Strategic Planning in Healthcare: An Introduction for Health Professionals

Brian C. Martin, PhD, MBA

Strategic Planning in Healthcare: An Introduction for Health Professionals is a practical guide to the theory of strategic planning and the principles of strategic management that apply to all organizational settings, including large healthcare networks, small practices, and public health institutions, among many others. This text provides a solid theoretical framework, supplemented with examples and a common case, which is reinforced by hands-on practical student exercises and chapter-specific worksheets. It examines strategy-making issues from the initial assessment of the organization and competitive landscape, through situational analysis of economic incentives, creation of objectives and measurement, formulation of financial and operational strategies, and the development of mission and goals, effectively allowing students to apply concepts at each stage of the planning cycle. Throughout, this book explains different tactics for implementation and evaluation, the principles of integrating evaluation and control, and other factors that affect competitive positioning and performance in health service organizations.

This hands-on text incorporates real-world examples and case studies so that the content can be digested easily in undergraduate and graduate courses alike and can be applied to an individual or group project to encourage application and experiential learning. Written by an experienced strategic planner and educator, this foundational textbook prepares public health students, healthcare administration students, and related health professionals to develop their own effective strategic plans that achieve performance excellence.

Key Features:
- Provides a thorough, step-by-step review of the strategic planning process in healthcare organizations with a strong theoretical framework
- Detailed case studies using a fictionalized healthcare organization conclude each chapter
- Includes strategic planning chapter-specific worksheets that allow students to develop a quasi-strategic plan
- Real-world sample strategic plans from the healthcare industry
- Access to the downloadable ebook and downloadable chapter worksheets
- Full Instructor package including an Instructor's Manual, PPTs, and test bank

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STRATEGIC PLANNING IN HEALTHCARE
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STRATEGIC PLANNING IN HEALTHCARE

AN INTRODUCTION FOR HEALTH PROFESSIONALS

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PREFACE

I have taught strategic planning over the past 20 years to public health students, drawing heavily on my previous planning experience in a large non-profit hospital. My biggest challenge has been finding a text that explains the planning process in a concise manner that is easily understood by students who are naïve to the planning process, and yet can allow students to cultivate the skills necessary to develop a strategic plan. This book is a culmination of years of teaching and professional experience, feedback from students, and input from professionals in the field.

My constant focus for this text has been to develop a tool that can be used to teach strategic planning through both a theoretical and an application perspective. I want readers to be able to learn concepts and then to be able to apply those concepts in a practical way. Complex healthcare organizations require leaders who understand the need and value of strategic planning, and it is my hope that future leaders who use this text are better prepared to face challenges.

LEARNING TOOLS

This book incorporates a number of features that are designed to optimize learning. A strong theoretical framework provides the background from which learners can draw in understanding a common case that threads through each chapter. The chapters are organized to follow the strategic planning cycle, from reviewing the Mission Statement to Evaluation and Control. The importance of each step in the cycle is explained, and concrete tools are provided to complete each activity. Peppered throughout the text are practical examples of how concepts are applied and the impact of decision making.

Readers can then apply what they have learned using chapter-specific worksheets to develop individual components of a strategic plan. In completing the worksheets for each chapter, a reader will be writing his or her own quasi-strategic plan. This hands-on learning opportunity allows students to
maximize their knowledge, moving up the pyramid in Bloom’s taxonomy and transforming understanding into creation.

INSTRUCTORS’ RESOURCES

Course instructors will have several resources available to them as they lead students to develop strategic planning skills. Qualified instructors may request instructors’ materials by email: textbook@springerpub.com. Student resources are available for download from http://www.springerpub.com/sph.

- PowerPoint files for each chapter reinforce salient points and allow for discussion.
- Worksheets for each of the steps in the strategic planning process guide students in writing a quasi-strategic plan.
- Sample strategic plans provide examples beyond the textbook and prompt discussions in the classroom and student groups.
- A test bank of questions, including multiple-choice, true/false, and short-answer essay questions, assesses learning and progression.

INTENDED AUDIENCES

This book is intended to be used as a required text for an undergraduate or graduate course that introduces students to the strategic planning process. As such, it is a “soups to nuts” strategic planning text, and instructors will not need supplemental texts in order to engage their students. The end goal is to use didactic and practical experiential learning to train future organizational leaders who are thoroughly competent planners.

Public health students with a track or concentration in health management and policy or community health (or similarly named “tracks/concentrations”) will benefit from this learning. Additionally, the text can be a crucial component of training for healthcare administration (business administration) students, as well as students in nursing and allied health programs. A course using this text could be offered during any semester but would typically follow an introductory health administration course.

CONTENTS

Each chapter begins with a quote from a thought leader that relates the importance of planning, followed by five learning objectives. Next is a nonhealthcare vignette that describes a situation where the concepts of the chapter will be applied. After the material is presented, a common case study (throughout this text, it will be the fictitious “Memorial Hospital, Inc.”) is used to apply each chapter’s material in a real-world healthcare setting. Chapters 2 to 7 contain planning process worksheets, which readers can complete based on a real-life or fictitious organization. A glossary and reference list round out the materials for each chapter.
Chapter 1 describes the function of planning and why it is important to decision making in healthcare organizations. The origins of planning, application to healthcare, and types of plans are explained, and practical advantages and disadvantages of planning are reviewed. Chapter 2 provides an overview of the strategic planning process, including fundamental steps in the process, the influence of leadership, and the impact of quality improvement.

Chapters 3 to 7 describe each of the steps in the strategic planning process in detail. Chapter 3 discusses organizational purpose and the importance of an organization’s mission to its planning and operational activities. The relationship of mission, vision, and values is explained, and the impact of these statements is discussed. Chapter 4 introduces the importance of a situational analysis to inform future direction and plans. A strengths, weaknesses, opportunities, and threats (SWOT) analysis is used for this purpose, and tools are introduced to manage an organization from its current state to its desired state.

Chapter 5 describes the importance of setting objectives, both short and long term, and why there might be resistance to setting organizational objectives. A structure is used to walk readers through the process of developing and writing objectives that maximize efficiency and effectiveness. Accomplishing objectives through the development and implementation of strategies and operational plans is the topic of Chapter 6. The relationship of strategies to objectives, methods for evaluating an organization’s products and services, and the role of budgeting are included. Chapter 7 describes the feedback loop in the strategic planning process—evaluation and control. The importance of viewing strategic planning as a continuous process, and common tools that are used to evaluate and improve plans, are incorporated. Finally, a sampling of strategic plans is included for reference in Chapter 8.

In the end, a reader of this book will have the knowledge and skills needed to lead a strategic planning process in an organization. It is my hope that those who use this textbook will continue to learn and develop the art of strategic planning as they make contributions to the future of their organizations and their professions.
ACKNOWLEDGMENTS

No person achieves a position of professional or academic standing without the support of many colleagues, family, and friends. My own development includes too many individuals to list separately. I stand on their shoulders. I would also be remiss in failing to acknowledge the many students with whom I have had the pleasure to interact in my career, both at East Tennessee State University and at Eastern Virginia Medical School, and who have taught me at least as much as I have taught them.

For the writing of this textbook, I would like to specifically acknowledge Drs. Mark Bittle, Mike Stoots, Reinetta Waldrop, and Nizar Wehbi for their edits and suggestions for the development of the chapters, and Ryan Ross for his consultation and expertise.

Finally, I would like to recognize the important contributions of the publisher’s staff, particularly David D’Addona and Jaclyn Shultz. Their expertise and guidance were invaluable in turning a teacher into an author.
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Strategic Planning in Healthcare: An Introduction for Health Professionals
CHAPTER 1

PLANNING: WHAT IS IT AND WHY IS IT IMPORTANT?

By failing to prepare, you are preparing to fail.

—Benjamin Franklin
Founding father, inventor, father of time management

LEARNING OBJECTIVES

1. Understand the importance of planning in healthcare organizations.
2. Describe the five management functions and their importance in decision making.
3. Understand the origins of planning and its application to organizations.
4. Differentiate between strategic, tactical, operational, and contingency plans.
5. Explain the advantages and disadvantages of planning in the healthcare industry.

Sophia is an undergraduate student studying public health at State University. She is also the president of the State University self-contained underwater breathing apparatus (SCUBA) Club, which sponsors an annual dive trip to the Florida Keys during fall break. The trip is a highlight of the year for the club, and for students who look forward to diving pristine freshwater springs on the way to the Keys and the warm ocean waters surrounding the archipelago. Sophia has been a certified diver since her junior open water course at age 12, and is confident of her ability to plan the dive excursions in Florida. However, she is new to a leadership position and just became president of the SCUBA Club in the last spring semester. As she sits at her laptop working to develop a promotional flyer for the trip, Sophia realizes that there are many logistical questions that need to be answered before she can market the trip.

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“Plan your dive, dive your plan.” Sophia recalls her dive instructor, Mike, repeating this phrase often during her certification courses. Recreational SCUBA diving is very safe, but only if a diver develops detailed plans following strict guidelines for each dive. Can she apply the same concepts to plan a successful dive trip for the club? Sophia knows that the members would like a safe, fun, affordable dive trip. She opens a new Word document and types the heading “Planning the annual dive trip,” and begins a list of bullet points.

- **Travel**
  - **Airplane**
    - *Pros:* Fast (maximize dive days), convenient
    - *Cons:* Expensive, shouldn’t dive within 24 hours of flying, can’t transport air tanks
  - **Drive university van**
    - *Pros:* Up to 15 passengers, university covers breakdowns and maintenance, can transport dive gear, can dive on arrival and right up to departure, fun time
    - *Cons:* Driver must be a university employee, charge to rent the van and surcharge for gas, slow (will take 2 days each way)
  - **Drive personal cars**
    - *Pros:* Four to six students per car, cheapest alternative, can dive on arrival and right up to departure, fun time
    - *Cons:* Owner of car responsible for breakdowns and maintenance, slow (will take 2 days each way)

Sophia scratches her head—this may be more challenging than she thought! She decides to enlist the officers for a brainstorming session. Balancing safety, fun, and affordability is important to the club members and essential to planning a successful trip.

While Sophia is engaged in event planning, she is learning what leaders in all organizations, small and large, must recognize—planning is an essential element for success. You do not want to answer the question “Where are we going?” with “I don’t know, but we’re making great time!”

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**PLANNING: A MANAGEMENT FUNCTION**

Koontz and O’Donnell described management as having five functions: planning, organizing, staffing, directing/leading, and controlling (Koontz & O’Donnell, 1976). While it may be convenient to discuss these functions separately, it is important to note that they are highly inseparable and overlapping in practice. Each function is a dedicated component in the field of management, and an effective manager is well versed in each of these areas.
Planning is the managerial function concerned with creating a detailed blueprint that, when implemented, is meant to achieve specific organizational objectives. The details of the plan identify what will be performed, when, and by whom. It includes identifying a desired future and the means to achieve that future. Since the future is unknown and the internal and external environments within which the organization operates are constantly changing, planning must be a continuous process. Henri Fayol, one of the earliest management theorists, considered planning to be the most difficult function that managers complete.

Organizing the resources required to complete the objectives identified in the plan is the next managerial function. As such, organizing requires recognition that organizational objectives often compete for scarce resources, identification of the organization’s limited resources, and assignment of those resources to planned activities. Similar to a conductor coordinating an orchestra, a manager coordinates the resources at his or her disposal to best meet the needs of the organization. In the end, organizing helps ensure efficiency and effectiveness.

While organizing includes allocating resources to tasks, staffing specifically addresses the human resource component and the relationship to planned objectives. Healthcare is a service industry and, therefore, personnel-intensive. Having the right people in the right place at the right time is essential to meeting organizational objectives, and to guarantee that the organization can function effectively.

Directing is a key managerial role that deals with human resources from a motivational and communication perspective. While organizing and staffing get the pieces in place, directing is the process of inspiring employees to complete tasks for the organization in such a way that the human resource is maximized—in a word, directing and leading requires leadership.

Controlling is the feedback loop that managers use to ensure that organizational objectives are being addressed and met as planned. Setting objectives and tasking resources to complete those objectives serves only to get the ball rolling. Along the way, managers need to examine the process that is being followed to complete the objectives, surveying milestones along the way, and guaranteeing that appropriate steps are being taken to move the process toward completion.

These five functions of management work together to identify organizational objectives and drive resources toward the satisfaction of those objectives. Each function affects the performance of the others, as depicted in Figure 1.1, and is used by managers at all levels within an organization to make decisions.

As we look at strategic planning and how it is applied in the health professions, you will learn how planning often serves as the tie that binds these functions together. As such, it is essential to organizational success.

WHY IS PLANNING IMPORTANT?

As Sophia struggled with planning her club dive trip, one thing she kept in mind was the desires of the club members—a safe, fun, affordable dive trip. Planning drives managers to ask the fundamental question “What do we want
to achieve?” and then leads them to create road maps to accomplish what is desired. A significant outcome of the process is a laser focus on what will drive the organization to succeed. Questions such as Why did we invest in this service line, yet it isn’t being used?, Why do our revenues continue to miss our projections?, and Why has the board asked me to resign? may be indicators that an organization lacks strategic planning.

A healthcare organization without a long-term planning perspective runs the risk of deviating from its goals and its ability to satisfy its corporate purpose. Long-term success is crucial for any organization to survive, and a critical factor for success is how well the organization can plan for future events and activities. Given that all organizations operate with finite resources (e.g., capital, cash, personnel), allocation of those resources must be done purposefully in order to maximize efficiency and effectiveness. Managers face multiple options for competing projects, which will each add some benefit to the organization. Understanding the organization and the environment in which it operates allows managers to assign resources appropriately.

Planning is, by definition, proactive (you cannot plan for something that has already occurred). It allows you to see where you want to go and to identify potential hazards along the way, an important part of risk management. It also allows for course correction when things are not going according to plan, an important part of organizational effectiveness. Planning is not perfect—no one has the ability to predict the future. However, the process of planning is rooted in a systematic evaluation of potential futures that identifies market forces that will affect the course of the organization. The outcome of planning is a strategic direction that will counter those market forces that would hamper the organization and take advantage of those that will further its goals.
The importance of planning has been championed by notable people across history.

You’ve got to come up with a plan. You can’t wish things will get better.

—John “Jack” F. Welch
CEO of General Electric (1981–2001)

A plan is not putting you in a box and forcing you to stay there. A plan is a guide to keep you on course, efficient, and safe.

—Amber Hurdle
Business coach/Speaker

The company without a strategy is willing to try anything.

—Michael Porter
Academic, business strategy theorist

Failure is the most effective technique to optimize strategic planning, implementation, and processes.

—Thomas A. Edison
Inventor, businessman

The sole purpose of strategic planning is to enable the company to gain, as effectively as possible, a sustainable advantage over its competitors.

—Kenichi Ohmae
Organizational theorist, management consultant

While planning has been recognized as a foundational management function for hundreds of years, long-term planning was adopted by U.S. businesses en masse during the 1950s in response to a need to project revenues based on future sales. Long-term planning has the underlying assumption that a business will continue to produce the same goods/services that it has produced in the past. However, volatility within the industry and/or market meant that a business would need the flexibility to adapt its goods/services to changing demands. Recognizing that forces within the organization and in the environment, both those that can be controlled and those that cannot, influence future success, business leaders accepted that specific tactics would need to be developed to account for this volatility. And for that they looked to lessons etched in history.

Military Foundations of Planning

The concept of strategy had its beginnings in military applications hundreds of years ago. Sun Tzu (544–496 BCE) was a Chinese general and military strategist during the Age of Warring States, a period when seven states fought for survival and control of China. Sun Tzu’s tremendous success on the battlefield was due, in large part, to his knowledge of strategy and leadership, and how those principles could be applied in preparing for a
successful military campaign. He shared the wisdom he gained over years of battles in his book *The Art of War* (Sun Tzu & Griffith, 1964), which has been recognized by military leaders throughout history as essential reading. The importance of strategy in a military application was summed up by Sun Tzu when he said: “Victorious warriors win first and then go to war, while defeated warriors go to war first and then seek to win.”

Homer, Euripides, and other early strategists and writers also discussed the principles and applications of strategy. The foundation of our word “strategy” comes from the Greek word *strategos*, which means “a general.” And the Greek verb *strategeo* means “to plan the destruction of one’s enemies through effective use of resources” (Bracker, 1980).

Replace the term “enemies” with “competition” and you have the business application of strategy that became widespread beginning in the 1960s. The focus of strategic planning during that time was on financial planning and responding to the environment and organizations in a specific market. However, during the 1980s, business leaders expanded strategic planning to include the philosophy of strategic management, in recognition that strategy must be continuously evaluated and managed in order to be successful. We will see this philosophy as we explore the process of strategic planning and the implementation of strategic plans as “living” documents.

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**ADAPTING TO CHANGING CIRCUMSTANCES: THE CASE OF AMERICAN EXPRESS COMPANY**

You may know American Express Company (aka, American Express or Amex) as the multinational financial services company that it is today, or you may know it as a consumer credit card lending company. But did you know that it had very different beginnings? The original company was founded as an association of investors in 1850 when three existing companies were consolidated. The three companies provided express transport services moving mail, goods, and valuables across markets in the United States, and the consolidation allowed for expansion and tremendous financial success. In 1866, Merchants Union Express Company entered the market as a competitor, and the rival companies were driven to near bankruptcy due to ruthless competition. In 1868, the two competitors merged to form the American Merchants Union Express Company, which was renamed American Express Company in 1873.

In 1881, after a leadership change, new product innovations were introduced, including the American Express Money Order (1882), the American Express Travelers Cheque (1891), the first European office in Paris (1895), international services (late 1800s/early 1900s), and travel services (1915). In response to the U.S. federal government nationalization of the express industry in 1918, American Express Company consolidated its service offerings to its banking and travel operations. The highly recognizable American Express green charge card was introduced in 1958. From the 1960s through the 1980s, American Express Company acquired (and often sold) investment banking, insurance, and publishing companies. By the early 21st century, American Express Company operated in more than 40 countries. In 2016,
Interbrand ranked American Express as the 25th most valuable brand in the world, with an estimated net worth of $18.358 billion.

American Express evolved in response to changes in the market, including the impact of governmental regulation. An important part of the planning process is assessing the environment in which an organization does business.

Many corporations completing environmental assessments find that changes in the healthcare market bring opportunities for expansion into that market. For example, Walmart Inc., a multinational retail corporation that includes in-store pharmacies and vision centers, has been implementing a strategy to develop in-store health clinics and to acquire a healthcare insurance product. CVS Health, a retail pharmacy chain, is also planning to acquire a health insurance company.

1. Why would a business such as Walmart, Inc. be interested in entering the healthcare provider market?
2. Why would a business such as CVS Health be interested in moving beyond its market as a retail pharmacy to enter the health insurance market?

TYPES OF PLANS

The model for strategic planning in healthcare and other sectors has remained relatively unchanged over time. In the late 1980s, Simyar, Lloyd-Jones, and Caro (1988) composed an ordered sequence for healthcare strategic planning:

- Identify the organization’s current position, including present mission, long-term objectives, strategies, and policies.
- Analyze the environment.
- Conduct an organizational audit.
- Identify the various alternative strategies based on relevant data.
- Select the best alternative.
- Gain acceptance.
- Prepare long- and short-range plans to support and carry out the strategy.
- Implement the plan and conduct ongoing evaluation.

There are many types of plans; however, most plans can be broadly categorized as "strategic," "tactical," or "operational." The differences in these types of plans are centered on length of time and responsibility level within the organization (see Figure 1.2). **Strategic plans** are written to cover a longer period of time. While most healthcare strategic plans in the 1980s were written for 10-year periods, that time has been significantly shortened to 5 years or less today. Strategic plans fall within the realm of executive management, due to their broad scope and influence on the very nature of the organization. **Tactical plans** cover a mid-length period of time, typically 1 to 2 years, and are implemented by mid-level management. **Operational plans** are written to
cover activities within a 12-month period, and are executed by frontline management. Ideally, each plan fits into and is guided by the one above it.

Many healthcare organizations operate a more abbreviated planning cycle and use only strategic and operational plans. Strategic planning in larger organizations may also be organized around three levels: corporate strategy, product or service line strategy, and functional area strategy. Organizing around corporate strategy recognizes that an organization has multiple businesses or divisions that operate under a parent organization. In order to maximize value for the parent organizations, each business or division should conduct strategic plans that contribute to and work in concert with the parent organization. Organizing according to product or service line focuses on the significance of the different product/service lines to the organization and seeks to maximize effectiveness of those areas. Similarly, organizing strategic planning around functional areas recognizes the importance of conducting planning activities that maximize the value of those areas. In all cases, approval and resourcing of an organization’s plans require executive management and board consent. In general, a board for a not-for-profit organization is referred to as a Board of Trustees and a board for a for-profit organization is referred to as a Board of Directors.

Once a plan is created, there must be a purposeful effort to implement the plan. Since planning is a widespread organizational activity, involving employees at every level of the organization, there is generally a tremendous amount of momentum at the end of the process. This point is critical for executive management in that it must remember that the purpose of strategic planning is not to create a product (the plan) but to develop a process by which the organization will operate. Many organizations have failed to take this next all-important step, leaving plans sitting unused on shelves until the next
planning cycle. In order to avoid having a worthless plan, executive management must implement and actively manage the plan, instilling this process as a part of the corporate culture of the organization.

Managing the implementation of the strategic plan requires that management view the process and the unfolding future without blinders. It is tempting to recall the tremendous amount of effort and resources that went into developing a plan, and then to simply “pull the trigger” and watch as the plan unfolds. However, leaders must remember that plans were developed with conditions of uncertainty in a volatile environment, and that those plans will be implemented in a continuously evolving setting. Therefore, an important part of managing the implementation of the strategic plan is continuously monitoring the internal and external environments and adapting the plan to the situation.

PLANNING FOR THE PLANNING

A review of the planning process and types of plans reveals that there are a lot of moving parts that must be synchronized in order for planning to be successful. Preparing for the strategic planning process increases the impact that the plan will have on the organization. It must be clear that the process is supported from the very top of the organization, and the board and chief executive officer (CEO) should communicate the importance and significance of the planning process to the entire organization. The planning team should be announced, as well as the expectation that all departments/units will participate in the process. Many organizations use a facilitator for the process—either someone within the organization who has training and experience, or a consultant. If a facilitator is used, that person should also be introduced by the CEO.

Early in the process, a schedule of activities should be developed and specific milestones identified. Sources of historic data and relevant databases should be secured, and the status of the most recent strategic plan should be thoroughly reviewed. Important external stakeholders should also be identified as early as possible, and the planning procedure communicated to them, to ensure that their important perspectives are captured during the process. Finally, strategic planning orientation meetings can be very helpful in reinforcing the previous communications and in bringing together the people who will be integral to success.

PLANNING COMPLICATIONS IN THE HEALTHCARE INDUSTRY

The focus of this book is strategic planning and management in the healthcare industry, which is made up of many sectors dedicated to providing goods and services to patients through preventive, curative, rehabilitative, and palliative care. U.S. healthcare spending increased 4.3% to $3.3 trillion in 2016, amounting to $10,348 per capita (Centers for Medicare & Medicaid Services, 2018). Total healthcare expenditures in the United States have grown tremendously over the past 50 years (see Figure 1.3).

The share of gross domestic product (GDP) related to healthcare spending has also increased dramatically, reaching 17.9% in 2016 projected to reach 20%
in 2025. That means that $1 of every $5 of goods and services produced in the United States will be related to healthcare in the year 2025. The majority of the healthcare dollars were spent on hospital and physician/clinical services in 2016 (see Figure 1.4).

For our purposes, the term “healthcare” is defined broadly and includes, but is not limited to, the following:
Strategic management in healthcare organizations developed 35 to 40 years ago. The lag in application of strategic management in the healthcare sector was driven largely by the fact that services were historically reimbursed on a fee-for-service, cost-plus basis, which insulated healthcare organizations and executives against decisions that would be considered detrimental under different reimbursement scenarios. Through the 1970s, most planning activities were centered on capital expansion (e.g., creation of new buildings and equipment) and funding service expansion to meet the needs of growing populations. This situation was altered significantly with the passage of the Social Security Amendments Act of 1983, which created Medicare’s Inpatient Prospective Payment System (IPPS) for inpatient hospital payments. The emphasis during this time period was to build services to generate revenues. The heavy influence of managed care in private markets in the 1980s and 1990s added additional strain, during a period of concurrent cost increases and intensified competition, that caused healthcare organizations to focus on strategies that maximized reimbursement. Additional payment modifications soon followed, in both the public (governmental) and private insurance markets. Substantial decreases in reimbursements demanded that healthcare executives apply strategic management principles.

Today, healthcare professionals operate in an ever-changing environment that threatens organizational survival. Carrying out the purpose of the organization, meeting demands of stakeholders, maintaining and growing market share in a competitive environment, adapting to laws and regulations, adjusting services to changing population demographics, operating in an environment of scarce resources, leveraging differentiated services, and managing the
departure of key employees/physicians are all challenges that can overwhelm an organization and endanger success. Strategies that focus on likely contingencies are required in this dynamic environment.

The planning activity itself demands significant amounts of time and other resources, assets that can be considered spent frivolously when an organization is focused on operational activities and crisis management. There is an obvious delay in planning activities now and the operational benefits in the future, and those benefits are not always apparent and/or appreciated. Therefore, having a management team and governing body that appreciates the value of planning is a foundational requirement for the planning process.

Healthcare is made up of multiple provider organizations with tremendous variation in size and complexity. Examples of large providers include state/local health departments, multihospital systems, academic medical centers, multispecialty physician practices, integrated delivery systems, Accountable Care Organizations (ACOs), pharmacy chains, multiproduct health insurance companies, managed care organizations, and pharmacy benefit management companies. Examples of small providers include single and small group physician practices, independent pharmacies, home healthcare providers, and durable medical equipment companies. Some healthcare organizations, particularly those that are smaller, lack leadership and staff that are trained and/or experienced in strategic planning. In those cases, developing an effective strategic plan is not something that the organization can complete alone. Fortunately, there is an abundance of strategic planning resources available through professional associations and other sources, as well as consultants who work with organizations of all types and sizes.

Larger organizations often complete the planning process through teams. These teams assist the CEO by scanning and monitoring the internal and external environments, developing goals and strategies for the organization, coordinating the process among the different units within the organization, and providing leadership and training to other managers within the organization. The advantages of planning teams include distribution of the workload (“many hands make light work”), synergy associated with the wisdom of the group versus the individual, and the ability to objectively analyze situations while minimizing political and turf issues.

PLANNING: ADVANTAGES AND DISADVANTAGES FOR HEALTHCARE ORGANIZATIONS

One of the primary advantages of strategic planning is to make sure that everyone knows why the organization exists and what it is trying to accomplish. Strategic plans are great communication tools, and the process itself can be used to cement common purpose and shared values. Specific organizational goals and objectives can be developed and shared both horizontally and vertically within the organization, setting clear expectations for the management team and unifying staff in a singular purpose.

As we will discuss, the strategic planning process provides a road map to guide the organization in the dynamic healthcare environment. It allows for honest assessment of the organization (internal assessment) and the
environment in which it operates (external assessment), allowing for potential threats to be anticipated and opportunities to be identified in the market. While all threats cannot be predicted, investments in planning activities increase the likelihood that management can focus more of its time on daily operations and less of its time on crisis containment. Decision making becomes more consistent and more likely to enhance future performance.

There is always more that an organization could do if it had more funding, equipment, personnel, supplies, time, and so on. Planning ensures that scarce resources are used appropriately and in such a way that organizational objectives are met. When well executed, strategic planning can lead to reduced duplication of effort across product/service lines, increased entrepreneurial thinking, and improved financial performance.

While the advantages of strategic planning can be significant, there is also a real cost to engage in a process of this magnitude. One of the most common criticisms of planning is that it allows for less time to be spent on current operations and/or crisis resolution. In this regard, the importance of planning is overwhelmed and lost in day-to-day activities. Another perspective recognizes that the healthcare environment is changing rapidly—so fast, in fact, that plans and objectives are obsolete by the time they are developed and implemented. Both of these positions consider planning to be a waste of scarce resources, as the planning process itself requires resources.

Another challenge to planning in healthcare organizations is the ability to identify the customer. Identifying your customers and focusing on their needs is a basic tenet of any business. However, in healthcare, the customer depends on the perspective taken. Many would say that the patient is the customer, and from the care perspective that is indeed the case. But from the financial perspective, the payer (e.g., Medicare, Medicaid, private insurance) is the customer. Other views maintain that the customer is the employer, the government, or society as a whole. Developing strategies that take into consideration a variety of different customers can be considered impossible when there are competing priorities and requirements necessary to meet customer needs.

Finally, an organization can face barriers to planning from management and staff. Administrators who are not trained in the planning process and/or who do not have experience with planning are less likely to value and engage in planning activities. Professionals (e.g., physicians, nurses) may have goals driven by their professions that conflict with organizational goals. And implementing plans can be fraught with problems that management and staff are not equipped to handle.

So, do the advantages of strategic planning outweigh the disadvantages? If you examine the commonly cited disadvantages, you often see the solution to those challenges is actually a plan. Take, for example, the argument that time spent planning takes away from time spent on daily operations. Strategic planning assesses the internal and external environments, looking for ways to improve the effectiveness and efficiency of operations. If successful, more time in the future will be available for daily operating activities because less time will be spent reacting to changing market conditions (at least those that were predictable). Maybe a story can help drive home the point.

Two men, one older and one younger, were logging and decided to have a contest—the man who felled the most trees that day would win. Both men
grabbed an axe and headed for the forest. The younger man went to work at a furious pace, chopping down tree after tree. On several occasions during the day he noticed the older man walking back to the truck for a rest, and snickered to himself how fun it was going to be gloating about his win. He worked hard all day, never taking a break. But at the end of the day, the tree count of the older man was nearly double that of the younger man. “Incredible!” the younger man exclaimed. “How did you do that when I saw you resting several times today, and I never took a break?” The older man grinned and said, “I wasn’t resting at all. I just took breaks to sharpen my axe when it became dull.” The older man knew that the investment of time sharpening his axe would pay dividends, as a sharp axe chops more quickly and easily than a dull axe.

Abraham Lincoln once said, “Give me six hours to chop down a tree and I will spend the first four sharpening the axe.” What President Lincoln knew was that time spent planning for success was instrumental in achieving success.

WE DON’T HAVE A PLAN FOR THIS

The best laid plans for mice and men often go awry.

—Adapted from a line in To a Mouse by Robert Burns
Scottish poet

The planning process involves a tremendous amount of time and effort, and requires continuous attention. The strategic planning process, described in Chapter 2, outlines the basic steps and notes some of the major resources required for successful development and implementation. The rewards are a focused road map toward organizational success that, when implemented, should guide the organization for the next few years. But sometimes life just does not cooperate.

THE CASE OF HURRICANE MARIA

On September 20, 2017 at 6:15 a.m., Puerto Rico was buffeted by a Category 4 hurricane with maximum sustained winds of 155 miles per hour. The results, magnified by the aftermath of Hurricane Irma that hit the island just 2 weeks before, moved beyond the definition of “disaster” and the event was termed “catastrophic.” During the worst of the storm, some parts of the island were drenched with 30 inches of rain in a 24-hour period, the public power utility reported that its entire electrical infrastructure was destroyed, and both the airport and port were closed.

Now imagine that you are the manager of Castaner General Hospital, a 75-year-old small, rural hospital located in the mountains of west-central Puerto Rico. Because the hospital had, through its planning process, invested in infrastructure such as a certified well and a new electric generator (installed days before the storm hit), Castaner General is one of a handful of hospitals that have remained open and are functioning. A critical patient arrives and needs life-saving services that are

(continued)
offered only at the tertiary care hospital in Ponce, about 35 miles away. The roads are blocked and eroded, and there is no way to communicate with the tertiary care hospital to let them know of the need. What do you do?

The head physician implements a communications contingency plan, an action plan that is prepared in the event that normal operations are impeded. The physician makes contact with the local police department and asks them to contact the station at the next town via radio. This process is completed from town to town, until a policeman near Ponce takes the request for transfer to each of the area tertiary care hospitals—law requires prior notice of patient transfer. Of the four hospitals in Ponce, two were operating and one agreed to accept the transfer.

The next problem to tackle is the inability of the ambulance to get to Ponce. An employee of Castaner General drives his four-wheel drive vehicle ahead of the ambulance, scouting for safe passage. Community members join the employee and use poles to remove downed power lines and debris blocking the route. Thankfully, the patient arrives at the referral hospital and receives the treatment he or she desperately needs.

Disasters are often associated with contingency plans; however, these plans have a much wider application. Contingency plans are “Plan B” plans designed to answer the question: What do we do if our normal operations are disrupted? And since interruptions to normal operations can and often do occur, developing contingency plans should be part of an organization’s risk management process.

The process of developing contingency plans includes the following:

1. **Identify key risk areas**, reviewing operational areas to identify where things could go wrong. Getting input from employees and other stakeholders is important in this step. Examples of key areas include: disruptions due to natural disasters; succession planning for key personnel; response to a public relations crisis; loss of a key supplier.

2. **Prioritize risks** because one cannot feasibly plan for every contingency. Priorities should be determined based on the likelihood of the disruptive event and the magnitude of the effect on operations. A risk impact/probability chart can be used to help in prioritizing the impact on operations given the probability of occurrence of a specific event (see Figure 1.5). Operational areas that fall in the upper right corner are considered critical and should have developed contingency plans. Management should assess the other operational areas in the other quadrants to determine the need for contingency plans.

3. **Create contingency plans** for each of the key areas identified, including timelines, personnel and other resource requirements, and communication.

4. **Maintain the contingency plans** to make sure that they are updated and available. For example, do not store contingency plans solely in electronic format in case there is a power outage.
Fictitious Memorial Hospital is a 501(c)(3) nonprofit, 500-bed, tertiary care, regional community teaching hospital with a Level 1 trauma center and a children’s hospital. Established over 100 years ago as a community hospital, Memorial Hospital is centrally located in the state and provides about 415,000 patient visits annually.

The Memorial Hospital Board of Trustees was established through the County Code, with 13 trustees appointed by the governor upon recommendation of the County Council and two ex officio members appointed by the County Council. Terms are for 4 years and are staggered such that one-third of the members’ terms expire every 4 years. The board has as its primary responsibilities hiring/firing of the CEO and fiduciary oversight of Memorial Hospital. The hospital CEO, chief financial officer (CFO), and in-house legal counsel attend all board meetings as nonvoting members.

Memorial Hospital serves as a referral hospital for residents across the state, and offers a full range of services under eight strategic service units (SSUs): cardiology, oncology, orthopedics, obstetrics/gynecology, neonatology, surgery (including robotic-assisted surgery), trauma, and behavioral health. The primary market area for Memorial Hospital consists of three counties, with a total population of 796,500. The secondary market for the hospital consists of 13 counties, with a total population of 678,000. With over 3,500 employees and
a medical/dental staff of 750, Memorial Hospital provides a wide range of primary and specialty care services.

Most of the medical staff of Memorial Hospital are not employees of the hospital, and there has historically been a stressed relationship between the medical staff and hospital administration. In the fee-for-service system, physician and hospital incentives are often opposed, particularly in the inpatient market. Patient length of stay and excessive test ordering have been particular areas of concern for the CEO and board; however, physicians have been reluctant to receive the hospital’s messages on the impact on reimbursement. Recently, the hospital has been developing an ACO with physicians and other partners, and this activity has increased communication and collaboration during the past 3 years. Over 90% of the medical staff have admitting privileges at other local hospitals.

The population in Memorial Hospital’s primary and secondary service areas has been growing steadily at about 1.25% per year. Median household income at the last census was $48,250, 15% of the population is living in poverty, and 14% of the population is below 100% of the federal poverty level. Approximately two-thirds (67%) of the population is White, 28% Black, 2.5% Hispanic or Latino, 2% Asian, and 0.5% American Indian or Alaska Native. The unemployment rate has held steady at 4.1%, mirroring the national average, and has been declining since reaching 10% 5 years ago.

Memorial Hospital reported $27 million in net income on its last audited Statement of Operations (income statement). As a referral center and teaching hospital providing high-intensity medical services, Memorial Hospital patient-care expenses were one of the highest in the state and its average length of stay was almost 50% higher than that of competitors and of norms. Memorial Hospital receives significant revenue through donations, the provision of non-patient-care services, and investment income.

Memorial Hospital has three local competitors—one private hospital, one faith-based nonprofit hospital, and one county hospital. Each of these competitors is within a 60-mile radius of Memorial Hospital. While the market is competitive, Memorial Hospital has been able to maintain 45% overall market share in its 16-county primary and secondary market. Memorial Hospital works hard to increase its private pay market share, where it sees its largest profit margins. Memorial Hospital’s payer mix (all services) is:

- 42.0% Medicare
- 20.5% Medicaid
- 29.0% private insurance
- 8.5% self-pay/uninsured

There is also a Department of Veterans Affairs (VA) hospital in the market, and Memorial Hospital provides some services to eligible beneficiaries through contracts for noncompetitive services.
GLOSSARY OF TERMS

501(c)(3) status—a nonprofit designation of tax exemption bestowed by the Internal Revenue Service (IRS) to organizations that are incorporated and operated exclusively for exempt purposes set forth in section 501(c)(3) of the Internal Revenue Code, that do not inure any earnings to private shareholders or individuals, and are not an action organization (i.e., may not attempt to influence legislation as a substantial part of activities and may not participate in any campaign activity for or against political candidates)

Board—a governing body that establishes policies for management and makes major decisions that affect the organization

Board of Directors—a group of individuals elected to represent stockholders/owners in a for-profit organization

Board of Trustees—a group of individuals appointed or elected to represent stakeholders in a nonprofit organization

CEO—the highest ranking executive within the organization, responsible for managing the organization and carrying out the direction of the board

Contingency plan—a plan that is implemented when normal operations are disrupted or normal plans fail

Controlling—a managerial function in which feedback is used to ensure that organizational objectives are being addressed and met as planned

Directing—a managerial function that deals with human resources from a motivation and communication perspective

External assessment—an evaluation of the uncontrollable variables residing outside of the organization

Internal assessment—an evaluation of the controllable variables residing inside of the organization

Long-term planning—the process of developing plans over a longer period of time (typically more than 3 years) by extrapolating information known today

Organizing—a managerial function for unifying scarce resources within the organization to complete the objectives identified in the plan

Operational plans—plans written to cover activities expected to occur within a 12-month period

Planning—a managerial function concerned with creating a detailed blueprint that, when implemented, is meant to achieve specific organizational objectives

Staffing—a managerial function that specifically addresses the human resource component and the relationship to planned objectives
Strategic plans—plans written to cover a longer period of time, typically 5 years or less

Tactical plans—plans written to cover a mid-length period of time, typically 1 to 2 years or less

REFERENCES


