

CHAPTER 9

Value Adding Support Strategies

SUGGESTIONS FOR EFFECTIVE TEACHING

As with Chapter 8, it is useful to begin the lecture with a diagram of the value chain. We structure the lecture for Chapter 9 as a continuation of Chapter 8, first discussing the top portion of the value chain and then moving to the support activities. The strategic thinking maps and the underlying logic of the two chapters are similar. Exhibit 9-1 provides the general plan for the chapter and as the exhibit suggests, developing value adding support strategies involves comparing the results of internal analysis with the requirements of the selected strategies. Through this process the decision makers must determine whether the characteristics of culture, structure, or strategic resources should be maintained or changed. This information provides a basis for action planning (Chapter 10).

We think that it is important that the instructor go into a fair amount of detail in discussing each of the support areas. Although these areas were briefly covered in Chapter 4, this chapter surfaces the components of each area and provides a better sense of why and how these areas create value for the organization. Each section in the chapter (culture, structure, and strategic resources) concludes with guidance on maintaining or changing the area. These bullet points provide an initial map for taking action in the support area. Remind students that these bullet points are only to initiate thinking and are not necessarily *the* answer.

LECTURE NOTES

Introductory Incident: Safer. Smarter. Digital. Mercy Hospital is the guinea pig for a \$200 million investment in computerized order entry and electronic medical records systems that are to be installed in 16 more member organizations of the Trinity Health System. Full implementation of Project Genesis, as the effort is known, will eventually alter the work habits of every physician and nurse in the Trinity System. Trinity's CEO regards Project Genesis as an opportunity to help health care information technology overall and in the process transform the organization. The CEO provided the staff with the freedom to do what was necessary to make Project Genesis acceptable to the institution's almost 200 physicians. The day the computer system made its debut at Mercy, physicians entered 23 percent of their orders themselves. A year later almost half of the physicians' inpatient orders were placed online – excellent progress in a community hospital setting where most clinical order entry systems average about 30 percent of orders online.

- I. Value Adding Support Strategies.
Learning Objectives 1 and 2

- A. The lower portion of the value chain contains the support activities and includes the organization's culture, structure, and strategic resources.
 - B. It is important that the value adding support strategies be consciously aligned so as to accomplish the strategy. Therefore, the support strategies for each area cannot be evaluated or developed in isolation. The support strategies should work together and create momentum for the organization.
- II. Decision Logic for the Value Adding Support Strategies.
Learning Objectives 3 and 4
- A. The value adding support strategies are a part of the implementation strategies that accomplish the directional, adaptive, market entry, and competitive strategies and facilitate the accomplishment of the service delivery strategies.
 - B. A strategic thinking map depicting the rationale is illustrated in Exhibit 9-1.
- III. Organizational Culture.
Learning Objective 4
- A. Organizational culture defines the implicit, invisible, intrinsic, and informal consciousness (assumptions and values) of the organization that guides the behavior of individuals (behavioral norms) and shapes itself out of their behavior.
 - 1. Shared assumptions – common understandings.
 - 2. Shared values – “the way we do things.”
 - 3. Shared norms – accepted behaviors.
 - B. Organizational culture is learned – culture influences all aspects of what goes on in the organization, including how we feel about what we do, how we do our job, what we believe is important to accomplish, and why we think different things are important or unimportant.
 - C. Organizational culture is shared – shared understandings and meanings are important because they help employees know how things are to be done.
 - D. Culture is subjective and objective.
 - E. Developing adaptive cultures – those cultures that assist in anticipating and adapting to environmental changes are associated with superior performance over the long run.
- IV. Matching Strategy and Culture.

- A. Strategic leaders must decide if the organization's culture can help achieve the strategy. Therefore, they must assess what assumptions, values, and behavioral norms are necessary to most effectively carry out the strategy. Attributes of the current assumptions, values, and behavioral norms must be compared with the assumptions, values, and behavioral norms required by the strategy.
 - B. In maintaining the organizational culture managers should:
 - 1. Communicate the mission, vision, values, and goals – verbally and in writing.
 - 2. Behave in ways that are consistent with the values and vision – through their personal behavior, whom they hire, whom they promote, and what they reward.
 - 3. Review and discuss the values and behavioral norms periodically.
 - C. Changing the organizational culture can be difficult and takes a great deal of time and energy. In internal environmental analysis, where culture was viewed as a weakness or the requirements of the strategy call for a different culture, culture change strategies should be initiated. In changing the culture managers should:
 - 1. Clarify the mission and vision and discuss the types of values and behaviors that would best achieve the vision.
 - 2. Discuss and codify the values and behavioral norms.
 - 3. Live by the values from the very beginning.
 - 4. Review and discuss the values and behavioral norms periodically.
 - 5. Create an atmosphere of perceived “crisis” in the organization.
 - 6. Clarify the vision and indicate what changes are necessary to achieve the vision.
 - 7. Communicate the mission, vision, values, and goals widely and repeatedly.
 - 8. Model the kinds of behaviors and practices they want infused into the organization, through their own actions.
 - 9. Empower other people to start acting in ways that are consistent with the desired values, and to implement new behaviors and practices.
 - 10. Look for some quick but sustainable successes.
 - 11. Demonstrate patience and persistence.
- V. Organizational Structure.
Learning Objective 4
- A. Once the directional, market entry, competitive, and service delivery strategies have been developed, management must determine what organizational structure will best facilitate the strategy.

- B. Over time the structure can be changed to meet the needs of the proposed strategy.
- C. Organizational structure building blocks.
 - 1. **Functional** organization structures organize activities around the strategy critical activities or processes of the organization. Functional structures are the most prevalent for single product or service and narrowly focused organizations.
 - 2. **Divisional** structures create several smaller, more focused, semiautonomous strategic business units (SBU/SSUs). Typical divisions might be based on geography (markets) or products/services.
 - 3. **Matrix** structures organize around problems to be solved rather than functions, products, or geography.
- D. Combination strategies – most health care organizations are rarely organized using a single structural building block. Rather, health care organizations, similar to most business organizations, find it necessary to mix and often supplement the basic design using:
 - 1. Project and product teams
 - 2. Cross-functional task forces
 - 3. Venture teams
 - 4. Reengineering teams
 - 5. Executive and standing committees

VI. Matching Strategy and Structure.

- A. Is there is a good match between the characteristics of the current organizational structure and the requirements of the strategy? If there is a good match, maintaining the present structure indicates management should:
 - 1. Evaluate the present level of communication and coordination and discuss needed additional communication channels and coordinating mechanisms.
 - 2. Evaluate the present level of control to ensure there are opportunities for innovation where appropriate.
 - 3. Evaluate the management team to ensure that the leadership skills match their positions.
 - 4. Inventory the present skills to ensure that they are matched to the structure and strategy.
 - 5. Evaluate training needs and implement necessary training.
- B. If the comparison of the present structure and the requirements of the strategy suggests a need to change the basic organizational structure, then management must develop a plan and move very carefully. When changing the structure, management should:

1. Develop a flow chart of the total process, including its interfaces with other value chain activities.
2. Simplify first, eliminating tasks and steps where possible and analyzing how to streamline the performance of what remains.
3. Determine which parts can be automated (usually those that are repetitive, time-consuming, and require little thought or decision).
4. Consider introducing advanced technologies that can be upgraded to achieve next-generation capability and provide a basis for further productivity gains in the future.
5. Evaluate each activity to determine whether it is strategy-critical. Strategy-critical activities are candidates for benchmarking to achieve best-in-industry performance status.
6. Weigh the pros and cons of outsourcing activities that are non-critical or that contribute little to the organizational capabilities and core competencies.
7. Compare the advantages and disadvantages of the organization building blocks regarding standardization and flexibility.
8. Design a structure for performing the activities that remain; reorganize the personnel and groups who perform these activities into the new structure.

VII. Strategic Resources.
Learning Objective 4

- A. Key strategic resources include financial, human, information systems, and technology.
- B. All organizational strategies have financial implications. Expansion, contraction, or maintenance of scope adaptive strategies will require a financial implementation strategy.
 1. Expansion and maintenance of scope strategies frequently make it necessary for health care organizations to enter the capital market or make arrangements to borrow money from one or more financial institutions.
 2. Expansion of scope, such as market development, may be carried out through acquisition of a competitor (horizontal integration) and involve hundreds of millions of dollars.
 3. Maintenance of scope strategies directed toward enhancement of facilities, equipment, quality of services, and so on will often require new capital and operating funds.
 4. Contraction of scope strategies require equally challenging financial decision making. Divestiture, liquidation, harvesting and, in some cases retrenchment, converts financial resources, at least temporarily, into cash or near cash assets.

- C. Successful implementation of strategy is inextricably connected to having committed, high-performance employees.
1. Expansion strategies such as related diversification will make it necessary to recruit new personnel with skills and talents similar to those already in the organization.
 2. Unrelated diversification and backward and forward vertical integration will create the need for human resources with skills and talents quite different from those presently employed.
 3. Contraction involves different human resources management skills. Incentives must be devised to encourage employees to find other jobs or to retire earlier than anticipated.
- D. Information systems (IS) are an essential competitive resource for health care organizations and are critical to support strategic decision making, administrative operations, and patient care in an increasingly information intensive industry. Information systems in health care may be divided into four general categories:
1. Strategic decision support
 2. Administrative
 3. Clinical
 4. Electronic networking applications
- E. The technologies selected by the organization are dictated by the chosen strategies. Broadly, strategic technologies concern the type of facilities, the type and sophistication of equipment, and management of technology. Each of these activities is critical to the successful implementation of the organization's strategy.

VIII. Matching Strategic Resources to the Strategy.

- A. If there is a match between the present level of strategic resources and the requirements of the strategy, efforts should be made to maintain the financial, human, information resources, and technology. In maintaining strategic resources, the leader should consider the following points.
1. *Financial*
 - Evaluate whether current financial resources are being used efficiently.
 - Determine whether the liquidity is appropriate for meeting ongoing expenses.
 - Seek ways to increase profitability without sacrificing other strategy critical factors.
 - Assess the current level of leverage to determine whether there is an appropriate level of risk.
 - Determine whether asset activity can be improved.
 - Assess cash flow management.

- Consider investment opportunities for idle cash.
2. *Human Resources*
 - Develop/continue training programs to maintain the current human expertise and capabilities.
 - Develop/continue a management succession plan.
 - Develop/continue job market networking for strategy critical skills.
 3. *Information Systems*
 - Assess information system growth needs.
 - Develop/continue an information system plan for operations and upgrades.
 4. *Technologies*
 - Develop/continue a plan for facilities and equipment maintenance.
 - Develop/continue a facilities and equipment replacement schedule.
 - Periodically review the operating procedures, policies, and rules to keep them “lean.”
 - Review environmental services activities and procedures.
 - Evaluate current security procedures.
 - Evaluate food service activities.
 - Evaluate operation and maintenance procedures.

B. If there is not a match between the present level of strategic resources and the requirements of the strategy, the process should be to change the financial, human, information resources, and strategic technologies to meet the needs of the strategy.

1. *Financial*
 - Assess whether the current revenue can finance the change.
 - Investigate the opportunities to finance the change through the issuance of stock and the infusion of additional equity.
 - Investigate the opportunities to finance the change through bonds, mortgages, bank loans, fund raising, or philanthropy.
2. *Human Resources*
 - Assess job markets to determine the availability of individuals possessing the new required strategy-critical skills.
 - Begin recruiting for new strategy-critical skills.
 - Develop training programs to retrain individuals whose skills are no longer appropriate.
 - Develop/contract for outplacement for employees whose skills are no longer needed.
3. *Information Systems*
 - Consider outsourcing information systems when change needs are significant.
 - Assess the impact of change needs on IS.
 - Assess needs of information systems in pre-service, point-of-service, and after-service activities.
4. *Technologies*

- Identify the exact specifications of the need for facilities, equipment, or processes.
- Perform cost analysis on the required changes.
- Develop timelines for the changing of the technologies.
- Investigate the financing alternatives for the required changes.
- Investigate any new required skills or experience to operate or maintain the new facilities or equipment.
- Specify any new required processes or ways of doing things.
- Determine whether there is a market for technology that is no longer needed and sell it.

IX. Extending the Strategic Thinking Map.
Learning Objective 5, 6, and 7

- A. The value adding support strategies provide a powerful means to change the organization and create competitive advantage.
- B. Decisions concerning the organization's culture, structure, and strategic resources are strategic in nature and should be made by strategic thinkers.
- C. Text Exhibit 9-6 is a completed strategic thinking map that compares the results of an internal environmental analysis against the value adding support strategies requirements for a long-term care organization. This map extends and further articulates the strategic thinking maps developed in strategy formulation and the development of the service delivery strategy. As with service delivery strategies, guidance for carrying out the support strategies is provided so that unit managers may develop effective action plans that are tied directly to the organization's strategy.

QUESTIONS FOR CLASS DISCUSSION

1. What part does internal environmental analysis play in the development of value adding support strategies? What part does strategy formulation play?

Internal analysis provides a profile of the organization's present strengths and weaknesses and their competitive relevance. This internal analysis must be compared with the requirements of the strategies selected in the strategy formulation stage of the strategic management process. A comparison of the present strengths and weaknesses with the requirements of the strategy will suggest where the value adding support areas need to be maintained or changed. For those value adding support areas (organization culture, organization structure, and strategic resources) that match the requirements of the strategy, maintenance strategies will be undertaken. For those areas that are not adequate to perform the selected strategy, change strategies must be initiated.

2. How do the value adding support strategies create the “context” for strategy implementation?

Once the service delivery strategies (relating to the primary value adding activities) are formulated, support strategies that provide the appropriate organizational context and resources may be developed. The activities of service delivery (pre-service, point-of-service, and after-service) are primarily operations and marketing. These functions are the fundamental value producing activities (the “making” and “selling” of a good or service). The value adding support activities provide the environment or context to do the work. The organization’s culture, structure, and strategic resources (financial, human, information, and technology) provide the means for accomplishing the operations and marketing.

3. What is organization culture? How does it implement strategy?

Organizational culture is defined as the implicit, invisible, intrinsic, and informal consciousness (assumptions and values) of the organization that guides the behavior of individuals (behavioral norms) and shapes itself out of their behavior. Therefore, organization culture may be thought of as:

- Shared assumptions
- Shared values
- Behavioral norms

As suggested in Question 2, culture provides the context for strategy implementation. The assumptions, values, and behavioral norms create the everyday work habits and processes for carrying out the work of the organization.

4. Why is culture change so difficult in health care organizations? What are some ways strategic managers could make culture change easier?

Assessing the receptivity of an organization to any proposed strategy is an important step in implementation. This assessment requires investigation of both the subjective and objective dimensions of culture. Many of the subjective aspects can be inferred from the understood distinctiveness of the organization (the mission), the hope that the members have for the future (the vision), and the principles they hold dear in accomplishing the mission (the values). Culture change is particularly difficult in health care organizations because cultures are often so strong and have rarely been questioned.

One of the greatest challenges for leaders in health care organizations is to convince people that change need not be a threat but can present important opportunities. The most effective means of changing organizational culture is to focus on the artifacts of the culture and change them to reflect the values needed in the future. This involves the skillful use of heroes, rites, ceremonies, and so on.

5. What are the basic building blocks of structure? What are the advantages and disadvantages of each?

There are three fundamental organization designs that form the basic building blocks for organizations. These basic building blocks are:

- Functional structure,
- Divisional structure (SBU/SSU), and
- Matrix structure.

Functional Structure Strategic Advantages	Functional Structure Strategic Disadvantages
<ul style="list-style-type: none"> • Builds a high degree of specialization • Fosters efficiency • Centralizes control and decision making • Develops functional expertise 	<ul style="list-style-type: none"> • Fosters “silo thinking” – narrow specialization • Slows down decision making • Makes horizontal communication difficult • Makes coordination difficult • Limits the development of general managers
Divisional Structure Strategic Advantages	Divisional Structure Strategic Disadvantages
<ul style="list-style-type: none"> • Forces decision making down the organization • Allows different strategies among divisions • Fosters improved local responsiveness • Places emphasis on the geographic region or product/service • Improves functional coordination within the division • Identifies responsibility and accountability • Develops general managers 	<ul style="list-style-type: none"> • Makes it difficult to maintain a consistent image/reputation • Adds layers of management • Duplicates services and functions • Requires carefully developed policies and decision making guidelines • Creates competition for resources
Matrix Structure Strategic Advantages	Matrix Structure Strategic Disadvantages
<ul style="list-style-type: none"> • Develops functional expertise • Allows for a variety of product/project developments • Allows for the efficient use of functional expertise • Encourages rapid product development • Fosters creativity and innovation 	<ul style="list-style-type: none"> • Causes difficulties in management • Violates the “unity of command” principle • Creates coordination and communications problems • Requires negotiation and shared responsibility • Allows for confusion on priorities

6. In what circumstances might a high level of standardization be required? A high level of flexibility?

Strategy Requirements and Organization Structure

Strategy Requirements	High Standardization		High Flexibility
	Functional	Divisional	Matrix
High level of coordination	X		
High level of standardization	X		
Area/functional expertise	X		
Main goal is efficiency	X		
High level of control	X		
Develop general managers		X	X
High degree of operating autonomy	X		
Decentralized decision making geared to market		X	
High need to customize product or services to market		X	
Consistent image	X		
Need local coordination		X	
Many projects using similar technologies			X
Need high level of creativity and innovation		X	X
Need high level of stability	X		
Need to develop new technologies			X
Need to be a cost leader	X		
Need to have service diversity		X	
Large organization		X	

7. Which do you think changes first, strategy or structure? After formulating your answer and making your case, argue the opposite position.

This issue has been debated for years in strategic management. Alfred Chandler, as noted in the chapter, initiated much of this controversy and suggested that structures of organizations follow strategies that are formulated. Thus, changes in organizational structure can be considered important implementation measures resulting from changes in strategies.

In many ways, this remains the most appealing of the two positions. However, some have argued that strategies are driven by structures. Perhaps the best compromise, and the position supported by a substantial amount of research, is that these two factors are so closely interrelated that attempts to separate them in a cause-and-effect sense are futile.

8. What are the primary differences in the financial strategies needed for expansion, contraction, and maintenance of scope?

In some cases the financial strategies needed for the different adaptive strategies are quite diverse and in other cases they are similar. For example, acquisitions of new debt and

equity funds are most often associated with expansion strategies. However, new capital via debt or equity may be needed for enhancement under stabilization strategies. Moreover, funds generated from present operations may be used for any new capital needs.

From a strategic perspective, contraction is probably the most difficult adaptive strategy to implement because of the emotional, ethical, and social responsibility implications. However, all adaptive strategies have their own set of implementation challenges. Going to the equity market can be time consuming and emotionally taxing as can arranging long-term bank financing. Implementation is a difficult stage of strategy. Some argue this stage is the most neglected.

9. How may a growth strategy be financed? What are the advantages and disadvantages of each option?

Expansion and maintenance of scope strategies frequently make it necessary for health care organizations to enter the capital market or make arrangements to borrow money from one or more financial institutions. Expansion of scope, such as market development, may be carried out through acquisition of a competitor (horizontal integration) and involve hundreds of millions of dollars. Similarly, maintenance of scope strategies directed toward enhancement of facilities, equipment, quality of services, and so on will often require new capital and operating funds. Important options for adding financial resources to carry out the strategy include:

- Capital acquisition – equity and debt
- Other forms of debt acquisition
- Fund-raising and philanthropy

10. Why is cash flow important in implementing strategy?

One of the more difficult problems faced by health care organizations is the effective management of cash flow. Increasingly, all organizations have recognized that it is not enough to be profitable or to grow at a rate equal to or better than others in the industry. The inflow of cash must be related to the outflow. Although the organization may have large billings to patients, if payment has not been received, it will be forced to borrow to meet obligations at the end of the month. This involves extra expenses and is simply not good financial management. Therefore, cash-flow management is an important measure of the organization's financial capability.

11. What are the primary differences in the human resources strategies needed for expansion, contraction, and maintenance of scope? Which type of adaptive strategy is most difficult to implement from a human resources perspective? Why?

The fundamental orientation of human resources strategies is different for different adaptive strategies. Expansion of scope strategies, for example, require human resources strategies that are designed to locate, recruit, and hire the employees needed to

accomplish the mission of the organization under growth conditions. The problems are essentially associated with managing growth and they can be quite challenging.

Expansion or maintenance of scope strategies require innovative human resources management strategies. They must focus on job designs that require close interaction and coordination among groups of individuals. Job descriptions in innovative organizations tend to be less specific in order to allow employees to develop multiple skills. In addition, these "loose" job descriptions allow for broader career paths and encourage individuals to move to where they are needed most in the organization. Although pay levels are not always high, compensation programs emphasize equity among group members and flexibility so that employees can design their own compensation packages to the extent possible.

Cost-reduction strategies (whether motivated by contraction or maintenance of scope) require a particular type of human resources management. The emphasis is on carefully designing and defining jobs that contribute to efficiency. Performance appraisal systems emphasize short-term results that directly affect quantified goals. Because jobs are narrowly defined, career paths tend to be equally narrow. Under a cost-reduction strategy, nurses enter the organization as nurses, do their jobs, and retire as nurses or perhaps nurse supervisors. The same is true of engineers and financial administrators. There is relatively little training and development because of the expense required and the uncertainty of a direct payoff.

When the focus is on quality (maintenance/enhancement strategies), human resources management must change. Jobs tend to remain relatively fixed and narrow, but the "experts" or specialists have more input into how their jobs should be done to improve quality. Although appraisals tend to be short-term and oriented toward specific results, there is more emphasis on group performance. Because quality demands the latest information, there is a high commitment to training and development.

Maintenance of scope strategies call for consistent human resources strategies. Interestingly, maintenance conditions can often provide just the needed environment to "take a breather" from rapid growth and provide opportunities for training and development that will be needed in the future.

Human resources strategies under conditions of contraction of scope are perhaps the most difficult to manage because the options are often quite limited and distasteful. In extreme cases, employees must be terminated and the only assistance that can be offered is aid in finding another job. In less urgent situations, employees may be encouraged to retire early and incentives may be offered. Positions may not be filled when someone leaves the organization, and so on. Although these latter options are less objectionable than layoffs, they create a number of human resources questions. For example, "How do we keep people motivated in the midst of layoffs and downsizing?" "How do we keep good people if we cannot promise them opportunities for advancement?" Clearly, human resources decisions during contraction are the most difficult to manage.

12. What are the general categories of information systems? What are the attributes of each?

Information systems in health care may be divided into four general categories, strategic decision support, administrative, clinical, and electronic networking applications. A strategic information system (SIS) has been defined as one that is any combination of computers, workstations, software systems, and communications technology used to gain competitive advantage. Such systems draw on both internal data from clinical and administrative systems in the organization as well as external data on community health, market demography, and activities of competitors. Strategic information systems, sometimes referred to as decision support systems (DSS), attempt to take vast quantities of unorganized data and turn them into useful information for managers to make better decisions. Such information systems involve organizing the data, selecting the models that will analyze the data, and interpreting the output. However, it is not sufficient simply to provide the reports to the strategist. Sometimes there is a need to interpret and clarify the data relative to the assumptions that were used. Because decision support systems attempt to investigate future activities, the assumptions are critical. The organization that can design a SIS that is pertinent, relatively accurate, and timely will have developed a competitive advantage. Administrative information systems support areas other than direct patient care and include financial information systems, human resources systems, payroll, billing, purchasing, materials and facilities management, outpatient clinic scheduling, office automation, and so on. Clinical information systems support patient care and include computerized patient records systems, automated medical instrumentation, patient monitoring systems, nursing information systems, laboratory information systems, pharmacy information systems, clinical decision support systems, and information systems that support clinical research and education.

13. How can information systems be used to develop competitive advantage?

Important contributions of IS are developing competitive advantage by lowering costs, enhancing differentiation, changing competitive scope, and improving customer service levels. More specifically, IS may be utilized to provide a competitive advantage in four general ways:

1. Leverage organizational processes – improve organizational processes by making them faster, less expensive, less error prone, more convenient, and more available.
2. Enable rapid and accurate provision of critical data – improve strategic, administrative, and clinical information.
3. Enable product and service differentiation and, occasionally creation – add value through product enhancements and customizations or new product themselves such as web-based information services.
4. Support the alteration of overall organizational form or characteristics – improve service quality orientation, communication, decision making, and collaboration.

14. What changes are information systems bringing to health care?

Information systems are bringing changes in both the clinical and administrative activities of health care organizations. Clinically, changes will occur in patient care, medical information, and medical research, collectively referred to as medical informatics. Examples include: bedside data entry and the computer based electronic patient record, more effective use of outcomes data, long distance diagnosis through an interactive information highway, and more.

Administratively, changes include: faster and more accurate billing including reimbursement processes; sharing of information with single point data entry; increased emphasis on security of medical information; just-in-time inventory management and scheduling of operating rooms, beds, and so on; linking different facilities (doctors offices and the hospital or home, for example); integrated systems that are paperless; efficiencies in medical record keeping, storage, and retrieval; and many more.

15. Why is facilities management an increasing concern for strategic management?

The physical facility is the “shell” within which health care is delivered. Facilities support the delivery of quality health care services. At a very pragmatic level, the physical facilities of a health care organization are the first things encountered by patients, visitors, and employees. Inadequate parking, cluttered halls, and ill-kept lawns signal poor quality and a lack of organizational pride. In this sense, physical facilities are the “matrix” of health care and should be carefully designed and maintained. In addition, the operating costs for facilities have increased rapidly in recent years. Prior to the emphasis on health care reform, the increased costs were routinely passed on to patients in higher prices. With far more attention focused on the cost of care, management has to determine ways to control facilities costs without lower quality of care.

16. How do facilities affect a health care organization's strategy?

Physical facilities can affect strategy in a variety of ways. At the level of adaptive strategies, an organization can conceivably be forced into a stabilization mode because of inadequate facilities. By the same token, construction of large and more than adequate physical facilities can provide the incentive for the initiation of expansion strategies and increased marketing efforts.

Market entry strategies can be affected by physical facilities, as well. An organization with inadequate physical facilities, for example, may find it necessary to merge with another organization to obtain the specialized facilities necessary to respond to new market opportunities. Decisions to engage in certain medical technologies may actually be determined on the basis of the physical facilities they require. Expansion aspirations may be limited by the land available for parking. In other words, physical facilities do influence strategic decision making in a variety of ways.

17. How can the equipment/technology decision create competitive advantage?

Equipment and facilities reflect the basic technology decision of the organization. If the strategy is based on state-of-the-art technology, the facilities and equipment must support that strategy. High-tech, state-of-the-art technology has been a successful strategy and competitive advantage in health care because it is valuable, often rare with only one institution in a market with the technology, difficult to imitate because of the high expense, and is usually sustainable.

18. How might future internal analyses be affected by the value adding support strategies?

Along with the service delivery strategies, the value adding support strategies are focused inward toward maintaining or changing the organization. For those areas that are to be maintained, a future internal analysis should indicate that the strengths or competitive advantage has been maintained. For those value adding areas that have carried out change strategies, the organization should be quite different and new areas of strength will be identified or areas that were previously weak should be improved. Just as strategy changes the external environment creating new rules for success for all competitors, value adding strategies change the organization to support the strategy and create new competitive advantages.

CHAPTER 10

Communicating the Strategy and Developing Action Plans

SUGGESTIONS FOR EFFECTIVE TEACHING

This chapter can be effectively used to answer the legitimate “so what” question that is often asked in strategic management. Much of the time that is devoted to discussing strategic management is spent in developing the data necessary to make strategic decisions and to formulate strategies. Little time is spent on strategic implementation. We often say that implementation takes place after the high priced consultants get on the airplane leaving the organization’s leaders with the practical task of turning strategy into action.

The development of action plans should be thought of as an essential part of strategic management. This chapter discusses important implementation activities such as making sure the budgeting system allocates resources according to strategic priorities and the performance evaluation system rewards people for contributing to the strategy as well as the tactics of health care organizations. The integrative nature of strategic management is underscored. Implementation provides a good opportunity for students to think back over their accounting, marketing, economics and finance, human resources, and organizational analysis courses.

LECTURE NOTES

Introductory Incident: Partners HealthCare System – Action Planning for Service Lines. Partners HealthCare System, comprising more than 7,900 primary care and specialty physicians and 33,000 employees, needed new ways to increase market share. They chose to approach the problem by deliberately developing and positioning the services they offer through service line planning. The financial leadership of Partners analyzed the value of four of its specialty areas relative to the overall system. On the basis of this analysis, the System Integration Committee, a group drawn from Partners’ senior administrative and medical leadership, adopted a goal to establish business plans for two system-wide services that would focus on growing top line revenue through competitive market share growth and system-wide collaboration. The cardiology program was selected to be the first to tackle the planning initiative. Cardiology began by delineating the service line. The planning group, including cardiac physician leaders from each of the Partners hospitals, evaluated the competitive environment and identified several areas of vulnerability. Primary research was conducted among referring physicians and customers, and, finally, the regulatory environment was assessed.

The information developed was used to construct and select several scenarios for growth and the physician planning team recommended three actions: 1) physician network development, 2) branding, and 3) communication. Based on the recommendations, a series of actions were designed to support and expand the physician network, leverage the recognized and trusted brand names of two system hospitals, and develop an ongoing

communication program to inform customers and physicians about the attributes that differentiated the system's cardiac program from its competitors.

I. Implementing Strategy.
Learning Objective 1

- A. The goal of situational analysis is to understand the current situation through a systematic analysis of the external and internal environment as well as careful consideration of the organization's directional strategies – mission, vision, values, and strategic goals. Situation analysis is the data gathering and analysis stage of strategic management.
- B. Strategy formulation relies on an understanding of the situation and thus an understanding of the data generated throughout the process of situational analysis. Value adding implementation strategies are designed to “make the adaptive, market entry, and competitive strategies happen.”
- C. Action planning provides a map to the various – divisional, functional, etc. – units as to how they can contribute to the accomplishment of organizational strategies. In a sense, it is accurate to think of action plans as a means of programming strategic goal accomplishment. Effective action planning requires objectives, a list of the activities required to accomplish each objective, time estimates for activity accomplishment, and the assignment of responsibility (and authority) for ensuring that the activities are accomplished.
- D. Research indicates that seven out of ten strategies are never implemented. This research underscores the importance of understanding strategy implementation if strategic management is to be anything more than an academic exercise.

II. Why Strategies Are Difficult To Implement.
Learning Objective 4

- A. Limited success in strategy implementation results from three major areas.
 - 1. More attention is given to strategy formulation and its link to organizational performance than strategy implementation.
 - 2. The culture of the organization is ignored as a major determinant of successful strategy implementation.
 - 3. Consensus on strategy has not been developed.
- B. There are seven deadly sins of strategy implementation. Thinking about these “sins” will increase the students' understanding of the challenges in implementation.
 - 1. Lack of rigor, insight, vision, ambition or practicality.
 - 2. People are not sure how to implement the strategy.
 - 3. The strategy is communicated on a need to know basis.
 - 4. Responsibility for different aspects of strategy implementation is not divided.

5. Absence of leadership.
6. Unforeseen obstacles to implementation inevitably develop.
7. Strategy becomes all-consuming and distracts from routine and essential operations.

III. Overcoming Barriers to Strategy Implementation.

Learning Objective 5

- A. Barriers to effective strategy implementation can be reduced by a number of actions. Leaders play an important role:
 1. Employees are included as partners in the implementation process.
 2. Cross-functional cooperation is earned through buy-in of the strategy.
 3. Unit managers and employees support the strategy.
 4. Employees believe that the strategy is for the good of the entire organization rather than a single part.
 5. Unit managers have a broader outlook and evaluate success on contribution to the whole organization rather than a single unit.
- B. Strategic leadership is essential to turn the strategy into “something worth doing.” If the strategy is important, it must be included in every aspect of the organization and in all organizational activities.

IV. Making the Strategy Happen.

Learning Objective 2

- A. Communication about strategy between strategic leaders and unit managers is essential. Proper guidance to unit managers can allow the development of plans that contribute to service delivery and support strategies.
- B. For each objective that has been determined to accomplish various strategic goals, specific actions required should be identified, described, given a set time for completion, and assigned to a person who would be responsible for completing it.

V. Business Planning and Strategy.

- A. A business plan is a combination of strategic and operational plans. The action plan on the other hand, provides details on how to proceed within the context of a unit (similar to highway numbers, detours, exit numbers, and so on, found on a map).
- B. Strategy formulation, value adding service delivery and support strategies, and action plans are interrelated and are linked to strategic control.

VI. Setting Objectives.

Learning Objectives 2 and 3

- A. Objectives should possess a number of characteristics.

1. They should reinforce organizational strategic goals.
2. They should be measurable.
3. They should identify the time frame.
4. They should be challenging but attainable.
5. They should be easy to understand.
6. They should be formulated with the help of those who will do the work.

B. Objectives should be developed to the greatest extent possible by those who actually work in the unit and will be responsible for objective accomplishment.

VII. Action Plans and Budget Requests.

A. When unit objectives are formulated, it becomes necessary to identify the actions or activities needed to reach them. When the activities are successfully identified, it is possible to determine the resources needed in the budget because the resources required for each activity can be calculated.

B. The timeline of activities should be determined as well as the specific individuals who will be completing different tasks. Responsible individuals should be delegated the authority to ensure each activity is accomplished on time.

C. At this point it may be helpful to refer to Exhibit 10-1 as an illustration that demonstrates the interrelationships of the points discussed.

VIII. Developing Action Plans.

A. Action plans are an effective way to link strategy formulation with strategic control. Leadership plays an important role in providing understanding as to how resource allocation is linked to strategies.

B. An important goal of action plans is the establishment of baseline operation. An estimate of resources to run essential operations is required for this purpose.

IX. Using Action Plans to Create Organizational Momentum.

A. Leaders should emphasize the importance of communication between managers of service delivery and managers of support services in setting unit action plans as well as in resource allocation.

B. Managers should emphasize the importance of involving others in strategic operations. Everyone with a willing heart and relevant skills should be encouraged to participate in strategic management.

- C. Strategic thinkers recognize that people working in a given unit are the best experts on how that unit can contribute to the implementation of the strategy as well as to where it cannot contribute.
- X. Focusing Strategy Through Strategy Implementation.
- A. The old view of corporate performance is no longer appropriate in an age where information and service delivery companies dominate the industrial scene (see Perspective 10-4).
 - B. Initially, the Balanced Scorecard was developed as a control tool because it was concerned with measurement. In more recent times, it has become more of a strategic tool.
 - C. As illustrated in Exhibit 10-2, The Balanced Scorecard allows for mapping of activities and can be related to the value chain.
- XI. Contingency Plans.
- XII. Strategic Momentum – A new Beginning.

QUESTIONS FOR DISCUSSION

1. Explain the relationship between situational analysis and action plans.

Situational analysis is the first step in designing a strategy. A good strategy is responsive to the situation – both externally and internally. Adaptive, market entry, and competitive strategies are designed to accomplish the strategic goals and move the health care organization in the desired direction.

Action planning and action plans make the adaptive, market entry, and competitive strategies happen. Properly established objectives are anchored in strategies and aid in accomplishing value adding service delivery and support strategies as well as contributing to the directional strategies. Action plans link the strategy of where the organization is going to the actions to be taken to get there.

2. List the important components of action plans. Which component do you think is the most important? The least important? Explain your response.

Action plans should identify the activities needed to accomplish each objective, specify the costs and revenues associated with each objective's accomplishment, establish a timeline for each activity, and assign responsibility for the accomplishment of each activity. Every one of these components is important, flowing logically from one to the other. Doing one without any of the others is detrimental since all are essential to the accomplishment of unit objectives.

3. How are the action plans for a division (for example, the hospital division) similar to action plans for a department (such as housekeeping)? How are they different?

Action plans, regardless of level, consist of objectives that specify how the unit is going to contribute to the strategy, what actions will be required to achieve the objectives and within what time period, who is responsible for the actions, the resources required to the achieve the objectives, and how results will be measured. Division-level action plans would tend to be more long-term than department-level action plans and require more intensive communication to share the overall strategy and to provide guidance for the units involved.

4. How do action plans assist in the allocation of organizational resources in line with strategies?

Action plans provide the information necessary to develop budget requests and communicate how units intend to use resources to reach objectives. Baseline operations are critical in budget development. They relate to the resources that essential operations require. Without baselines, it is tempting to assume that there is an essential minimum level of funding associated with a budget. It is important in action planning to constantly reinforce the idea that budgets must be justified and related to concrete objectives that contribute to the accomplishment of organizational strategic goals.

5. Are the costs associated with accomplishing the unit objectives the only ones that should be included in budget requests? Why or why not?

Although unit objectives are important and essential in planning for budgets, baseline operations should be included in budget requests. Because budgets should not be considered as having an absolute minimum, there are baseline operations that units are involved in on a day-to-day basis and may not be directly involved in a particular unit action plan. Therefore, not all resource needs are covered by the unit action plans.

6. What are some of the primary barriers to the effective implementation of strategies in health care organizations? How can each be overcome or removed?

Most of the attention in the contemporary strategy literature is focused on strategy formulation. More attention is given to strategy formulation and its link to organizational performance than strategy implementation. The culture of the organization is frequently ignored and the consensus on the strategy that is essential to successful implementation is neglected. It is likely that strategy implementation takes the back seat to strategy formulation because it is not as exciting. Implementation sometimes appears more routine and there is a tendency for strategic leaders to ignore its importance.

Barriers can be overcome, or at least reduced, by ensuring that employees are partners in the implementation process. Proper attention should be given to the strategy and its implementation. Implementing the strategy should become part of the everyday activities of all people in the organization. Improvement of horizontal and vertical communication

within the organization can be important to overcome barriers to strategy implementation. Dialogue is empowering and, when it occurs, employees have input into strategy formulation, thereby helping to develop a sense of ownership that will make everyone more dedicated to the implementation of the strategy.

7. What are the primary characteristics of action plan objectives? Are these characteristics descriptive of good organizational strategic goals? Why or why not?

Action plan objectives should:

- Reinforce organizational strategic goals.
- Be measurable.
- Identify the time frame allowed for accomplishment.
- Be challenging but attainable.
- Be easy to understand.
- Be formulated with the help of those who will do the work to accomplish them.

These characteristics are not different from good organizational strategic goals, in principle. The main differences between action plan objectives and organizational strategic goals are in their focus and breadth. Whereas organizational strategic goals are long-term and emphasize the vision of the organization, action plan objectives are more activity based to accomplish specific tasks that, in combination with other action plans, will accomplish the strategic goals of the organization.

8. What is a Balanced Scorecard? In what ways is it a means of focusing attention on strategy implementation?

The Balanced Scorecard is a tool that was initially developed as a control technique. It measures various organizational perspectives (usually about four) that contribute to organizational performance (strategic and tactical). In more recent years the Balanced Scorecard has been thought of as a strategy implementation tool. By focusing attention on the different perspectives of the Balanced Scorecard, leaders can use it as a motivational as well as a monitoring tool. The Balanced Scorecard approach links the organization's short-term actions to its strategy. The process involves four elements:

- Linking vision to organizational and unit objectives.
- Effective communication to link service delivery and support strategies as well as the units that comprise them to the larger organization.
- Action plans that allow the proper integration of strategic and financial plans.
- Development of feedback and learning.

9. Should every organization formulate contingency plans? Why or why not?

Contingency planning may be incorporated into the normal strategic management process at any level and is a part of managing the strategic momentum. Contingency plans are alternative plans that are put into action if the strategic assumptions change quickly or dramatically, or if organizational performance is lagging. As such, effective contingency

planning provides for alternative strategies to be implemented quickly when strategic assumptions change. When strategic controls warn that change has occurred, contingency plans keep the organization moving ahead with its strategy.

10. Explain why strategic momentum may be a new beginning.

Strategic momentum may be a new beginning because strategic management is circular and all of its processes are continuous. As health care leaders manage momentum and change their organizations, they chart new courses into the future. They create new beginnings, new chances for success, new challenges for employees, and new hopes for patients. Health care leaders must see into the future and create new visions for success.

11. Explain whether a map or a compass is better for your career path in health care.

Both a map and a compass are vital for a career path in health care. A map, developed through strategic planning, will provide explicit directions and a starting point for the journey. As the journey progresses, new opportunities emerge, and a compass will be valuable in charting a new course for your future.