are stakeholder-based objectives.
3. Strategic objectives are then created based on the strategic factors and the stakeholder-based objectives.
4. Responsibility for each strategic objective is given to a specific person to make sure the organization actually moves toward its accomplishment. Resources are also allocated to facilitate achievement.
5. The objectives are repeatedly communicated to the most relevant organizational members and other stakeholders that are involved in their accomplishment.

Of course, there is more to achieving strategic objectives than what we have mentioned in this chapter. Specific strategies much be established to facilitate accomplishment, and each of these strat-

egies should be evaluated from multiple stakeholder perspectives. Chapter 7 discusses a variety of organizational strategies and how to evaluate them. Then Chapter 8 provides some simple guidelines to help administrators guide their firms in the successful implementation of those strategies.

CHAPTER 7

Strategic Alternative Generation and Evaluation

All managers are decision makers and problem solvers. Sometimes problems arise that require immediate responses. In these situations, experience is helpful because managers often have to rely on their instincts and judgments, and these things improve with experience. However, many of the decisions managers have to make or problems they have to solve have one of two characteristics which mean that a more reasoned (and less hasty) approach is needed: they are either recurring or they are more or less permanently embedded in the organization. For example, if there is an oxygen leak on one of the unit wards, then there is not much time to contemplate alternate courses of action or protocol to follow. However, if the oxygen leak is a recurring problem then obviously more time and analysis is needed to remedy the issue.

Applying the principle to a clinical setting, if a patient on a medical or surgical unit experiences respiratory failure, a response team jumps into action. If respiratory failure events occur on a regular basis on a medical or surgical unit, then the organization needs to step back and evaluate the policies and protocols that impact how patient acuity is assessed and how patients are assigned to different levels of care. The notion that chronic problems require a different level of analysis and intervention applies in virtually every setting—if a physician occasionally rounds late in the day, the healthcare organization (HCO) can respond by maintaining a slightly higher staffing level on the affected units during the evening shift to handle the increased workload and discharge process. If physicians routinely round late in the day, then managers need to engage the physician community and determine what can be done to enable them to round earlier and, for example, write discharge orders and instructions when more hospital resources are available to execute their orders.

This chapter addresses two important groups of *strategic decisions*, which by their nature require more time and analysis, and participation by a broader group of stakeholders. The two types of *strategic decisions* we will discuss are (1) decisions about a general strategy for the HCO and (2) decisions regarding specific actions that should be taken to move the HCO forward toward the achievement of its purpose and objectives, as described in Chapters 3 and 6.

In Chapter 1, we discussed the elements of strategic thinking. It may be useful to review them here because they are so central to the topic of generating strategic alternatives. They are a focus on the strategic direction (purpose) of the organization, a long-term orientation that also includes learning from the past and considering the reality of the present, a systems approach that considers the organization at the center of a network of stakeholders, an opportunistic attitude of taking advantage of unanticipated opportunities when they present themselves, and a willingness to test ideas (take calculated risks). Recall that excellent strategic decisions have a creative as well as a rational process component. The creative component is what drives innovation.

We define *strategic alternatives* as alternative courses of action for a firm that could potentially move the firm toward its purpose and generate more value for stakeholders and for the firm. These might also be called alternative strategies. Creating strategic alternatives is all about generating innovative ideas that will move a firm forward. These ideas often come from stakeholders that are a part of a firm's value creation system. They might also present themselves as opportunities that were recognized during analysis of the external environment, but it would also be helpful to understand some of the strategies other firms have pursued simply to shed light on what may be possible. Remember that while it is important to learn from the past, the past should not be allowed to stifle innovation.

In this chapter, we will explore options to consider when establishing a general strategy, as well as strategic tactics an HCO may consider to achieve its strategic objectives. We will then examine how to generate excellent strategic alternatives. In the last section of this chapter, we will provide two effective rational approaches for making decisions: *force-field analysis* and *payoff matrices*, both of which elicit stakeholder consultation and participation.

General Business Strategies

Every firm has a general strategy, a fundamental approach for how it will satisfy its customers. Walmart is focused on achieving low prices, and Ferrari is focused on creating an unparalleled driving experience. Every HCO has a general strategy as well.[1] If your organization hasn't deliberately selected a general strategy, then it has stumbled into one by default. Everyone in your firm is busily doing something, but if you haven't identified the best general strategy, you might be losing an opportunity to create a competitive advantage through focusing resources on particular organizational areas. This section provides a brief description of the primary dimensions of a general firm strategy.

The objective of a general (or generic) business strategy is to establish a competitive position that distinguishes the organization from competitors.[2] Firms pursue competitive advantage by offering (1) services or products that are differentiated from those of competitors, where those differences have high utility to customers; (2) services or products that are fairly standard, but produced at the lowest possible cost and usually sold at a lower price; or (3) a combination of the first two strategies, a hybrid called *best cost*. Multiple firms can pursue the same general strategy, but in different ways and with varying levels of performance.

Option 1, a differentiation strategy, entails services such as concierge medicine where patients pay an additional annual fee in exchange for longer appointments, quicker access, and house calls for emergencies. Also, many plastic surgeons offer cosmetic surgeries in addition to reconstructive surgeries. The challenge with focusing on high-end differentiation is that it often entails focusing on customers willing to pay more out-of-pocket. In most areas that is a very small market. Another way to differentiate an organization is through outcomes and other measures of quality. This approach is much more common and we see numerous examples of HCOs striving to be the best *fill in the blank* center in the region. However, no organization can be the best at everything, and a single service line is rarely enough to sustain an entire HCO.

Option 2, which might be called low cost leadership, would seem to be a nonstarter in the healthcare industry because it means that a firm would need to cut its expenses to bare minimum levels so that they can

undercut competitors on cost of care. The challenge with this strategy is that while cost containment is important, the individuals selecting which HCO will provide care often do not pay directly for the total cost of the healthcare services they consume. HCOs negotiate prices with commercial insurance companies in exchange for being part of their provider network. Prices need to be low enough to join the network, but HCOs have no incentive to go any lower, and since patients receiving healthcare services are only responsible for copayments and coinsurance, they are generally not concerned with the overall price tag. Similarly, physicians have no reason to affiliate with hospitals based on cost of care, and generally make decisions based on quality of care and patient preference. There are some instances where low cost leadership is the right generic strategy—for instance walk-in clinics that serve markets with a high proportion of un- and underinsured individuals. However, as with differentiation, the size of the market that will be attracted by that approach is fairly small.

Consequently, the general strategy decision for most HCO administrators is selecting *how* the organization will pursue differentiation in its chosen markets while keeping overall costs at a reasonable level (best cost). Many of the most successful organizations have successfully combined pursuit of both lower costs and differentiation. Differentiation often requires initial investments in equipment, training, and program design. Over time best practices emerge and service delivery becomes more streamlined; thus, cost of care per unit of service decreases. Benefits might be derived from learning effects and corresponding improved delivery processes that increase throughput, innovative use of medical and information technologies, or the development and use of new treatment methods. In conjunction with higher volume that leads to higher utilization, these centers of excellence can also become important drivers of good financial performance. Earnings can then be reinvested into new forms of differentiation and cost efficiency.

Once an HCO decides which services to develop and differentiate and which areas to target for cost reduction initiatives, it has to determine how it is going to move forward. That is, it must decide which competitive tactics will be used in order to achieve success. Simply observing an opportunity does not equate with success. If you have identified opportunities, competitors may observe them as well. Once you have achieved

success, others may seek to weaken your position and take some (or all) of your market share. One way to combat this situation is to develop competitive resources that are hard for competitors to imitate, as discussed in Chapter 4. HCOs can also select among a variety of competitive tactics to solidify their positions.

Competitive Tactics

Competitive tactics refer to the competitive actions firms take to grow and increase the strength of their competitive positions. They are necessary because competitive environments are in a constant state of change. The conditions that made an idea good five years ago may no longer exist, and thus a response is required. Firms that do not develop tactics for dealing with dynamic competitive environments are unlikely to succeed over the long run simply because they will no longer be viable in the new competitive setting that emerges. General business strategies and competitive tactics are connected, but they are not the same thing. A firm can pursue any general strategy in combination with any of several competitive tactics, including growth tactics, aggressive competition, being a first mover, erecting barriers to imitation, collaboration, political activism, or increasing strategic flexibility.[3]

Growth Tactics

Sometimes in order to succeed you just need to get bigger. For example, in the healthcare industry, reimbursement rates are often set via negotiations with commercial insurance companies. When it comes to negotiating rates and the bargaining power your firm has in those negotiations, size matters. Although an insurance company may appear far larger than your HCO, the size advantage is an illusion. It only appears much larger because the insurance company is a nationwide firm. Healthcare delivery is mostly local, and if an HCO is providing services to a substantial portion of the local market, then the insurance companies must negotiate reasonable rates in order to have an adequate provider network.

There are many different ways to grow and the reason *bigger is better* can be different for each method. An HCO may attempt to grow

internally by increasing the number of services it provides in its existing markets, or by expanding its market size through new locations and attracting new customers. From an external perspective, an HCO can grow through acquiring other firms in the same or different markets or through creation of joint ventures to provide new services to existing patients or to expand geographically.

In extreme cases, an HCO may even decide to diversify into different industries through acquisitions or joint ventures—this strategy is called unrelated diversification. In general, firms are ill advised to diversify too far away from their primary industry because they simply do not have the expertise to compete effectively in the new market. Although managers involved in such ventures, usually carried out through acquisitions, tend to express confidence that they will be able to uncover synergies between the two organizations or manage the new organization better than existing managers, the reality is that these types of deals are consistently poor performing.[4]

A full discussion of these growth strategies is beyond the scope (and purpose) of this book. However, since a firm's growth strategy influences many aspects of its operations, it is important that HCO administrators identify what it is *and* why it is the most appropriate strategy. In this regard, several questions should be answered: (1) What is our growth strategy—internal, external, or a combination? (2) What is our approach to carrying out this growth strategy? If internal, are we seeking to provide new services, attract new customers, or to grow through geographic expansion? If external, are we seeking acquisitions or joint ventures?

Compete Aggressively

Lots of organizations like to say they compete aggressively, but upon closer inspection they seem to be doing the same things as everyone else. Some firms actually use their abundant resource positions to overwhelm their rivals through advertising, promotions, hiring the best people from other HCOs, purchasing only state-of-the-art equipment, and so forth. For example, an HCO might compete aggressively for market share by waving copayments or overstaffing and oversupplying some departments in order to provide physicians and their patients quick and easy access to services.

For an aggressive strategy to work, the firm must have a vast supply of valuable resources, at least some of which are unique. In addition, if those resources are also hard to imitate, the firm may be able to sustain its aggressive approach to competition for a longer period of time. A well-established brand name, strong stakeholder relationships, valuable locations, a strong financial position, and possession of expensive or hard-to-imitate technologies are among the resources that are most likely to lead to facilitate aggressive tactics. Firms that have these types of resources aggressively invest in and utilize these resources to maintain their superior positions. Of course, aggressive firms can also stimulate ill will among their competitors and sometimes communities and other stakeholders, so there are risks.

Be the First-Mover

There are instances in which moving quickly is an important factor in creating a successful and defensible competitive position. Certain medical technologies that are only used on a small proportion of patients are one example. In a small market, the patient population may not be large enough to support two Da Vinci surgical robots. The first HCO to develop that capability has the benefit of an economic barrier that can effectively block any competitors from imitation. In the case of a center of excellence, the first mover might benefit from establishing affiliations with the top specialists in the area. As a general rule, first-mover advantages exist when significant resources need to be invested developing new services.

This is not to say that being the first-mover provides a guaranteed advantage. There is always a risk that an industry leader pursuing first-mover advantages may be overtaken by the aggressive moves of companies in second place. Furthermore, early imitators or *second-movers* may also enjoy high performance. Many successful HCOs live by the adage: *We don't necessarily do it first, but we always do it best*. Firms that rapidly imitate competitor innovations may enjoy many of the same benefits of a first-mover without bearing all of the research and development costs. In order to determine whether the first-mover approach is viable you should be able to articulate how being the first mover provides you with an advantage. Is the market opportunity too small for a competitor to

achieve success through emulation? Are key partners needed to achieve success aligned with your HCO? The answers to those questions may be *no*. If so, you can still move first but do so with an understanding that it does not provide you with any inherent advantage over your competitors.

Erect Barriers to Imitation

As suggested in our discussion of first-mover advantage, imitation is a very common competitive countermove because a *follower* organization can simply learn from the leader. However, some firms attempt to create barriers to this sort of imitation. Common barriers to imitation include strong brand names or trademarks, patents, technological secrets, unique locations, exclusive contracts, special relationships with stakeholders, or even economies of scale, so long as other competitors do not enjoy the same advantages.

Collaborate

One of the recurring themes in modern strategic management is that organizational collaborations with stakeholders are valuable to obtaining competitive advantages.[5] Collaborations can take a variety of forms, including joint ventures (cooperative business ventures in which each participant has an ownership stake), organizational alliances (any form of partnership), industry consortia, research groups, or trade associations.[6] Also, firms may participate in alliance networks, which are loosely coupled groups of firms that cooperate with each other and share information.

Collaborations can be used offensively or defensively; a firm may use its participation in a joint venture to develop a cutting-edge service or to battle a large competitor through an exclusive cooperative relationship. Collaborative relationships can be difficult to imitate, thus providing a potential source of sustainable competitive advantage. Of course, partnering with other firms does create a more complex management environment. Every HCO needs to decide to what extent they want to rely on cooperative partnerships to achieve their objectives and what forms of collaboration (joint ventures, alliances, consortia, research groups, alliance network) are available.

Political Activism

We often associate political activism with community organizers and advocates of social causes such as environmental sustainability, equality, or climate change rather than as a mechanism for HCOs to achieve their strategic objectives. However, all firms regardless of industry have resources and can deploy those resources to impact public policy and perception in ways that are beneficial to the firm.

Political tactics include organizational activities that have as one of their objectives the creation of a friendlier political climate for the firm. A firm may want to change the *rules of the game* by influencing laws and regulations that affect how business is conducted in its industry. Political lobbying and campaign contributions are two of the most widely used political tactics. An individual firm's lobbying efforts may not be as effective as joint efforts. Firms may also become involved in community service in an effort to create a good relationship with local government organizations or other stakeholders with whom the firm interacts. Most larger firms have public relations offices and officers. Many do public relations advertising or publish sustainability or social responsibility reports that are intended to paint the firm in a favorable light. All firms need to decide how much to invest in political endeavors and what forms of political influence they will exert (e.g., lobbying, campaign contributions, community service, public relations officer, social reporting, and advertising).

Invest in Strategic Flexibility

Tactics associated with strategic flexibility allow a firm to manage the amount of risk it faces. Strategic flexibility enables firms to quickly shift resources away from less-than-desirable initiatives with as little loss as possible. One way to remain strategically flexible is to avoid large investments in capital equipment or facilities. Instead, they are rented, leased, or shared with other firms. Another way to remain flexible is by subcontracting for support services instead of providing them in house. For example, an HCO may subcontract payroll, research and development, and marketing or public relations. However, firms should be careful not to subcontract activities that are associated with the rare and inimitable resources that are a source of their competitive advantage. And, as

a practical matter, all of the activities associated with strategic flexibility reduce a firm's control over its own business processes as well as the cash flow potential from activities in which it does not engage. With regard to strategic flexibility, the most important questions are whether an initiative is associated with enough risk to warrant an investment in strategic flexibility and, if so, which services should be subcontracted and which capital assets can be rented, leased, or shared?

Strategic Alternative Generation

We have, thus far, discussed in this chapter a number of strategies, both general and tactical, that an HCO might use as it seeks to fulfill its purpose and achieve its strategic objectives. In addition, previous chapters have recommended ways in which strategic alternatives can be generated through analysis of the external environment, internal resources, and stakeholders. These analyses are participative processes involving a lot of stakeholders. Some of the takeaways from these analyses should include ideas about specific actions to take advantage of opportunities or overcome threats from the external environment, actions to take advantage of strengths or overcome weaknesses identified during the organizational analysis, specific means for addressing strategic factors or stakeholder-oriented objectives, or ways to implement a firm's general or tactical strategies, as defined in this chapter.

If a number of people are participating in the strategic planning process (as they should be), and if they are privy to the strategic intelligence generated through the strategic analysis process thus far, the end result of all of this analysis should be a fairly long list of strategic alternatives the firm might pursue. If so, then some preliminary analysis can help reduce the list for detailed analysis. Returning to the principles of strategic thinking, it may be useful to determine if there is any similarity of any of the alternatives to something the organization has done in the *past* without much success. Also, a primary analysis could help eliminate an alternative that simply is not realistic given the *present* situation.

Perhaps most important in the selection of strategic alternatives that are worthy of further deliberation is a consideration of purpose. Purpose should drive strategic thinking, and in this regard some key questions

are: *What are we trying to accomplish? What are the strategic factors we are trying to influence?* or *Which stakeholder-oriented objectives are relevant to this situation?* Once the answers to these questions are crystallized and agreed upon, it should be fairly easy to establish a workable list of strategic alternatives.

Two Versatile Decision-Making Tools

Many excellent decision tools exist. Some of them, like simulations, are quite technical.[7] Others, such as decision trees, are useful only in very limited circumstances. Numerous financial tools also exist, such as proforma analyses, real options analyses, and net present value analyses, and an array of forecasting tools that are beyond the scope of this book. We should say from the outset that these more technical tools may be useful supplements to help guide decision-making processes, including those we are about to describe. However, the two decision-making tools we are going to describe, consistent with a managing-for-stakeholders approach, have the purpose of engaging the talents and knowledge of multiple people in a useful discussion resulting in sound strategic decisions that accomplish the purposes of the organization.

The decision-making tools we outline here deal with two different types of decisions. The first type of decision involves examining several possible courses of action to address a particular problem. This type of decision is well suited to a payoff matrix approach. The second type of decision deals with how to move the organization in a desirable direction; for instance, an HCO may want to increase patient satisfaction or reduce the number of accidents. This type of decision calls for a force field analysis.

Payoff Matrix

A payoff matrix is a helpful way to guide discussion surrounding a strategic decision. It is a simple technique in which the major criteria upon which a decision will be made are listed along one axis and the strategic alternatives being considered to address the problem are listed along the other. There is a lot of flexibility with regard to specifically what to list

as criteria. However, we suggest that, at a minimum, the organization should consider the following:

1. *Value:* A realistic appraisal of the value of the strategic alternative in terms of addressing the issue it is trying to address (i.e., follow a new strategy, try a new competitive tactic, take advantage of a resource or strength, overcome a problem such as resource deficit, or weak value-creating activity).
2. *Strategic objectives:* An assessment of the influence of the alternative on the strategic objectives of the firm (which were formed based on strategic factors and stakeholder-based objectives). This will force a broad examination of how each alternative is likely to impact key stakeholders of the firm. This appraisal should include a short-term and long-term perspective
3. *Resources needed:* An evaluation of the resources that will be needed to carry out the alternative—financial, human, physical, technological, political, and legal.
4. *Fit:* An assessment of how well the alternative fits with the firm in terms of its mission, vision, purpose, and culture.
5. *Risk:* Identification and analysis of the risks associated with the alternative—financial, competitive (how will competitors respond), and human.

Figure 7.1 contains an example of a simple payoff matrix for a hospital that is considering three ways to increase its diagnostics revenue. The firm has invested substantial revenue in new diagnostics equipment, facilities, and staff (a strength), but the resources are underutilized. The final three strategic alternatives were generated from a larger list, which was then reduced in size through preliminary analysis. The first alternative is to partner with a nearby emergency center, sharing revenues with the center for referrals. The second alternative is to launch a large advertising campaign through billboards and radio. The third alternative is to move as much diagnostic work as possible from affiliate hospitals. Numerical scores are recorded in each of the cells reflecting the discussion among the participants; however, the discussion is more valuable than the numbers themselves.

	CRITERIA					
	Addresses problem	Firm objectives	Resources needed	Fit with firm	Risk factors	**TOTAL**
Partner	4	5	4	3	2	18
Advertise	4	3	1	1	3	12
Transfer work	2	4	5	5	5	21

5=excellent, 4=good, 3=fair, 2=adequate, 1=poor

Figure 7.1 Simple payoff matrix for diagnostics problem

Examples of the types of comments that might result in the numbers found in Figure 7.1 include:

1. For the intersection of *addressing the problem* and *transfer of work*, "Yes, it would help increase use of our new facility, but we would end up with too much capacity elsewhere in our system."
2. For *firm objectives* and *partnership,* "We established an objective of working with other local health providers to increase our reputation and enhance cooperation."
3. For *resources needed* and *advertising*, "This would be very expensive. Where will we get the money—from which unit?"
4. For *fit with firm* and *transfer work*, "Everything would be pretty much the same."

Two other versions of the payoff matrix are quite common. For those managers who find the number setting process frustrating or artificial, a simple one word descriptor for each cell may suffice, such as *very well* or *mixed results* or *patients would suffer*. These words would help summarize the discussion. Going the other direction, some may prefer weighted criteria, and sometimes the weights can lead to a different outcome. For

	CRITERIA					
	Addresses problem (.4)	Firm objectives (.3)	Resources needed (.1)	Fit with firm (.1)	Risk factors (.1)	TOTAL
Partner	4×0.4=0.16	5×0.4=0.20	4×0.1=0.04	3×0.1=0.03	2×0.1=0.02	0.45
Advertise	4×0.4=0.16	3×0.3=0.09	1×0.1=0.01	1×0.1=0.01	3×0.1=0.03	0.30
Transfer work	2×0.4=0.08	4×0.3=0.12	5×0.1=0.05	5×0.1=0.05	5×0.1=0.05	0.35

5=excellent, 4=good, 3=fair, 2=adequate, 1=poor

Figure 7.2 Weighted payoff matrix for diagnostics problem

instance, the criteria in Figure 7.2 are weighted based on their importance to the decision-making group. Notice that in the weighted scheme the partnering alternative is the most attractive.

Decision makers sometimes do not select the strategic alternative that is highest in the rankings. This may occur because during the discussion other criteria are discovered that are important to the decision or because one particular criterion is so poorly satisfied by an alternative that it is considered unviable. For example, the firm may determine that an otherwise very attractive alternative is far too expensive to implement. This is not a reflection of failure for the alternative generation process. The in-depth analysis occurs during the decision-making process, and sometimes it is impossible to determine what might come of this analysis during the pre-evaluation period.

Force Field Analysis

Force field analysis is a decision-making tool that can help facilitate organizational changes that are both predictable and desirable.[8] Force field analysis is based on two very realistic assumptions. First, organizations in their current state are resistant to change.[9] Beyond the reality that most humans are resistant to the uncertainties associated with change, there are institutional factors such as organizational routines, rules, a reporting structure,

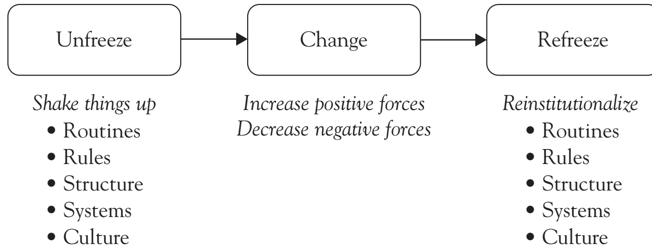

Figure 7.3 Principles underlying force field analysis

various information and other systems, and a culture that define how work is conducted. These forces cause inertia. The organization is essentially frozen (see Figure 7.3). The second assumption is that if an organization is going to change it needs to be unfrozen to some extent, at least with regard to those institutional factors that will have to change if the effort is going to be a success. A crisis is a good way to shake up an organization. A crisis could be precipitated by something as awful as a natural disaster or as routine as the entrance of a new competitor. Declines in operating revenues or profits are also crises. A severe medical error, such as the inadvertent removal of the wrong organ or body part, leading to bad media coverage and regulatory investigations, might also be considered a crisis.

If a crisis does not present itself (which is, of course, a good thing), managers can still unfreeze an organization through actions such as personnel transfers, restructuring the organization chart, or pursuing an entirely new strategy. The amount of unfreezing necessary is contingent on the size of the change. For example, a minor change might be possible through simple rule changes or reassignment of duties, whereas a major organizational change may require a more extreme shake up. Once an organization is unfrozen there is an opportunity to make changes, and these changes should be followed by a re-institutionalization of routines, rules, structure, systems, and culture consistent with the changes that were made.

As we suggested previously, the types of decisions that are best made through a force field analysis involve decisions about how to move the organization in one direction or the other on one of the dimensions associated with a strategic objective (see Figure 7.4). For example, assume that an HCO has detected that inefficiency is hurting its ability to deliver

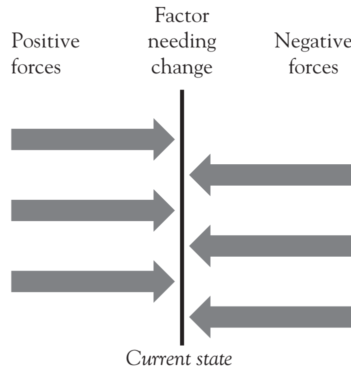

Figure 7.4 Force-field analysis

services to patients at a reasonable cost, and is also putting a lot of pressure on staff salaries. Staff turnover is impacting quality of care and consequently fewer patients are coming to the HCO. The firm establishes increasing efficiency and throughput as a strategic objective.

After some discussion, the decision makers determine that the following factors are the most important positive forces on efficiency in the organization: training, communications technology, coordinative meetings between staff and medical providers, and the ability to make quick decisions when patients arrive. Standing in the way of efficiency are a poor facilities layout, poor communications between staff and medical providers, an outdated check in and check out system that involves too many people, and an uneven flow of patient traffic. Note that one of the factors, communications and meetings between staff and medical providers, can be a positive or negative force. Other factors only move one direction in this organization. For instance, training is seen as a potential positive force, although staff are not poorly trained, so lack of training is not a negative.

In this instance, it is determined that more coordinative meetings between staff and medical providers is likely to be a nonstarter because of resistance from physicians who are already feeling pressed for time. In addition, not a whole lot can be done in terms of the layout of facilities without infeasible capital investments. These decision makers discuss the possibilities and determine that the best way to increase efficiency is to invest in some new communications technology that will also help

address the coordination issues. In addition, they decide to integrate the technology into the check in and check out process and to use the technology to help automate some of the decisions that are made when patients arrive.

To unfreeze the old way of doing things, the decision makers decide to create a new department called *internal communications*, comprised of a variety of people from different departments, along with hiring an outsider to oversee the project. The transfer of employees to the new department requires a shakeup of the organizational structure and assigned work responsibilities. Once the new system is in place, the organization then documents the new system and the new responsibilities of each organizational member. This organizational change would probably be difficult or impossible to implement without the unfreezing and refreezing processes associated with it.

Testing and Evaluation

In the last section, we saw more evidence of strategic thinking. The payoff matrix approach encouraged inclusion of both short- and long-term factors. Both decision-making tools took a systems approach by including a variety of stakeholder, external environment, and organizational considerations. However, there is one more important element of strategic thinking pertaining to decision making—hypothesis testing. There is always a risk element associated with new organizational actions, but having made a decision, organizations need to carry them out.

Unfortunately, many organizations identify what they believe to be excellent mechanisms to achieve their strategic objectives, but fail to adequately follow up and assess whether the new approach is meeting expectations. One possible explanation is that the performance metrics were never adequately defined or the information needed to assess performance is not available. That is why it is so important to establish strategic objectives that are measurable. Also, postimplementation evaluation should be based on the same criteria used to select a given strategic alternative from alternate courses of action.

Ongoing assessment also initiates the next round of performance improvement. Even if the new process or approach is delivering expected

performance, ongoing observation often leads to new insights on how the HCO can improve performance even further. Developing a culture of continuous process improvement makes future initiatives easier to implement because everyone involved expects that changes can and will be made.

Strategy in Action

This chapter described a number of ways to generate strategic alternatives an HCO should consider as avenues to achieve high performance on strategic objectives and fulfill the organization's purpose. The first three draw specifically from strategic intelligence gathered through analysis of the firm's stakeholders and internal and external environments.

1. Strategic alternatives for improving performance or resolving problems can come directly from contacts with internal and external stakeholders.
2. They may also be generated as a result of identifying threats or opportunities during the external analysis.
3. In addition, alternatives worth considering may be generated as a result of examining resources and value chain activities (primary and support), as the decision-making team determines the strengths and weaknesses of the HCO, and its sources of competitive advantage or potential future sources of competitive advantage.
4. Also, in addition to these alternatives coming from strategic analysis, decision makers should consider what the HCO should do to better implement its general strategy and what might be considered in terms of competitive tactics.

This process should generate a long list of strategic alternatives, which can then be reduced to a smaller list primarily based on whether they seem to address the problems that have been identified and how they will influence the strategic objectives of the firm, defined through strategic factors and stakeholder-oriented objectives. Two tools were provided to help make final recommendations from among these most relevant strategic alternatives: a payoff matrix approach and force-field analysis. The end result of these activities is a set of strategic recommendations to be implemented. Chapter 8 discusses strategy implementation.

CHAPTER 8

Implementation Planning and Execution

Almost every organization takes time each year to contemplate its future. In virtually every instance, the meetings end with a plan, a new vision for the future. However, when the managers get together again for their next planning session, they sometimes find that not much has changed. One of the ironies associated with this problem is that many of these organizations have been capable of achieving excellence in patient care, employee satisfaction, and other important metrics. For some reason the bigger strategic ideas seem to be neglected. This phenomenon is not new and managers have been trying for decades to develop approaches to get around an undeniable truism: Strategic initiatives are hard to implement. To date, results are mixed. Some firms have effectively created a culture that embraces strategic change. Many more see their strategic initiatives languish and are left pondering the question *why*.

There are lots of reasons why organizations struggle to implement the big ideas, however well thought out they may be. Perhaps the most compelling reason is that managers have routine operating responsibilities that require immediate attention, and seem to take all their time. Then there are problems associated with lack of specific delegation; that is, if it is everyone's responsibility, then it is nobody's responsibility. This is a common problem with strategic initiatives because by their very nature they typically impact many departments and business units. Another problem is a lack of effective communication with the stakeholders that are important to implementation. And, of course, implementation of new strategies requires new or reallocated resources, without which successful execution is unlikely. Again, this is a difficult problem in healthcare because margins tend to be narrow and skilled clinical resources are not fungible. As these

problems manifest, the strategic initiative morphs into an unfunded mandate for which no manager feels a sense of ownership.

In this chapter, we will provide guidelines for developing an implementation plan that will increase the likelihood of successful strategy execution. We will also tie the implementation process back to the performance measures that were created previously and discuss feedback systems that can help organizations learn. Feedback systems are a type of organizational control—that is, they insure that organizations are moving in the intended directions, and allow managers to make changes if they are not.

The decision-making process described in the last chapter results in one or more strategic recommendations that the healthcare organization (HCO) is challenged to implement effectively. Breathing life into these recommendations requires that the HCO perform several activities effectively (see Figure 8.1). These activities can be segmented into three categories: preimplementation, intraimplementation, and postimplementation. Preimplementation activities are focused on setting the stage for a successful implementation and require the implementation team to (1) identify action areas and relevant stakeholders; (2) specify milestones, key deliverables, and a timeline for accomplishing them; and (3) assign responsibility for each milestone and deliverable.

Intraimplementation activities are focused on developing a rigorous implementation plan and avoiding ad hoc activity and *shoot from the hip* decision making in the face of unexpected events. They require the implementation team to (1) develop a detailed action plan for achieving each milestone and deliverable, (2) develop a budget based on the detailed action plan and allocate resources accordingly, (3) develop a mechanism for communicating the responsibilities and expectations to all of those involved in the implementation process, and (4) open robust lines of

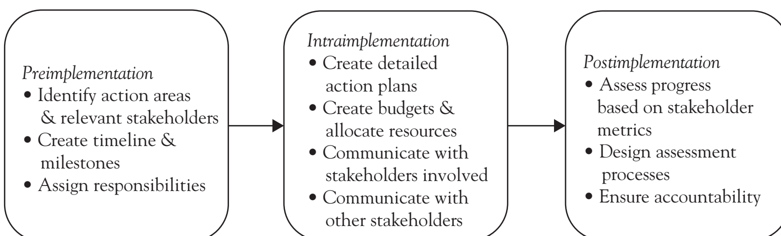

Figure 8.1 Vital implementation activities

communication with affected organizational members and other stakeholders not directly involved in implementation activities.

Postimplementation activities are focused on ensuring that the initiative actually achieves the desired result. Postimplementation activities require the implementation team to (1) measure performance using assessment metrics, (2) design audit and assessment processes, and (3) ensure that managers who received responsibility for an initiative are held accountable and report back on progress.

Preimplementation Activities

Much of the success of an implementation program has to do with the details. Some of these should be established during the planning meeting in which recommendations are made, but many of the more minute details are worked out later. The key is to make sure someone owns the responsibility of addressing the details! These details fall into the category of preimplementation activities. They are the seemingly minor, yet critically important activities that do not need to be addressed in detail during the initial strategic planning session, but must be addressed prior to moving forward with actual implementation efforts. Among the most important preimplementation details is the identification of the areas of the organization and the organizational stakeholders that are essential to accomplishing the recommended strategy. Which departments must be involved? Which individuals need to participate?

The recent trend toward collaborative patient care in the context of bundle payments is a good example of the importance of preimplementation activities. Bundle payments are a reimbursement mechanism whereby a payer provides a single payment that all providers involved in the patient care process share. The bundle payment is typically lower than the sum of what would have been the separate payments to each provider. To make bundle payments economically viable, the providers must improve quality and efficiency. One important element of success is the ability of each organization to communicate its activities so that all upstream and downstream providers are aware of the current state and able to plan and coordinate subsequent steps in the plan of care. While that is a fairly obvious point, many organizations are finding that even though information is

sent, it is not reliably received and acted upon. The problem is that different providers have different workflows and utilize different information systems with different design configurations. While clinicians can easily agree on what should be sent, the IT specialists and case managers need to be involved so that the organizations can determine how the information will be transmitted and how it will enter the workflow.

Another important set of preimplementation details is the establishment of specific milestones and deliverables that each individual manager is responsible for and developing a timeline that defines when those objectives must be met. Returning to the firm objectives described in Chapter 6, which were also used as a basis for making decisions, consistent with Chapter 7, some of the specific objectives should relate to particular stakeholders in terms of what brings them utility and what the organization would like from them in return. That is, as the implementation plan is executed it should become clear to key stakeholders that while they will potentially have to make some concessions, the wheels of change are moving in a direction that benefits everyone.

Many of the efforts to alleviate emergency department (ED) crowding are illustrative of the importance of clear goals and timelines. The ultimate goal is clear. Improve throughput and capacity so that *door to door* and *door to floor* times are short enough to hit average wait time targets and alleviate congestions and bottlenecks. However, the effort is not a departmental initiative. It is a hospital wide or even health system wide initiative. Initial efforts often fall squarely on the ED. For example, in some instances nurses and patient care technicians are asked to treat patients on stretchers in the hallway when no bays are open. In other cases ED physicians are asked to write *bridge orders* and maintain patient care responsibilities for a few hours after a patient has been sent to the floor. These types of activities are not solutions, they are short-term fixes, undesirable from a quality of care perspective, and draining on the ED. However, in many unfortunate examples the ultimate solution is never achieved. The wait time numbers look better, so the problem slides to the back burner. Volume ebbs a bit, and the crisis ends, for a time.

This failure to follow through and develop permanent solutions is rooted in a lack of clear objectives for all business units involved and a timeline for achieving them. For example, if the project plan called for three weeks of bridge orders while senior management and medical

directors developed a hospitalist program, then the short-term fix would give way to a long-term solution. Or maybe the IT department would be tasked with modifying the electronic medical record (EMR) so that community physicians could access patient information and write admission orders remotely. Either way, all relevant stakeholders are assigned an objective and a timeline.

The final critical preimplementation detail is determining who will ultimately be responsible for making sure each milestone and deliverable is realized. To the extent possible, the people charged with ownership should be those with the greatest amount of managerial fiat over affected organizational units and stakeholders for any particular aspect of the implementation process.

Returning to the ED crowding example, we worked with a hospital that had tried repeatedly to address the problem. Their efforts would work for a time, but then the crowding problem would return. It was a bit surprising because it seemed as though the hospital was following a sound improvement process. Many departments were involved and all had clear objectives. For example, the inpatient units were asked to take faxed reports on admitted patients so ED nurses would not have to play phone tag. The laboratory and radiology were asked to establish rapid response and reporting capabilities so as not to introduce avoidable lags into the process of care. These efforts and several others worked for a time, but a strange pattern emerged. At some point, patient volume and census levels would drop and things would be calm for a while. The next time demand jumped, it was as though the prior patient flow improvement initiatives had never happened. The problem was that even though managers on different units were asked to assist, their evaluation never changed. Wait times remained a strictly ED performance metric. It is one thing to assign a task, but for change to be permanent the managers responsible for those tasks need to be held formally accountable for ongoing performance.

Intraimplementation Activities

Once implementation efforts begin in earnest, establishing a detailed action plan and adopting sound project management methods is an important but often overlooked step in the process. On one hand it is understandable that managers want to avoid this apparent busy work

because energy and excitement are high and people are eager to get started. On the other hand, failure to have a detailed plan of how each milestone and deliverable will be realized is a critical mistake for several reasons. First, without a detailed action plan, it is impossible to validate the timeline established during preimplementation planning. If closer inspection shows that a particular step in the implementation process is more complicated than initially believed, it is best to know that up front and revise expectations. The same logic applies to budget allocations that may have to be modified due to factors such as higher labor costs or more complicated information system integration issues.

Finally, a detailed action plan makes it easier to identify the individuals best suited to engage in that facet of the implementation process and assign responsibility. When finished, the detailed action plan consists of the steps that each manager, department, or other stakeholder must take if the goal is to be accomplished by the date specified. This provides a high level of accountability and specifically demonstrates the level of interdependency among individuals, departments, and other stakeholders.

The first step in the development of a detailed action plan is to determine what has to happen. From there the implementation team needs to identify the specific individuals that need to be involved in order to complete each of those tasks and, in collaboration with those individuals, estimate how long it will take them. All of that is much easier said than done because big strategic initiatives involve many steps and activities and involve a large number of individuals.

Fortunately, an array of tools exists to help managers structure the design of the detailed action plan. One tool that is particularly useful for creating and managing a detailed action plan is the Gantt chart, a particular type of bar chart developed by Henry Gantt to help with project scheduling.[1] Required activities are entered on a Gantt chart based on what has to happen before they can occur and how long they are expected to take. In addition to assisting in the design of the detailed action plan, the Gantt chart also helps managers understand and focus their energies on activities that might delay the entire project and develop contingency plans should downstream activities encounter delays. The simplified Gantt chart shown in Figure 8.2 is for a hypothetical enhancement to an EMR system to provide a web portal that will enable physicians and other providers access to patient information remotely.

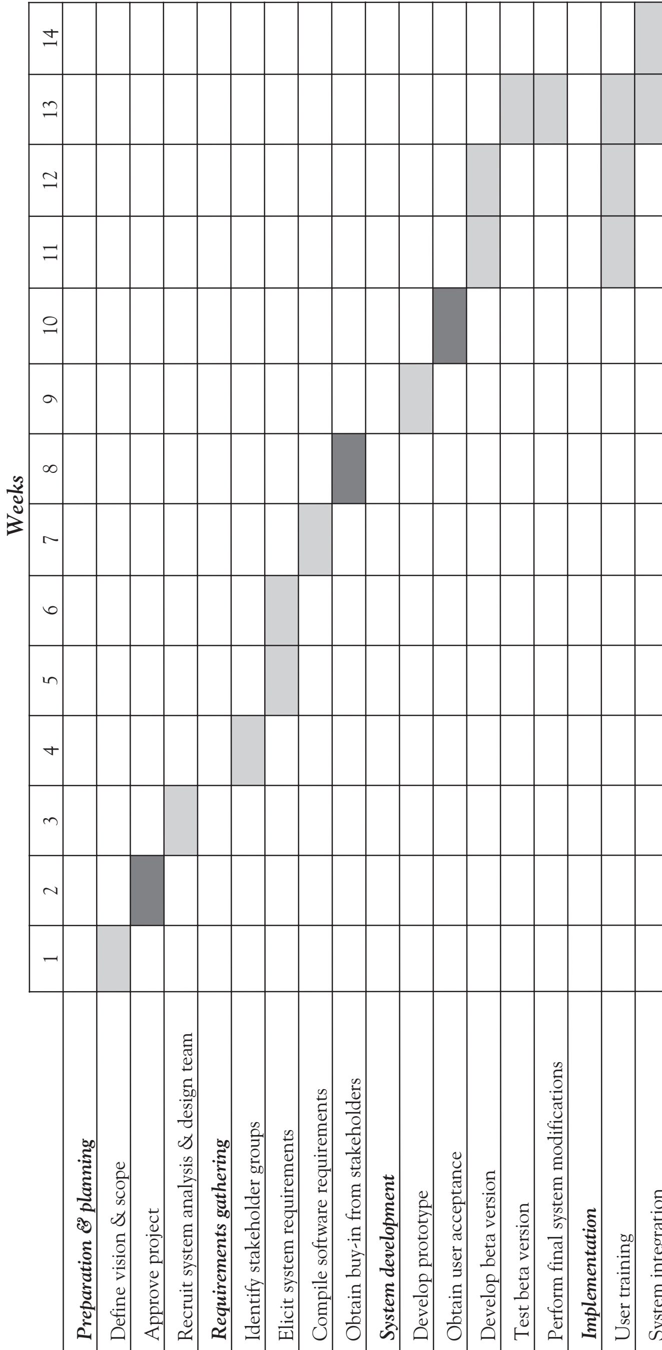

Figure 8.2 Gantt chart for EMR web portal

The Gantt chart is for illustrative purposes to highlight how large projects are broken down into a schedule of smaller discrete steps. In addition to providing more detail to the specific activities, Gantt charts identify potential bottleneck activities. Bottleneck activities are those activities that, if delayed, prevent any further progress from occurring. For example, if the project team is not able to obtain buy-in from stakeholders, then further development efforts are put on hold.

In practice, Gantt charts can be very large and require a significant time investment. For example, we worked with a large organization on a strategic initiative in which the Gantt charts for each part of the implementation effort, when drafted, filled more than two dozen sheets of 36 inch × 24 inch paper! That might seem like a lot of work but the return on that time investment was enormous. Without the guidance the Gantt chart provided, the implementation effort would have been highly inefficient and disorganized. We often hear managers lament that affecting change *is like herding cats*. This often does seem to be the case, but in our experience the disorganization is a not a result of individuals actively resisting strategic efforts—it is the inevitable outcome of poor planning.

The next step is the budget and resource plan. Each of the activities in the Gantt chart is allocated an expected budget and all nonfinancial resources, such as personnel, equipment, and facilities, are identified. As a matter of good practice, the detailed plan and budget are cycled back to the strategic planning committee for their feedback and approval. This provides a final *reality check* on the strategic plan and one final opportunity to change course before significant resources are devoted.

A final important consideration during implementation is how to communicate progress to all affected stakeholders. While communication among the implementation team is clearly vital, even projects with good internal communication can fail when equally good communication with affected individuals is poor. Communication can take the form of frequent status updates, letting people know how far along the project has come. However, the most effective communications have an education component. As milestones are achieved, ensure that stakeholders are again reminded of why this particular milestone is important and what it will mean once the project is fully implemented.

For example, electronic medication administration records (EMAR) are not particularly popular when they are first rolled out. It seems like a time consuming and unnecessary complication to a fairly straightforward process. However, when confronted with research on the impact of medication errors, the institution's own error rate, and the benefit of future enhancements, such as physician order entry, most nurses will concede that while it does take a little more time the benefits are worth the effort.

If handled well, this communication process will reinforce feelings of procedural fairness, especially as organizational members and other affected stakeholders understand that they were considered during the decision-making process. Such communications are also a form of interactional fairness, as people feel as though they are trusted and treated with respect. Both of these principles will enhance cooperation and thus help with the implementation effort.

Postimplementation Activities

As the plan unfolds there should be times appointed to *return and report* and possibly make adjustments to the original plan. This holds those to whom implementation was delegated responsible for making sure the strategic recommendation is executed. We were consulting a firm that held quarterly planning meetings. In each of the meetings managers responsible for various strategic activities reported on their progress and presented plans for the next year, which were then discussed based on strategic intelligence gained from many of the techniques outlined in this book. This particular organization increased its value exponentially in a few years, and finally accepted a bid to be acquired by an even larger firm when the price became *just too hard to resist*. The point here is that the principle of *return and report*, in concert with other principles and techniques described herein, worked wonders for what was once a sluggish firm.

Just as managers are expected to *return and report* as they achieve milestones, the project itself must have performance objectives that are monitored consistently including a detailed assessment of performance after the implementation plan has been completed so that maximum organizational learning can take place. Fortunately, the culture of healthcare is such that we love to measure things. Unfortunately, we don't always

do a good job of measuring the right things. The focus tends to be on measuring outcomes such as ED wait times, readmission rates, length of stay, and so forth. Most HCOs don't do a good job implementing process measures. Process measures focus on the activities that each stakeholder is supposed to be doing in order to achieve the desired outcome. In this manner a sense of accountability is instilled. Just as we want to establish accountability during the implementation process, we want an ongoing sense of ownership and accountability postimplementation. Not only does this help ensure the organization does not backslide into old habits, it sets the stage for future improvement efforts.

Projects don't always work out as planned. If outcome objectives (strategic objectives) are not being met and process measure objectives are being met, then it suggests we did not have an accurate understanding of the root causes of the issues being addressed. If process measure objectives are not being met, and the managers are trying their best, then it suggests there is something about what those managers have been tasked to do that is beyond their sphere of influence. Either way, failure is simply another opportunity to improve, provided the institution is paying attention to outcome and process measures.

Encouraging Innovation and Change

Because of the competitive and turbulent nature of the healthcare industry, even the very best organizations will begin to experience performance problems if they are unwilling or unable to innovate and change. That is why there has been so much emphasis in this book on gathering strategic intelligence and using it to direct the firm. Innovative firms learn not only from their own internal processes, but also from external stakeholders. They can learn through transactions and communications with them, and they can pursue new partnerships with them. Collaborative innovation involves pursuing innovation across the traditional boundaries of the firm through the sharing of knowledge, ideas, opportunities, and expertise. Collaboration is especially helpful for smaller organizations because it can help them acquire necessary resources to pursue new opportunities. [2]

There are many things an administrator can do to encourage organizational innovation and a willingness to change.

- Establish a strategic direction that incorporates a focus on innovation.
- Foster an organizational culture that encourages innovation, learning, and a willingness to take risks.
- Encourage collaborations with external stakeholders.
- Create teams within the organization to discuss innovations and work on current problems.
- Support entrepreneurial efforts through the allocation of resources in exploring new ideas.
- Value the ideas of all employees, and encourage them to solicit ideas from stakeholders.
- Keep communications open between the various levels of the organization, from top management to the janitorial staff.
- Keep the management hierarchy as flat as possible.
- Provide noticeable rewards for internal stakeholders that create new value. These rewards may include formal recognition (awards and performance reviews), informal recognition (acknowledgment in reports, speeches, and meetings), promotions, salary increments, or other benefits.

This list may seem overwhelming, but all these things flow naturally from a stakeholder mindset. They are a part of an attitude that values people and fosters the search for new ways to create value. In all of these things, administrators must set an example for others to follow.

Balancing Stakeholder Interests over Time

One of the themes of this book is that organizations should attempt to find solutions to problems and implement changes that are win-win in the sense that no stakeholder is disadvantaged. We believe that this is possible in most situations, but not all. Practicality suggests that there are things an organization must do at times that simply do not improve the welfare of some stakeholders. For these situations, the principles of organizational justice apply.

We introduced the concept of organizational justice in Chapter 2, and it has been a recurring topic in this book. As we suggested, stakeholders

respond positively or negatively to an organization based on what they perceive as fair. Distributional justice occurs when a stakeholder perceives that its allocation of value is fair relative to what other stakeholders receive or what the stakeholders of similar firms receive. Procedural justice is defined in terms of a stakeholder's perception of the fairness of an organization's decision-making processes. Interactional justice deals the way stakeholders are treated in day-to-day transactions and communications with the firm. A lot of the value a firm produces is non-monetary, and comes from the way a stakeholder is treated by the organization, the satisfaction one gets from interacting with the organization or being otherwise affiliated, and other sources of utility.

In those situations in which a stakeholder is adversely influenced by the decisions or behavior of a firm, organizational justice can smooth over any negative reactions. Basically, a firm can generate positive *moral capital* through its pattern of behaviors in its interactions with stakeholders.[3] If a stakeholder believes that its distribution of value from the firm has been fair in the past (distributive justice), the firm has given consideration to the stakeholder's position during the decision making process (procedural justice), and if the pattern of past interactions causes the stakeholder to believe that the firm is being honest in its communications and rationale for the decision (interactional justice), then the stakeholder is much more likely to accept the decision without resorting to behaviors that are harmful to the organization. Harmful behaviors include things such as severing the relationship with the organization, taking legal actions, starting a boycott, or providing negative reactions to the press.

To achieve the advantage that comes from this sort of *moral capital*, administrators and high-level decision makers have to be careful to consider the utility functions of important stakeholders and how decisions they make will influence their utility. The principle of balance applies. If a stakeholder is disadvantaged by one decision, they should not be similarly disadvantaged by the next decision. The goal is for all the important stakeholders to feel as though the organization has been fair over the long term, and has been honest and respectful in all of its interactions, even those that may not be optimal from the stakeholder's point-of-view.

Strategy in Action

Successful strategy implementation requires collaboration among internal and often external stakeholders. It is like directing an orchestra, and requires that each section and individual both understand and carry out their part of the music creation process. There are activities that need to take place before performance, during performance, and after the performance if the orchestra is going to progress. Similarly, strategic implementation activities fall into preimplementation, intraimplementation and postimplementation.

1. *Preimplementation:* Before implementation begins, planning includes identification of the areas of the organization that will be affected and the stakeholders involved. A timeline with milestones should also be created. Specific responsibilities need to be delegated.
2. *Intraimplementation:* Detailed action plans are developed and executed, resources are allocated, and these details and associated objectives are communicated to all the stakeholders that will be involved or affected, both inside and outside the organization.
3. *Postimplementation:* Progress is assessed based on the metrics that were previously established, which are largely a function of the strategic objectives formed from strategic factors and stakeholder-based objectives. Consequently, a successful implementation program should create more value for stakeholders and the organization. This is when those people assigned responsibility for various aspects of the implementation effort are held accountable and report on progress.

We close this book on the same note we started with: The key to successful management of an HCO is in the realization that innovation does not take place in isolation. Substantial change will always be a team effort and the fundamental tenants to stakeholder theory enable us to build the strongest teams possible. Firms that manage for stakeholders enjoy the benefits of reciprocity from their stakeholders, both inside and outside the firm. They get better information that can be used to stimulate innovation, new stakeholders want to engage with them, and existing stakeholders are more motivated to perform for the organization. These sorts

of firms enjoy greater efficiency, lower turnover, fewer negative actions such as boycotts or bad press, superior resources, and a level of flexibility in planning that their competitors do not enjoy.

Managing for stakeholders is a mindset that helps us frame and solve problems differently—the managerial tools at our disposal remain the same, but our objectives and approach change in light of considering the impact on others and the value of collaboration. This new mindset is catching on.

About the Authors

Jeffrey S. Harrison holds the W. David Robbins Chair in strategic management at the University of Richmond. His PhD in strategic management is from the University of Utah, as is his MBA, and his previous appointment was at Cornell University. During his 30 years in academia, Jeff has consulted or provided executive training to dozens of companies in numerous industries, including *Fortune 500* companies. In addition to his many journal publications in top management journals, this is his 10th book on strategic management or stakeholder theory. Jeff is known as an international leader in the stakeholder area, serves on the editorial review board of *Strategic Management Journal*, and has served in various leadership roles in the Strategic Management Society and elsewhere.

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In addition to publishing in premier management and technology journals, Steve has designed, developed, and implemented technology-based solutions to help clients in the healthcare industry solve a variety of service delivery problems and decision-making problems. These solutions have included decision support systems to improve patient flow in hospitals, a web-based claims processing solution to help a nationwide employee benefits company process claims more quickly while reducing labor costs, and a decision support tool to help hospitals improve surgical block time allocations by predicting and balancing demand for operating room time.

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Strategic Management of Healthcare Organizations

A Stakeholder Management Approach

Harrison • Thompson

Few industries are buffeted from as many strong forces as healthcare. The industry is highly regulated, thus dramatically increasing costs and sometimes even interfering with the ability to deliver healthcare. New drugs, treatments, and medical technologies are so common that keeping track of them can be overwhelming, and incorporating them into patient care or administration can be costly and complicated.

This book lays a stakeholder foundation for managing a healthcare organization strategically. It contains step-by-step tactics as well as examples of HCOs that are having success with various aspects of the stakeholder approach in their organizations. As any experienced healthcare executive knows, making changes to a healthcare delivery system is like trying to modify an aircraft while it is in flight. The process is complicated and the consequences of mistakes can quickly lead to disaster. With this book, you'll get a new approach to managing healthcare within your organization, an approach that will unlock innovation and create more value for a broad group of industry participants.

Jeffrey S. Harrison holds the W. David Robbins Chair in strategic management at the University of Richmond. His PhD in strategic management is from the University of Utah, as is his MBA, and his previous appointment was at Cornell University. During his 30 years in academia, Jeff has consulted or provided executive training to dozens of companies in numerous industries, including *Fortune* 500 companies. He has written numerous books on strategic management and stakeholder theory and serves on the editorial review board of *Strategic Management Journal*.

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