Strategic Management and Planning

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Chapter Objectives

After reading this chapter, you should be able to

1. Explain the nature of strategic management.
2. Outline the strategic management process of analysis and diagnosis in healthcare administration.
3. Evaluate potential strategic choices in healthcare.
4. Implement strategic plans in healthcare operations.

Chapter 1 described how directing healthcare organizations requires application of the five basic managerial functions: planning, organizing, staffing, leading, and controlling. This chapter begins an analysis of the planning function with a presentation of the strategic management process. Effective planning represents a key element of organizational success in healthcare.

An application of the strategic management process can dictate a major change in the methods a physician uses to practice medicine. For example, it may seem strange to think of snoring as a medical problem, and yet Dr. Craig Schwimmer, from Dallas, Texas, makes a strong case that it is. Persistent snoring, or sleep apnea, can have deleterious health effects. Incidents of the breathing obstruction that leads to sleep apnea occur as often as five times per hour during sleep, lasting as long as 10 seconds. The condition can cause high blood pressure and awakening with a sore throat or dry mouth. The individual feels less rested and may pose a greater danger to others by being drowsy or falling asleep while driving or operating equipment during the day. As time passes, a person suffering from the condition becomes at greater risk for heart problems, such as enlargement of the heart.

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▲ The Snoring Center treats sleep apnea as a dangerous medical condition.

According to Dr. Schwimmer, 46% of all adults snore at times, and 25% snore habitually. Beyond the health concerns, sleep apnea may cause trouble in marriages, as well as other interpersonal problems with those who are disturbed by a loved one's snoring—23% of married couples regularly sleep apart because of sleep apnea. Dr. Schwimmer has discovered that many individuals are frustrated by doctors who treat the condition as being merely an inconvenience.

In response to these issues, Dr. Schwimmer has developed an independent organization—an entrepreneurial strategic management choice—called The Snoring Center. This center specifically treats individuals afflicted with snoring problems. The organization offers "minimally invasive snoring solutions" to patients. As part of the strategic management process, Dr. Schwimmer has developed a basic mission. According to The Snoring Center's website, the organization's credo includes the following statements:

- You have the right to understand all your treatment options and choose those that are best for you.
- Treatment options are only as good as your willingness to tolerate them.
- We do what makes the most sense for each individual patient, not what the insurance company wants.
- Invasive surgical treatments do not have a high enough success rate to justify their risk, expense, or pain.

Marketing tactics are one form of strategy implementation. A highly innovative advertising and marketing communications program helped Dr. Schwimmer launch his new enterprise in a setting that is separate from his ear, nose, and throat (ENT) medical office. Word-of-mouth and other endorsements then helped quickly build his clientele list. Within two years, he had shut down his original ENT practice and now manages two Snoring Center locations. Opening a second location and closing his original practice constituted another strategic choice. The Snoring Center has since become the world's largest snoring treatment organization, performing more procedures than any other provider in the world (http://www.snoringcenter.com/about; Clow & Baack, 2012, pp. 200–201). Dr. Schwimmer's success has been enhanced by an effective application of the strategic management process: strategic analysis, planning, and implementation through various tactics and operational plans. These steps will be explored in the sections that follow.

4.1 The Nature of Strategic Management

The many types of organizations that deliver healthcare vary in the exact natures of their management structures, but they all tend to pursue many similar activities. Top-level executive managers are responsible for the oversight of the entire organization. Chief executive officers (CEOs) and top management teams receive appointments or promotions to those positions in various ways. In corporate settings, the board of directors chooses the CEO. In profit-seeking organizations, the CEO has the primary responsibility of caring for the interests of stockholders and other investors, balancing profit goals with other strategic corporate objectives. CEOs in nonprofit organizations tend to issues such as financing; however, their primary objective is to sustain organizational services and operations, rather than seeking profits as the final outcome. In both types of organizations, other top-level managers are promoted or assigned into their positions through the hiring process.

In smaller organizations that do not have the same degree of corporate structure, the top-level position might carry the title of president or chief administrator rather than CEO. The individual may be the owner of the company or have been chosen by some other entity rather than the board of directors.

Strategic management is a top-level management function, directed at the oversight of short- and long-term organizational objectives and outcomes. This function integrates and coordinates all company activities (Hitt, Ireland, & Hoskisson, 1995). Strategic management helps executives steer and manage a company to achieve success over time—not just for the next quarter or year, but for the long term. It includes providing direction for the organization, spelling out the goods and services the organization will provide, and determining how the organization will respond to competitors within the industry. It requires an understanding of the organization's publics and what they want (Abraham, 2012). Strategic management includes a variety of activities. Most notably, top executives are charged with four major tasks:

1. Develop, maintain, and revise the organization's vision and mission statements
2. Create and revise strategic goals
3. Engage in the strategic planning process
4. Oversee the implementation of strategic plans at the tactical and operational levels

To complete these assignments, top managers continually assess elements of the organization's operations and the external environment. This chapter describes each of these four functions, noting how they apply to healthcare administration.

Vision and Mission Statements

Seeking a common purpose or goal is part of what defines the nature of an organization. The ultimate objective of any organization constitutes its mission. A **mission statement** expresses the primary reasons for the formation and operation of an organization. In essence, a mission statement should answer the question, "Why does this organization exist?" Beyond any simple answer such as "to make money," the mission statement defines the essence of the organization and its purpose (Smith, Arnold, & Bizzell, 1985).

Mission statements normally incorporate a series of elements that include identification of an organization's markets. Other elements may note the desire of an organization to survive, grow, and achieve profitability. A mission statement might include statements about the organization's overriding philosophy or its concern to maintain a certain type of image, including a notion of a self-concept. In some industries, mission statements identify the products and services to be delivered and the type of technology used to deliver them. A mission statement might also incorporate statements of concern for employees (David, 2011). Several of these common elements can be seen in the mission statements displayed in Table 4.1.

Table 4.1 Mission statements

Organization	Mission statement
Healthcare organizations	
Bristol-Meyers Squibb	To discover, develop, and deliver innovative medicines that help patients prevail over serious diseases
Caremark RX, Inc.	We will be the premier health management solution provider, enabling individuals and plan sponsors to optimize their healthcare investment.
Coventry Health Care	Our mission is to provide high-quality care and services to our members and to be profitable in the process. Coventry Health Care is also committed to maintaining excellence, respect, and integrity in all aspects of our operations and our professional and business conduct. We strive to reflect the highest ethical standards in our relationships with members, providers, and shareholders.
CVS Corporation	We will be the easiest pharmacy retailer for customers to use.
Other organizations	
Advance Auto Parts	It is the mission of Advance Auto Parts to provide personal vehicle owners and enthusiasts with the vehicle-related products and knowledge that fulfill their wants and needs at the right price. Our friendly, knowledgeable and professional staff will help inspire, educate, and problem-solve for our customers.
The Dow Chemical Company	To constantly improve what is essential to human progress by mastering science and technology
Ford Motor Company	We are a global family with a proud heritage passionately committed to providing personal mobility for people around the world.
Microsoft	At Microsoft, we work to help people and businesses throughout the world realize their full potential. This is our mission. Everything we do reflects this mission and the values that make it possible.

Source: http://www.missionstatements.com/fortune_500_mission_statements.html.

Mission statements often evolve over time. In recent years, several major companies modified existing statements with a notation about the ethical aspects of conducting the business. Lincoln Financial Group's current mission statement, for example, includes this sentence: "As a concerned corporate citizen, the company's Foundation has sustained a strategic philanthropic program to improve the quality of life in the communities where our employees live and work" (http://www.missionstatements.com).

Accompanying a mission statement will be an organization's **vision statement**, which outlines the organization's intended future. The vision statement offers direction about where the organization seeks to go and what executives hope the organization will become and achieve (Kantabutra & Avery, 2010). Many times, such statements exclude a financial component, because such words might not appeal to all internal and external publics. In the new millennium, many strategic vision statements have incorporated concepts regarding globalization and the use of Internet technology to build toward the future. For example, Amazon.com's vision statement says, "Our vision is to be Earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online."

Vision and mission statements provide the basis from which all strategic, tactical, and operational planning begins. Effective top-level managers routinely examine and revise such statements as needed. Hospital administrators are advised to view these statements in light of the services the organization intends to provide to both the local community and the larger medical profession. For example, the mission and vision statements for the highly regarded Barnes-Jewish Hospital in St. Louis, Missouri, are as follows (http://www.barnesjewish.org):

Mission
We take exceptional care of people.

- By providing world-class healthcare
- By delivering care in a compassionate, respectful, and responsive way
- By advancing medical knowledge and continuously improving our practices
- By educating current and future generations of healthcare professionals

Vision
Barnes-Jewish Hospital, along with our partner, Washington University School of Medicine, will be national leaders in medicine and the patient experience.

Strategic Goals

In addition to the mission and vision statements, top-level managers are responsible for developing and implementing strategic goals. In Chapter 1, a set of strategic goals for healthcare was introduced using the framework provided by Mintzberg (2009). Outcomes of these goals are listed in Table 4.2.

Market share can be established in a variety of ways, depending on the organization's circumstance. A large city may define the overall market for an urban hospital. A rural healthcare organization might view a share in a county or even larger portion of a state as its market.

Innovation opportunities in healthcare are abundant. The delivery of healthcare invites innovative medicines, treatment systems, delivery systems (such as a mobile magnetic resonance imaging facility), accounting practices, fund-raising programs, and many others.

Productivity efforts require balance. Managers seek to achieve efficient delivery rates while tending to patient needs. No one likes the feeling of being treated as a number or simply as a task to be completed. Consequently, human interaction and efficient medical care must achieve some type of equilibrium in healthcare organizations.

Table 4.2 Healthcare strategic goals and intended outcomes

Strategic goals	Intended outcomes
Market share	• Patients for a physician or hospital in a community
Innovation	• New or improved medical services
Productivity	• Patients served per doctor, nurse, or department
Physical and financial resources	• Funds for the most modern, advanced equipment
Profitability	• Profits in profit-seeking organization • Funds for nonprofits
Manager performance and development	• Improved line and staff management
Employee performance and attitudes	• Satisfaction with the organization, occupation, pay, benefits, and coworkers • Commitment to patient care
Social responsibility	• Ethical medical and financial practices

Source: Adapted from Mintzberg (1990).

Physical and financial resources include the actual healthcare building or facility, medical equipment, computer systems, and other major long-term assets. Financial resources, such as major gifts, revenues from operations, stock sales, loans, and leases, help obtain the high-quality major assets needed to support medical organizations.

Profitability standards most clearly apply to for-profit organizations. However, even nonprofits must generate revenues and funds to continue operations.

The concept of *manager performance and development* contains many unique aspects. In situations where physicians supervise medical students and medical residents, a primary part of the job involves teaching, training, and the correction of mistakes. In other parts of the hospital, management of such activities as accounting and facilities care more closely resemble those in other industries.

The concept of *employee performance and attitudes* encounter similar differences. The unique nature of a hospital, which remains open 24 hours per day, 365 days per year, means that some employees will be expected to work third shifts (12 a.m. to 8:00 a.m.), weekends, and holidays. High levels of stress are routine in such organizations, both in key parts of the year, such as the flu season, and in the basic nature of some jobs, such as assisting in an emergency room. Other medical practices are able to close on the weekends and hold more normal operational hours. The difference in working hours can lead to inevitable comparisons by individuals who could work in either situation, such as nurses and office staff members. Maintaining morale constitutes a primary strategic challenge for many healthcare managers and organizations.

Social responsibility issues tend to be highly visible in healthcare. Lives are at stake, and the majority of all healthcare workers seek to complete tasks and manage organizations in an ethical manner.

Two additional strategic objectives for which upper management is responsible are accreditation and community acceptance and involvement. Managers of individual healthcare-provider offices, medical groups, and large healthcare organizations must be able to adapt all of these strategic goals to the specifics of their organizations.

Accreditation

Most healthcare organizations pursue accreditation as part of an overall strategic effort. Two of the primary benefits of accreditation are (1) strengthening of patient safety and quality care efforts and (2) increased community confidence in the quality and safety of care and treatments. Having these important benefits securely in place through accreditation allows organizational managers to pursue other activities, including various innovative strategies. Additional benefits of accreditation include a stronger image in the marketplace that can be advertised and promoted to the general public, greater patient confidence in the organization, meeting state requirements, improved morale in the workforce, and assurance of quality and continuous improvement that result from pursuing accreditation status.

▲ Accreditation and community acceptance are key strategic goals for many healthcare organizations.

Critics of accreditation programs argue, however, that the costs have become prohibitive. Hospitals and other health organizations spend substantial amounts of money developing the record-keeping systems required. The accreditation process can be time consuming and may detract from other valuable activities, such as the pursuit of service and clinical care initiatives. Furthermore, accreditation may not affect healthcare premiums. As a result, some medical organizations question the value of various accreditation processes (Cross, 2003).

One major accrediting agency for healthcare in the United States is The Joint Commission, an institution that maintains accrediting activities for several types of healthcare organizations, including:

- Ambulatory healthcare
- Behavioral healthcare
- Critical access hospitals
- Home care
- Community hospitals
- Laboratory services
- Nursing and rehabilitation services (Joint Commission Organization)

The accreditation program provided by The Joint Commission includes certification programs for disease-specific care, advanced disease–specific care, palliative care programs, and healthcare staffing services. The organization also offers certification fact sheets designed to raise the quality of professional care in these activities. The Joint Commission assists organizations pursuing accreditation by developing and distributing standards for each type of organization. Site visits then ensure that the standards are being met. Performance measures and accountability measures are key elements in the accreditation system.

Community Acceptance and Involvement

Community acceptance and involvement are vitally important strategic outcomes for all health providers. Positive perceptions of an individual medical practice or overall organization (the organization's *image*) are essential to success. Part of a strategic effort involves building bonds with community leaders and enhancing image in various ways. The failure to do so can lead to the organization's demise.

> **WEB FIELD TRIP**
>
> A healthcare organization's website is one of the first places customers may encounter its mission. Not only is there typically a page devoted exclusively to explaining its mission, but also the images and messaging throughout the entire website are used to reflect this information. As an example, visit the Mount Sinai Hospital website at http://www.mountsinai.org.
>
> Under the "About Mount Sinai" tab, select "Who We Are." On the left side of the screen, click on "Mission." After reading the mission statement, revisit the hospital's home page.
>
> - What are the main points of the Mount Sinai Hospital mission statement?
> - How does the hospital employ its home page to portray the ways in which it is achieving its mission?

4.2 The Strategic Planning Process: Analysis and Diagnosis

Once an organization's leaders have agreed to adopt a mission statement, vision statement, and set of strategic goals, the strategic planning process can commence. **Strategic planning** is the development of a plan that integrates all organizational activities into a coherent course of action (Bedeian, 1986, p. 100). The **strategic planning process** involves the completion of four primary tasks:

- Analysis and diagnosis—strengths, weaknesses, opportunities, threats (SWOT) analysis
- Generating strategic alternatives
- Strategy evaluation and choice
- Strategy implementation

Successful strategic planning begins with analysis and diagnosis. During this stage, top management often assesses two main sets of factors prior to considering any strategic alternatives. The SWOT model, which was briefly introduced in Chapter 1, offers one common method of investigating two key elements: internal company operations and the external environment. Examination of internal operations yields understanding of the organization's strengths and weaknesses (the SW in SWOT). Analysis and diagnosis of the external environment reveals opportunities and threats (the OT).

Analysis and diagnosis of the organization's strengths and weaknesses requires managers to take a step back to avoid "turf wars," "empire building," and other forms of political activities that would disrupt the objective evaluation of operations. Table 4.3 provides areas that managers should consider when carrying out the "SW" part of analysis and diagnosis.

Table 4.3 Internal assessment of strengths and weaknesses

Department	Factors to consider
Production	• Quality of medical care • Efficient delivery of services • Follow-up after patients leave
Marketing	• Advertising programs
Community relations	• Public relations activities • Community support • Outreach and screening programs
Finance	• Ability to acquire equipment • Ability to upgrade facilities
Accounting	• On-time and accurate billing practices • On-time and accurate payment methods
Human resources	• Relationships with physicians • Satisfaction indicators of internal staff (e.g., rates of absenteeism, tardiness, turnover, accidents, grievances, vandalism)
Research and development	• Methods of diagnosis • Treatment programs • Medicines • Surgical instruments

Chapter 1 outlined an analysis of semicontrollable and noncontrollable forces in the external environment. Semicontrollable forces affecting healthcare comprise patients or customers, suppliers, the local community, financial institutions, unions, and stockholders or partners. Noncontrollable forces are the political, social, economic, technological, and competitive factors that healthcare managers study and create responses. The combination of these factors results in the potential combinations displayed in Table 4.4 (Boston Consulting Group, 1970).

Table 4.4 Outcomes of a SWOT analysis

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="2">Internal company</th></tr>
<tr><th>Strengths</th><th>Weaknesses</th></tr>
<tr><th rowspan="2">External environment</th><th>Opportunities</th><td>Pursue with a strategy</td><td>Consider investing resources in order to pursue with a strategy</td></tr>
<tr><th>Threats</th><td>Monitor for change</td><td>Create a strong strategic response</td></tr>
</table>

Source: Adapted from Boston Consulting Group, 1970.

As shown in the table, when the external environment offers an opportunity in an area in which the organization is strong, it makes sense to consider developing strategies to take advantage of the situation. Should the environment present an opportunity in which the hospital or healthcare provider has weaknesses, managers may consider investing funds to create a stronger internal operation and then pursue a strategy related to the opportunity.

For example, if the population of a small suburban community were to suddenly and dramatically increase (an opportunity), and the local hospital has an effective top management team, then the organization's leaders might consider a diversification strategy. This strategy might involve adding new specialties, such as a heart center, birthing center, or cancer center, in order to increase revenues and grow the size of the organization. In the same setting, if the hospital were to experience difficulties in attracting physicians to work for the organization or to seek privileges in that facility, the management team might consider finding ways to improve recruiting programs in order to strengthen the internal organization. This would then allow the hospital to grow to accommodate the needs of an increasing population.

When the environment presents a threat in an area of company strength, the management team will often continue to assess the situation before taking any major strategic action. If, however, the threat is powerful in an area of organizational weakness, a strategic response would be required; without such a response the organization may not survive. For example, a turbulent financial environment characterized by rising unemployment and high interest rates on debt could strongly threaten a healthcare facility facing cash flow and liquidity problems. In that circumstance, a response such as a merger with a more financially sound organization may be the only way to continue operations (Robbins & Coulter, 2012, p. 228).

Industry Analysis and the Five Forces Framework

In addition to a SWOT analysis, managers in healthcare settings may also use the Five Forces Framework. The approach, as developed by Michael Porter (1980), outlines industry-specific factors that influence the management of an organization—in this case, a healthcare operation. The five factors are the threat of new entrants, barriers to entry, the degree of substitution possible, supplier power, and buyer power. These five factors combine to indicate the level of *industry intensity or rivalry*, which summarizes the degree of competition for customers (in this instance, patients and "market share"). Industry intensity poses the greatest potential threat to an organization. *The stronger the level of rivalry, the lower revenues and potential profits become.*

Four structural factors within the industry determine the degree of industry intensity or rivalry: (1) the threat of new entrants, (2) the degree of substitution possible, (3) supplier power, and (4) buyer power. *New entrants* create rivalries because they can reduce the market share held by established organizations, which in turn increases price competition (lowering charges for medical services so that patients won't leave). At the level of an individual physician's practice, the threat of new entrants, or new doctors offering the same services, constitutes the primary threat. As organizations increase in size, such as large community hospitals, the potential for new entrants lessens. *Barriers to entry*, or the influences that prevent new competitors from entering a market, occur at this level due to the factors displayed in Table 4.5

The *degree of substitution* present either allows or restricts patients from seeking the same or a similar service from another organization. For example, if a community has numerous physical rehabilitation providers, patients enjoy additional choices in selecting the facility to attend. The presence of substitutes drives down prices and increases competitive rivalry. Conversely, higher *switching costs* (the amount a person pays to change providers, in terms of time, money, and effort to transfer medical records) lower competitive rivalries.

Supplier power results from an organization's exclusivity in providing a product or service. When a pharmaceutical company develops a superior medicine that no other company provides, supplier power reaches a maximum. The same holds true for any manufacturer of advanced medical equipment. Logically, suppliers seek to keep prices higher, which can reduce competitive rivalries among providers offering the item.

Table 4.5 Factors influencing the potential for new entrants

Factor	Description
Economies of scale	The hospital delivers the same service to a large number of patients, which means fixed costs can be allocated to a large number of people.
Government restrictions	Local and state boards may limit the number of licenses to practice in a geographic area.
Brand power	Local patients become loyal to a given facility.
Exclusive or long term agreements	These agreements include contracts with physicians, other organizations, and suppliers.
Threat of retaliation	Existing healthcare facilities may take action to challenge new entrants.

Buyer power arises when consumers (patients) experience alternative choices. An individual who believes a choice exists between chiropractic care and other forms of medical service providers enjoys buyer power. When groups of consumers hold the same power, competitive rivalries increase, and amounts charged for services tend to become lower.

In addition, nonmarket structural characteristics affect competitive rivalries. These characteristics include levels of fixed costs, the presence of excess capacity, product similarity or differentiation, and the nature of the sales process (Porter, 1980; Luke, Walston, & Plummer, 2004). Excess capacity drives down the prices that organizations can charge, thereby increasing competitive rivalries. The same takes place when products are similar—prices become reduced as rivalries rise. Certain sales procedures also intensify competition.

At the completion of a SWOT analysis or a competitive analysis featuring the five main forces, healthcare executives should have a solid understanding of the organization's current position with regard to internal activities, the industry, and the organization's external environment. At that point, it should be possible to select potential strategies to consider.

4.3 The Strategic Planning Process: Generating Alternatives and Strategy Choice

A **corporate strategy** states the type of business or operation that the organization is in or seeks to be in, along with any changes that management hopes to achieve in the future (Grant, 1998). The size of the organization dictates the types of strategies that managers can pursue. Large hospitals and other major healthcare institutions manage *portfolios* of activities with the largest range of strategic options available. Smaller providers have fewer potential strategic choices. In both types of facilities, however, managers make decisions regarding the organization's overall strategic direction, as well as how the organization will compete in the marketplace.

Generating Strategic Alternatives

At the most general level, the three main categories of corporate strategies are those designed to (1) create growth, (2) achieve stability or slow growth, and (3) cope with decline or a more unfavorable environment (Thompson, Strickland, & Gamble, 2005). The strategies displayed in Table 4.6 often apply to the management of healthcare portfolios. They may also be adapted to practices of individual physicians or groups of providers operating as one unit.

Table 4.6 Types of strategies

Strategy type	Examples
Growth	• Diversification • Merger and acquisition • Horizontal integration or joint venture • Vertical integration
Stability	• Efficiency • Slow growth
Decline	• Divestment • Liquidation • Turnaround

Growth Strategies

In many circumstances, healthcare organizational leaders encounter circumstances that make expansion possible and even advisable. Table 4.6 displays the general choices that are available as growth strategies.

Diversification involves adding new products and services. In the case of healthcare, a new form of medical treatment or increased specialization in a medical area results in diversification. A hospital that adds a walk-in clinic for nonemergency medical concerns to its emergency room services engages in diversification. The advantages of diversification include strengthening the range of care offered to the public, which might result in increased loyalty to the organization—someone with an affliction might think first of a diversified facility. Naturally, some costs will be incurred when expanding a range of services. In addition, the organization runs the risk of damaging its reputation should the new practice be substandard or flawed in some way (Ramanujam & Varadarajan, 2006).

Mergers and acquisitions take place when two healthcare facilities combine under one ownership or governance structure. Physicians often combine practices to create a group structure, such as when two or more urologists form a practice partnership that specializes in that type of treatment. Doing so allows the doctors to combine resources to purchase equipment and develop a more efficient support staff for their collective practices. Efficiencies in scheduling, filing insurance claims, and other activities can be the result. In more dramatic instances, two separate healthcare institutions can form into one unit. Such an effort may lead to reductions in redundant activities, which in turn lead to a reduced staff and payroll. However, the effects on employee morale are often negative and powerful.

Horizontal integration means combining with competitors (Colangelo, 1995)—for example, two hospitals provide joint services for a rare illness or affliction. Horizontal integration can provide a series of benefits to both organizations, such as efficient use of administrative time (and resultant costs), reductions in duplications of services between the two facilities, strengthening of the marketing power of both organizations, and allowing physicians with privileges in both organizations to better manage their time. Another example is a healthcare facility that had previously provided some access to prescriptions integrates with a pharmacy to combine the businesses and clientele list for each.

Vertical integration involves taking over a new aspect of the marketing channel. The standard marketing channel consists of the following:

Producer → Wholesaler → Retailer → Consumer

Perhaps the best example of vertical integration occurs when a pharmaceutical company sells directly to healthcare organizations, thus bypassing any middlemen, such as drug wholesalers. Other instances of vertical integration in healthcare are rare, because the normal channel of distribution is a direct relationship between the producer (the provider or physician) and the consumer (the patient). Vertical integration provides many of the same benefits as those present in horizontal integration.

Stability Strategies

Organizations tend to pursue stability strategies when no new strategic opportunities have been identified. The primary intent is to continue offering the same services to the same individuals and markets while sustaining other business operations. Two stability strategies include efficiency and slow-growth approaches.

Efficiency strategies seek to reduce costs, which leads to increased profitability for profit-seeking organizations and the ability to charge lower fees in nonprofit health providers. Should a management team find a way to lower clerical costs, energy usage, or waste in the storage of medical supplies that have limited shelf lives, then the organization may create a strategic advantage through efficiency. This strategy may be especially effective in a stagnant economy or in an area in which no real growth of any kind is present—whether in terms of the population or those seeking a specific type of healthcare service.

Slow growth means that the organization will become larger, but at a dramatically reduced rate when compared with the growth strategies mentioned earlier. When a healthcare provider operates in a geographic area with an increasing population, it becomes possible to increase patients and revenues simply by keeping pace with that growth. New physicians and caretakers are added, but only to provide existing services.

A second form of slow growth occurs when an organization tries to build its market share. Should one hospital increase the number of patients requesting it when an emergency vehicle arrives, its market share will grow over time, along with its revenues. Many physicians find that, through referrals and other endorsements, their practices grow at a manageable rate. Current marketing tactics that assist in this type of slow growth include building a strong presence on the Internet and making sure that patient reviews are positive in various review sites and social media outlets.

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▲ Referrals from satisfied patients can help a healthcare organization maintain slow growth over time.

Another type of slow growth involves the gradual expansion of existing operations to a larger geographic area. For instance, a hospital may decide to add satellite clinics to its overall organization under the umbrella of its present governance. These new locations then generate growth. Such an approach may be termed *concentric slow growth*—that is, building out from the center of operations to an expanded service area.

Decline Strategies

When economic conditions become harsh or when other dramatic negative circumstances arise, top managers may have to consider various types of decline strategies. Divestments, liquidation, and turnaround strategies constitute the primary options.

A *divestment* involves selling a portion of an organization to another entity, leaving that portion intact to continue operations. Larger hospitals may, at times, divest practices of physicians that are owned by the organization. Reasons for doing so include physician retirement or concerns about the quality of care provided by the individual physicians. Dentists and mental health professionals often sell their entire practice, including the records and files of all patients, to other practitioners. Patients can then decide whether they wish to retain the new owner.

A *liquidation* results in the dissolution of an activity. In this instance, the medical practice is dismantled, office equipment and other furnishings are sold, and the operation ceases. A larger healthcare institution might liquidate an unprofitable or troublesome unit. A retiring physician or practitioner group might liquidate an individual or joint practice.

Turnaround strategies focus on the concept of "smaller but stronger." Doing so may mean *retrenchment,* or a reduced organizational size, in the short term. The goal becomes achieving growth in the long range. Turnaround strategies include reductions in the following:

- Regions or geographic areas served
- Specific operating locations
- Products and services offered
- Personnel

Rarely would a healthcare operation be of significant scope to resort to leaving an entire geographic region. A hospital may, however, reduce satellite operations if specific sites are not generating sufficient revenues to justify their existence. The same would be true for reductions in healthcare services that units provide. Most often, unfortunately, retrenchment in healthcare means reductions in medical and support staff in times of fiscal crisis.

Competitive Strategies

Strategic managers also make decisions about how individual units and the overall organization will compete with others in the marketplace. At the two extremes are the cost-leadership competitive strategy and a differentiation strategy (Porter, 1985).

A **cost-leadership strategy** states that the company will seek to deliver services that are less expensive than those of competitors. Rarely would such an approach be viable in the healthcare industry, because patients find it difficult, if not impossible, to distinguish the price of any service other than a routine visit to the doctor with a set copay. In all other instances, the healthcare organization charges a large amount that becomes subject to a provider write-off and established insurance payment amounts to physicians. The cost then depends on whether the individual has met the deductible amount. In addition, most people prefer not to seek out medical attention "on the cheap." Although many, if not most, people wish to manage the costs, they still desire the highest quality possible. In the minds of most consumers, price still infers quality, and this holds true in healthcare.

In contrast, a **differentiation strategy** means the organization will try to deliver services that are different from and better than competitors. Healthcare groups often emphasize differentiation by stressing the qualifications of their physicians, the quality of up-to-date equipment, some dental appliances, and the caring environment in which care will be delivered.

Strategic Choice

Finally, top management will choose a strategic course of action. Executives make decisions after discussions with key publics and normally after considerable deliberation. The "pros and cons" method remains as the most common method of finalizing a strategic choice. Each strategy will be evaluated by comparing the potential advantages against the potential disadvantages of each alternative. The alternative with the highest cost–benefit ratio may emerge as the final choice. At the same time, five factors should be considered as part of the process: time, money, technology, the quality of personnel, and organizational inertia processes.

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▲ Some strategic healthcare choices take years to implement.

Time limits the viability of strategic options in three ways. First, the length of time an alternative will last merits consideration. For instance, a new piece of surgical equipment that will be paid for (amortized) over a 20-year period may raise questions, because the equipment may become outdated before that time has passed. Second, managers should consider the time it will take to implement a strategy. The decision to build a new facility or add a wing to a present building may take years to finalize. Decision makers must believe that the time frame is manageable. Third, decisions often must be made quickly. Expediency becomes an important factor in such strategic decisions, such as when responding to a major emergency or a new and potent disease.

Money always limits an executive's ability to pursue a course of action. Thus, the strategic approach must be financially viable before it can be considered as a final option.

Technology often limits strategic choices in healthcare. Doctors and managers are acutely aware of new technologies that may lead to improved treatments but that have not been fully developed as yet. Advances in biomed and biotech exacerbate this dilemma.

The *quality of personnel* may mean that a facility or practice does not have qualified individuals to provide various services. Any strategic choice that involves adding new employees or contractors requires the confidence that the right people can be found and retained to carry out any new tasks or assignments.

Organizational inertia is systematic resistance to change. Many organizations have roots in religious institutions. Practices such as birth control, abortion, and treatments using stem cells may violate the mores of the religious institution. Consequently, resistance occurs, as was the case in 2012, when some religious colleges and hospitals resisted efforts to allow employees access to health insurance policies that provided payments for contraception (Bronner, 2013).

At the end of the day, however, a choice must be made. Executive careers can be built or damaged based on the outcomes of the strategies individuals choose and then implement.

CASE

Native American Health Center

Native Americans in the United States have long faced major disadvantages in access to healthcare programs. The U.S. Commission on Civil Rights (1999) noted that discriminatory practices in healthcare become manifest as (1) differential delivery of healthcare services; (2) the inability to access health services because of a lack of financial resources, culturally incompetent providers, language barriers, and the unavailability of services; and (3) exclusion from health-related research.

In 2004, the Office of General Counsel for the U.S. Commission on Civil Rights investigated the discrimination problem with specific attention to Native Americans. The subsequent report noted that:

> While some disparities result from intentional discrimination based on race or ethnicity, more frequently discrimination must be inferred from the continued existence of a chronically underfunded, understaffed, and inadequate health care delivery system. For Native Americans, the existence of glaring disparities across a wide range of health status, outcome, and service indicators, combined with the manner in which the disparities mirror patterns of historical discrimination, makes a convincing argument that the current situation is in fact discriminatory.

The report examined specific problems in the areas of diabetes, tuberculosis, mental health, unintentional injuries, cardiovascular disease, pneumonia and influenza, cancer, infant mortality, and maternal health. Well-known problems such as obesity and alcoholism persisted, as did disproportionately high suicide rates. Poor access to health insurance, insufficient federal funding, poverty, poor education, and other social and cultural factors made each of these disparity areas more extreme. Quality-of-care concerns extended from birth to old age.

The Native American Health Center (NAHC) was established to address the issues raised by the commission. NAHC seeks to provide access to medical, dental, nutritional, fitness, and other forms of care. Of particular concern are those without access to health insurance. NAHC recognizes current challenges, stating that:

> We have built a model that brought us much success and has contributed to the agency's phenomenal growth. However, this model needs an update to serve us well in the new environment created by health care reform. We need to evolve in order to ensure we are here for the next 40 years. Health care on a national level is undergoing dramatic transformation and will initiate changes that will greatly impact our agency. As a response to this change, NAHC is implementing new strategies and creating new, key positions to help us best serve our community to support the agency through change. (http://www.nativehealth.org/content/history-background)

1. According to the NAHC website (www.nativehealth.org), what is its mission statement? Should the statement be revised? Why or why not?
2. Prepare a vision statement for the NAHC. Explain why you chose the words you used.
3. Use the information available at the NAHC website and other sources to conduct a SWOT analysis for the organization.
4. What strategic choices are available to NAHC?
5. What limitations described in this chapter would apply to NAHC's strategic decision makers?

Source: Based on information from the Native American Health Center (2013). http://www.nativehealth.org/, retrieved January 28, 2013.

4.4 The Strategic Planning Process: Implementation

An organization's strategic direction requires the CEO or president, in combination with the top-level executive team, to work diligently on follow-through, making sure any strategy chosen will be fully implemented. In larger organizations, such as community hospitals, the board of directors follows a more formal or structured process to oversee the development and implementation of strategies prepared by the CEO and executive management team. In other settings, managers may prepare and carry out strategies without such oversight. As a standard planning practice, implementation can be directed by the "W's" and "H's."

Who will direct the implementation of the strategy at the strategic, tactical, and operational levels? A healthcare manager who decides to incorporate a new service (diversification), such as child care for visitors of patients on both weekdays and weekends, may not oversee the development of the unit. Instead, the manager may assign the task to the individual who will eventually manage that unit.

What is to be done? An implementation program should carefully list and sequence all necessary outcomes. A goal-setting program or planning time line can establish benchmarks for when each task should be completed.

When should the task start and end? The decision to undertake and implement a strategy only begins the process. Effective strategic management assigns reasonable starting times and completion dates for the major event. Again, a goal-setting program can help develop the time frame for full implementation. In some instances, the strategy may take years to fully complete.

Where are tasks to be performed? In many instances, the primary facility will be the only place involved. In other cases, however, a series of locations may be part of the process. For instance, in The Snoring Center described at the beginning of this chapter, any new strategic activity would be implemented at every location.

Why are these tasks needed? Effective implementation includes providing the rationale for the strategic choice to all publics. Each operating unit should have the plan explained to it, along with the reasons for the choice. This provides an opportunity not only for questions and feedback but also for buy-in and participation in the process. When this occurs, morale may increase as employees feel a greater sense of empowerment during implementation.

How are things to be performed? This final element adds in all of the other details. Implementation of a strategy involves the preparation of tactical and operational plans that seamlessly integrate with the strategic direction top management has chosen to pursue.

Tactical Planning

A strategy outlines the major activity or activities the organization will pursue. **Tactics** are the plans designed to support strategies (Reilly, Minnick, & Baack, 2011, pp. 41–43). For example, managers in a hospital who have chosen to diversify by adding a wellness center to the hospital's current services should then devise the tactics that will support the plan and assist in its implementation. In this example, tactics could include:

- Retaining an architect or facilities manager to create the physical space needed
- Hiring a manager to oversee the unit and unit employees (human resources)
- Creating guidelines that specify the types of wellness activities involved (medical staff)

- Coordinating with other departments (radiology, laboratories, and physicians)
- Establishing marketing programs to publicize the new program (marketing)
- Setting up fees and payment systems for those who use the program (accounting)

These activities are carried out by managers in the various functions noted above. Once the tasks have been assigned, first-line supervisors can finalize the most specific elements as operational plans.

Operational Planning

Managers within each unit of a healthcare organization, no matter how large or small, devise operational plans to direct their units. An effective strategic management program ensures that operational plans align with organizational strategies and tactics. Three primary operational plans are budgets, projects, and programs.

A *budget* is an annual financial plan. Strategies often require additional resources or the redirection of resources from one area, department, or activity to another. The accounting manager works in conjunction with managers at all levels to make sure adequate funds have been allocated to any new strategic endeavor. Accounting and finance programs receive additional attention in Chapter 6.

A *project* is a plan for a one-time activity. As an example, consider a gynecological practice with three physicians. The organization's management team decides to diversify by adding urological services. Several tactics would be part of such an expansion. After diversifying, however, the organization may discover that its parking lot requires more spaces to accommodate the additional number of employees and patients. The project involved would be the design, property acquisition, and completion of the new parking area. Once the lot has been finished, the project is complete. For that reason, projects are also referred to as *single-use* plans.

Programs are sets of projects with an ongoing outcome. A wellness program includes the projects and tactics noted earlier. When the individual projects have been completed (new physical space, advertising blitz), the wellness program can continue in operation. New projects associated with maintenance of the program may then arise over time.

A strategic management program experiences the greatest chances for success when the three levels of planning—strategies, tactics, and operational plans—align with each other. To achieve this outcome, managers must employ various methods that link the levels of planning.

Links Between Levels of Planning

To help ensure that an organization stays on course and avoids strategic drift, managers must formulate various documents that express the organization's vision, mission, and values over time. Policies, functional-area policies, and procedures assist in keeping the organization on course. Furthermore, various programs, including management by objectives and a means–ends chain, can help the organization maintain its strategic intentions.

Policies, Functional-Area Policies, and Procedures

A *policy* is a sweeping organizational guideline. As an example, a healthcare provider may establish the policy that the organization will seek to emphasize diversity in all of its hiring decisions and patient treatment practices by trying to provide services to every element of a local community. Such a directive influences human resources most directly, but also affects every other part of the organization.

A *functional-area policy* translates the policy to an individual function or activity. The diversity program designated by a policy would translate into pricing and accounting practices to help ensure that lower-income groups have access to the facility. The marketing team would try to make sure that the organization transmits the policy clearly to all publics. Human resource efforts to reach minority groups in recruiting programs would become part of the effort to implement and maintain the policy.

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▲ A policy is a sweeping guideline that affects the entire organization.

Procedures, or task instructions, carry out functional-area policies in individual units. To ensure that low-income patients can afford medical care at a given facility, the accounting team might establish a specific pricing program based on the individual's annual level of pay. Marketing might include the statement "We are an equal opportunity employer" in every advertisement or communication piece.

Well-managed strategic planning processes integrate strategies, tactics, and operational plans with policies, functional-area policies, and procedures. When these elements stay in sync, individual employees, units, and the entire organization can better pursue the organization's ultimate objectives.

Management by Objectives

Management by objectives (MBO) is a well-established management system that has been used to integrate levels of planning. MBO creates an annual program designed to facilitate communication and goal setting (Drucker, 1954; Anthony, 1978) and offers a participative goal-setting program to organizational leaders. It begins with individual employees at each rank. The core of management by objectives consists of these steps:

1. The individual restates the primary emphasis of his or her job.
2. On an annual basis, the employee creates a list of goals for the upcoming year.
3. The employee's supervisor then creates a goal list for the employee.
4. The employee and supervisor meet and agree to the final goal list for the next year.
5. At regular intervals throughout the year, the supervisor and employee follow up to ascertain which goals have been met and which still require attention.

Many companies establish the goal-setting program using the calendar year, which means goals are set in December or January and results are examined 12 months later. Other organizations set goals during off-season periods or on a fiscal calendar basis, which may begin in June or some other month. The key ingredient, in many ways, is the fourth step, in which the employee and supervisor meet and agree to a goal list. This *participative* element can create a stronger bond between the two individuals and lead to greater effort to achieve the established objectives.

MBO integrates company activities through the goal-setting system. Entry-level employees meet with first-line supervisors to establish goals; first-line supervisors negotiate their goals with middle managers; middle managers finalize goals with top-level executives. Each level sets goals that mesh with the goals of those at higher ranks, which helps keep the strategic planning system on track. To attain the highest levels of success, the MBO program should follow the prerequisites or system requirements noted in Table 4.7.

Table 4.7 Prerequisites for successful management by objectives programs

Prerequisite	Explanation
Top management support	CEOs and top managers endorse and engage in the program.
Sufficient resources	Managers must be able to reward those who achieve their goals.
A systematic approach	Plans are set and goals are measured at the same time each year.
A simple system	A small number of goals (usually fewer than 10) is set to make progress easy to track.
Quality objectives	Goals should be difficult but attainable, measurable, clearly stated, and revised when necessary.
Two types of objectives	Employees should establish (1) personal-enhancement goals and (2) goals they pursue on behalf of the organization.
Patience	MBO programs take time to establish and refine.

Source: Adapted from Odiorne, G.S. (1979). *MBO II*. Belmont, CA: Pearson.

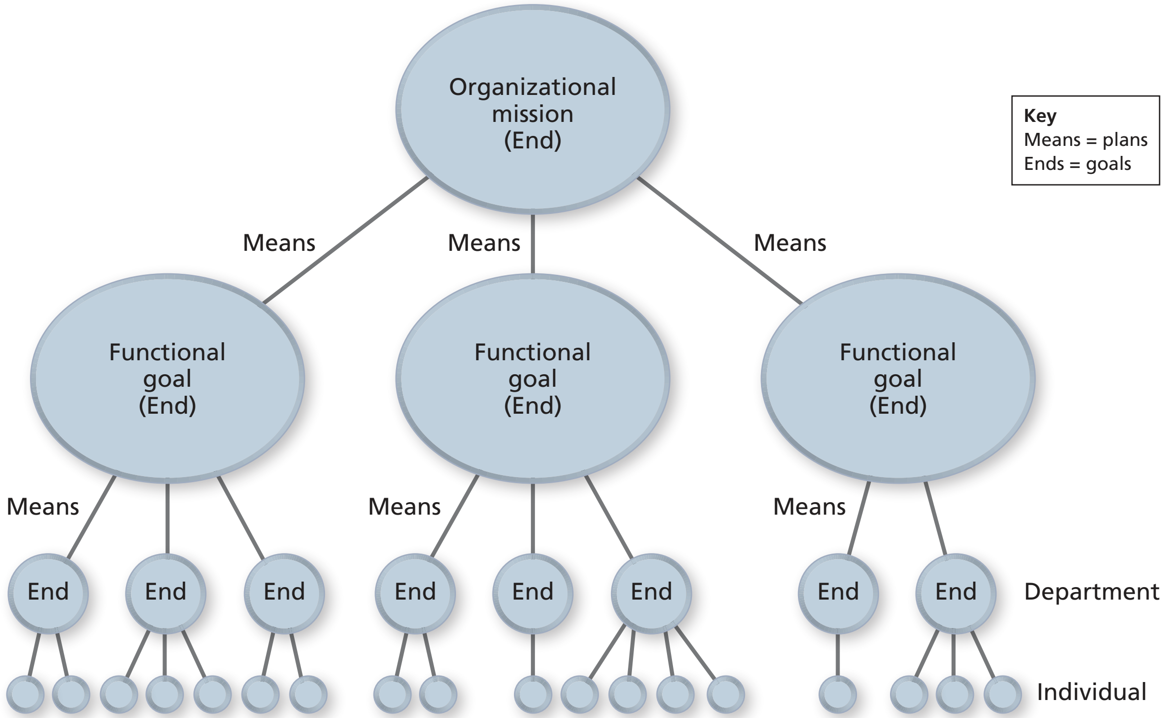
The ideal MBO system establishes quality performance incentives for all employees. The best programs make sure that personal-enhancement goals mesh with organizational goals. For example, should an employee establish the goal to become fluent in Spanish, that individual becomes more valuable to the organization and should be rewarded accordingly. An employee who successfully achieves an organizational goal should also receive a reward for doing so. Many MBO programs have been successfully adapted to healthcare organizations.

Means–Ends Analysis

Another program designed to foster organizational consistency is a means–ends chain. In the system, means are plans, and ends are goals. The ultimate end of an organization—its mission—drives the development of goals at the functional and individual levels, as displayed in Figure 4.1.

As the ends (goals) are finalized, managers then identify the means (plans) needed to reach those goals. The concept of *top-down/bottom-up planning* becomes the net result of a well-designed means–ends chain. The mission is broken down into smaller and smaller unit goals. At the same time, individual goals build to unit goals, which build to department goals, which ultimately seek to achieve the organization's mission. The corresponding top-down/bottom-up process helps ensure the consistency of goals and plans at all levels in the organization.

Figure 4.1 A means–ends chain



Source: Bedeian, A.G. (1986). *Management*. Chicago: Dryden Press, p. 140.

CASE

Proactive Prevention

St. Mary's Regional Health Center conducts numerous activities as part of its overall strategic approach to healthcare. The main hospital offers emergency services, diagnostics, and treatments of all types. The organization operates several facilities in other locations. Recently, St. Mary's management team, with the approval of the organization's board of directors, created a new path.

In the past, patients would travel to the hospital or its other facilities when a health problem emerged. Someone who suspected he or she was experiencing heart or cardiovascular issues would be sent to the heart center, a patient diagnosed with cancer would be referred to the cancer treatment center, and so forth.

The top management team, after many long discussions, decided it was time for St. Mary's to redefine itself. The concept was that members of the community and potential patients of the system should become partners in the healthcare process. Rather than passively waiting until an illness or injury occurs, citizens of the area should be encouraged to proactively prevent as many health problems as possible.

To help achieve this new strategic vision, the proprietors founded the St. Mary's Wellness Center. Among the directives for the organization's new wing were the following:

- Provide low-cost health-screening tools, such as blood pressure tests and weigh-ins.

(continued)

- Encourage healthy activities by patrons, including watching diet, managing weight, and exercising.
- Offer low-fee programs to help individuals engage in healthy activities, including clubs, exercise groups, and support groups.
- Link physical wellness to mental well-being.
- Establish an immunization program at low cost for flu shots, shingles vaccinations, and other similar preventive steps.

Creating this new partnership required more than public relations activities and a new building. Physicians in the community were contacted directly and asked to talk with their patients about the wellness program when giving routine physicals and when other contacts took place. Advertising the system and its benefits would take place for the next year. The St. Mary's Wellness Center would sponsor closed-captioning of the news on two local television stations, which would provide daily reminders of its existence to viewers.

When explaining the new program to community members, two points were to be emphasized. First, real wellness, such as lowering blood pressure, eating fewer fatty foods, watching calories, engaging in mild exercise, and working to manage stress, offers direct benefits to the individual. As time passes, a person who actively engages in preventive steps would be far less prone to suffer from diabetes, some forms of cancer, heart problems, and other maladies.

Second, the program should assist in cutting healthcare costs. This benefit extends to both the patient and the hospital. When community members actively work to maintain a healthy lifestyle, they can expect to pay less for healthcare and lose less time to sick days away from work. The hospital benefits by reducing the need for expensive treatments and recoveries from various illnesses. As one board member put it, "This new vision for our organization creates a win-win situation."

1. Write a mission statement that reflects this new direction for St. Mary's.
2. Write a vision statement reflecting the new mission statement.
3. What type of strategy did the leadership team at St. Mary's pursue?
4. Which organizations in the community might view the wellness center as a new form of competition?
5. What factors described in this chapter might affect the implementation of this new strategy?

Chapter Summary

Strategic management is a top-level management function, directed at the oversight of short- and long-term organizational objectives and outcomes. It integrates and coordinates all company activities. Strategic managers conduct four major tasks: develop, maintain, and revise the organization's vision and mission statements; create and revise strategic goals; engage in the strategic planning process; and oversee the implementation of strategic plans at the tactical and operational levels.

A mission statement expresses the primary reasons for the formation and operation of an organization. In essence, a mission statement should answer the question, "Why does this organization exist?" Accompanying a mission statement will be an organization's vision statement, which outlines the organization's intended future. Strategic goals include market share, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitudes, social responsibility, accreditation, and community acceptance and involvement.

Strategic planning is the development of a plan that integrates all organizational activities into a coherent course of action. The strategic planning process involves the completion of four primary tasks: analysis and diagnosis (SWOT), generation of strategic alternatives, strategy evaluation and choice, and strategy implementation. The process begins with an assessment of a company's strengths and weaknesses and the opportunities and threats present in the external environment. Managers may also assess industry intensity and rivalry by examining the threat of new entrants, the degree of substitution, supplier power, and buyer power.

Strategic plans include the growth strategies of diversification, mergers and acquisition, horizontal integration, and vertical integration. Stability strategies include efficiency and slow-growth strategies. Decline strategies involve divestments, liquidation, or turnaround approaches. A cost-leadership competitive strategy focuses on the prices charged to patients, whereas a differentiation strategy seeks to provide services that are different or better.

Strategic choices are often made by comparing the advantages and disadvantages of each strategic alternative. Time, money, technology, qualified personnel, and organizational inertia processes may influence choices made.

Strategy implementation involves decisions regarding who will be in charge, what will be done, when, where, why, and how. Tactics are plans designed to support strategies. Operational plans include budgets, projects, and programs. To link planning programs, policies, functional-area policies, and procedures may be established. A management by objectives program uses goal-setting processes to create consistency. A means–ends chain links plans with goals to achieve the same end.

Key Terms

corporate strategy a document that states the type of business or operation that the organization is in or that it seeks to be in, along with any changes that management hopes to achieve in the future

cost-leadership strategy a competitive strategy in which the company seeks to deliver services that are less expensive than those of its competitors

differentiation strategy a competitive strategy in which the organization tries to deliver services that are different from or better than its competitors

mission statement a document or statement that expresses the primary reasons for the formation and operation of an organization to answer the question, "Why does this organization exist?"

strategic management a top-level management function that is directed at the oversight of short- and long-term organizational objectives and outcomes to integrate and coordinate all company activities

strategic planning the development of a plan that integrates all organizational activities into a coherent course of action

strategic planning process the completion of four primary tasks: analysis and diagnosis (SWOT); generation of strategic alternatives; strategy evaluation and choice; and strategy implementation

tactics the plans designed to support strategies

vision statement an outline of the organization's intended future

Additional Resources

Joint Commission Certification Fact Sheets http://www.jointcommission.org/about_us/certification_fact_sheets.aspx

Critical Thinking

Review Questions

1. Define *strategic management*. What four tasks are associated with the strategic management process?
2. Describe a mission statement and a vision statement.
3. What types of strategic goals do healthcare organizations pursue?
4. Define *strategic planning* and identify the four primary tasks involved.
5. Describe a SWOT analysis.
6. Explain the Five Forces Framework used in understanding industry-specific strategic issues.
7. Define *corporate strategy*.
8. What types of growth, stability, and decline strategies can healthcare organizations pursue?
9. Describe the differences between a cost-leadership strategy and a differentiation strategy.
10. What are the "W's" and "H's" of strategy implementation?
11. Define *tactics*.
12. What three types of operational plans are parts of the strategic planning process?
13. Define *policy, functional-area policy*, and *procedures*.
14. What steps are involved in a management by objectives program?
15. Explain how a means–ends chain assists strategic planning.

Analytical Exercises

1. Create a mission statement and a vision statement for the following organizations:
   - A medical spa that offers dermatological services
   - A vocational rehabilitation provider in a major metropolitan area
   - A community hospital in a county with 120,000 citizens
   - A profit-seeking hospital in New York City
   - The Snoring Center
2. How would the strategic goals of market share, innovation, productivity, physical and financial resources, profitability, manager performance and development, employee performance and attitudes, and social responsibility be achieved through the following strategies?

- Diversification
- Merger and acquisition
- Horizontal integration
- Vertical integration

3. If you were asked to perform a SWOT analysis for a major hospital in Los Angeles, what opportunities and threats do you believe would be most significant? What strengths could such a hospital possess in order to take advantage of the opportunities available? What weaknesses would match the threats that would make the hospital most vulnerable in the environment?
4. Describe the level of industry intensity or rivalry that would apply to each of these medical services:
   - Pharmaceutical companies
   - Walk-in clinics in a large metropolitan area
   - Satellite clinics in a rural county in Minnesota
   - Cancer treatment practices in a city with 500,000 citizens
5. A SWOT analysis for a biotech company reveals a major opportunity in the treatment of a specific disease, due to recent advances in the understanding of the relationship between DNA and the disease. Explain how the following strategies would apply to this opportunity:
   - Diversification
   - Merger and acquisition
   - Horizontal integration
   - Vertical integration
6. Explain the differences among an efficiency strategy, a slow-growth strategy, and a turnaround strategy for a practice of psychiatrists that has formed a mental health clinic in an area suffering from a recession and subsequent rising levels of unemployment.
7. Describe how you believe each of the following should interact:
   - Strategies and policies
   - Tactics and functional-area policies
   - Operational plans and procedures

   Explain what would happen if the concepts in each bullet item were at odds with each other.