One More Time:

What Do We Mean by Strategic Management?

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Executive Summary

Health care executives and planners struggling to improve their organizations' ability to cope with the pace of change in today's hospital environment are advised to consider the concepts and practices of strategic management. This approach has been prescribed in other industries as a remedy to the failure of the strategic planning of the 1970s to guide American businesses in the past decade's unstable business environment successfully. Strategic management expands the domain of strategic planning beyond the traditional focus on technical, externally oriented problem solving. Strategically managed companies have excelled at execution of strategy because they (1) are adept at building new capabilities consistent with strategy, (2) heed behavioral aspects of planning and change, and (3) skillfully blend the roles of line managers and planning staff. While strategically managed hospitals or hospital systems are few and far between, the nature and pace of change in the environment are propelling more in the direction of strategic management.

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Today's hospital environment and anticipated organizational responses to that environment pose a formidable planning and management challenge. Hospitals should ask themselves whether their current planning philosophy and practices are adequate to meet the challenge. A review of the lessons learned by planners and managers in other industries that have faced similar challenges is a useful place to begin self-assessment. Those lessons and a standard for measurement are presented in the following review of the popular but frequently not well or completely understood ideal of strategic management.

This paper builds on a review of the literature on strategic management. It begins with a definition and explanation of the concept, followed by an outline of the fundamental practices of strategically managed companies. It concludes with several questions about the state of hospital planning and management practice compared to the standard of strategic management. Some initial thoughts on the answers to those questions and the implications of those answers are also offered.

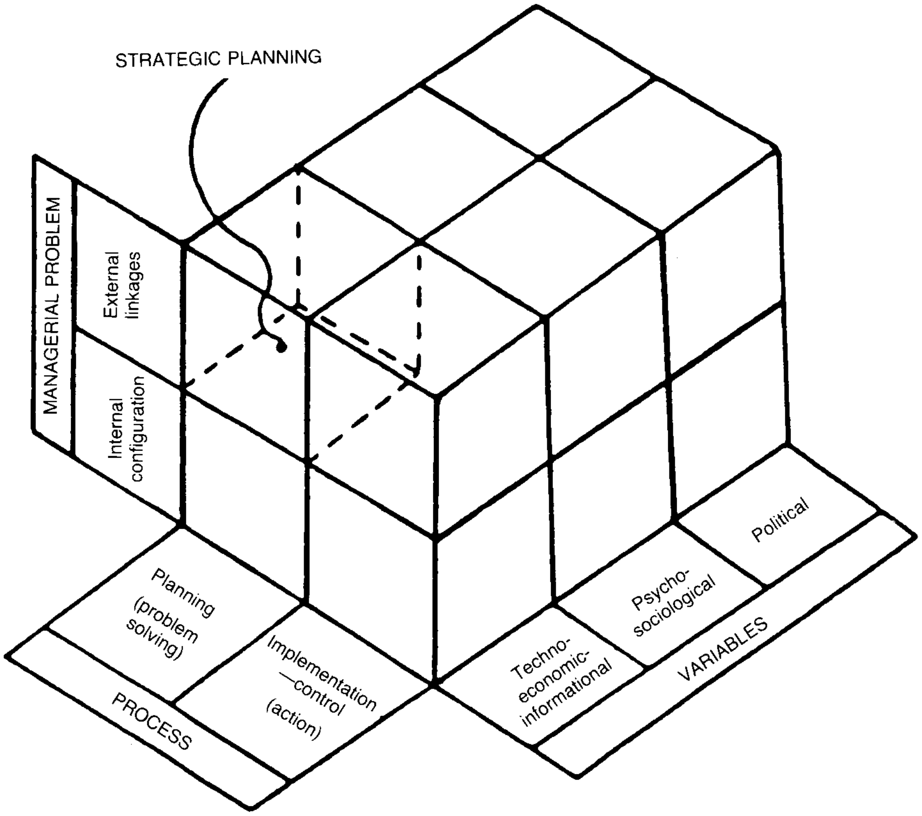
The Dimensions of Strategic Management

The concept of strategic management was advanced at least 20 years ago and is the subject of a large and growing body of management literature. Some of the literature is descriptive and identifies the practices of planning and management and their evolution in a handful of strategicallly managed companies. More often, though, the literature prescribes strategic management as a remedy for the failure of strategic planning in the 1970s to guide American businesses successfully through the discontinuities, disruptions, and instabilities of the business environment over the last decade. The case against strategic planning is not that its logic is fundamentally flawed or its practitioners are less than able, but rather that the traditional domain of strategic planning does not address all parameters of the strategic challenge faced by the firm. The scope of that challenge and the dimensions of strategic management are illustrated in Figure 1.

Ansoff and Hayes, two early champions of strategic management, explained this illustration in these words:

> The figure brings together three principle aspects of the strategic problem: the managerial problems which it poses, the processes by which these are resolved and the variables which they encompass. In this perspective

Figure 1



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strategic planning is seen as a limited attack on a part of the total problem. It focuses attention on the problem of external linkages under a basic assumption that the internal configuration of the organization will remain essentially unchanged (in strategic planning language: "strengths of the firm will be emphasized and weaknesses minimized"). *It concerns itself primarily with problem-solving, determining the new preferred linkages with the environment under the assumption that implementation and control will follow as secondary activities.* The variables included in the analysis are exclusively technological-economic-informational. The social and political dynamics both within and outside the organization are assumed to be irrelevant and unaffected. Thus, strategic planning is essentially Cartesian in its approach. To paraphrase the great philosopher: "I plan therefore I do." (emphasis added) [1]

Others have offered definitions stressing similar attributes:

> We define it as a system of corporate values, planning capabilities, or organizational responsibilities that couple strategic thinking with operational decision making at all levels and across all functional lines of authority in a corporation. [2]
>
> [F]or a firm to be continuously effective, it must simultaneously perform well at all the three levels of decision-making systems: strategic, administrative, and coordinative planning and operating. . . . *[S]trategic planning and strategy implementation processes are not to be viewed as distinct and separate processes*, but rather as parts of an integrated overall framework for strategic management. (emphasis added) [3]

Though there is no single accepted definition of strategic management, these attempts and others in the literature use a common terminology that captures its flavor: integrated, multidisciplinary, eclectic, holistic, synthesizing, and the like. The simple and overriding message of each definition is that strategically managed firms excel at execution of strategy. They excel because

- they understand their skills or capabilities and are adept at building or realigning them to meet the demands of new strategies and a changing environment
- they recognize that strategic planning—and management in general—is fundamentally a social process with political, cultural, and behavioral aspects to address
- they skillfully blend the roles of staff and line management in strategic planning structures and processes

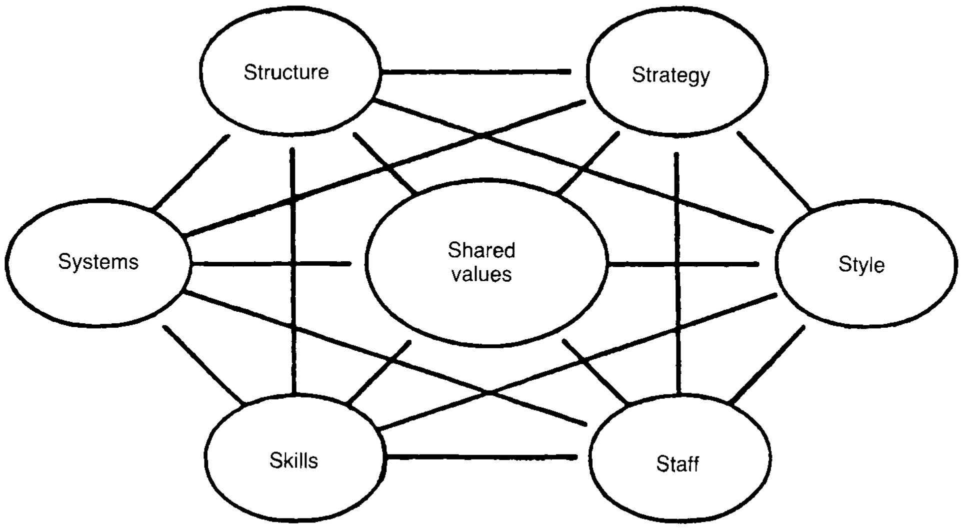
These three points are explored below.

The Practice of Strategic Management

Building and Realigning Skills

Variations on the "I plan therefore I do" criticism of strategic planning abound. The strategic management school claims that failures at execution are the result of predictable and understandable resistance to

Figure 2



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change among people in organizations. However, rather than bemoaning this fact of human nature, the school acknowledges the need to empower organizations and their people with new capabilities consistent with new or altered strategic directions. McKinsey & Company have proposed a simple model for thinking about the problems of empowering an organization to execute strategy. The model, illustrated in Figure 2, represents the recommendations of several observers as to what levers are available to managers to effect behavioral change in organizations.

McKinsey principal Robert H. Waterman, Jr. explained the model, known as the McKinsey 7-S Framework, as follows:

> To think comprehensively about a new strategy and the problems of carrying it out, a manager must think of his company as a unique culture and must think about the ability of the company to get anything really fundamental . . . accomplished as a matter of moving the whole culture. . . . In this context, the 7-S Framework is saying that culture is at

> least a function of seven variables: strategy, structure, systems, style, staff, skills and shared values. [4]

Two points about the 7-S Framework are especially important and relevant. The first is that the fit or alignment of the S's matters most for execution. All organizations have the S's since all have a culture, but not all have mutually reinforcing S's aligned with strategy. The second point is that "skills" is a derivative of the other variables; it refers to the capabilities of an organization as a product of the alignment of the other variables. Therefore, one defining characteristic of strategically managed companies is that their skills complement their choice of strategy. And, more important, changes in strategy are understood to demand an investment in the development of new organizational skills if new strategy is to be executed successfully [4].

This point is illustrated in the systematic effort undertaken by the Lutheran Hospitals and Homes Society (LHHS) to change its management style to accompany a strategy change emphasizing diversification into nonacute health services. This division of the Lutheran Health Systems initiated a seven-year plan to create a corporate environment that encourages innovation and entrepreneurialism among its administrators, facility managers, and employees. The effort began with a commissioned "innovation audit" to determine where and how corporate management was promoting or stifling innovation. The system's chief executive explained, "You can diversify, reorganize, and make changes, but if your corporate culture isn't supportive, it won't go very far." [5] Two years before this effort, LHHS postponed a major reorganization because its system managers were too conservative in style to effect the changes.

The attention devoted to skill or capability development in the strategic management literature may represent a rebirth—or perhaps the residue—of interest in the organizational development field. At its extreme it may represent the rise of a revisionist school of strategic planning, typified by Robert H. Hayes' recent article in which he writes:

> My point is not to disparage the relevance of all logic to planning but to suggest that there may be alternative logics worth exploring. One of them is to turn the ends-ways-means paradigm on its head: means-ways-ends.
>
> How might such a logic work? First, it suggests that a company should begin by investing in the development of its capabilities along a broad front (means) . . .

> Second, as these capabilities develop and as technological and market opportunities appear, the company should encourage managers well down in the organization to exploit matches wherever they occur (ways). . . . In short, the logic here is, do not develop plans and seek capabilities; instead, build capabilities and then encourage the development of plans for exploiting them. [6]

The ultimate skill may be competency at strategic management itself, that is, the ability to identify desirable or necessary new directions in terms of products, markets, and relationships and the capacity to make those a reality through execution. Movement from periods of environmental stability to environmental turbulence forces organizations to exercise the muscles for strategic management, which may have atrophied from disuse. Previously learned patterns of behavior are likely to have calcified and are an impediment to change. As with any other skill, strategic management is not something that is suddenly done but is something that must be nurtured and requires an investment. Pilot projects, off-site ventures, and "skunk works" are examples of investments in strategic management development.

However, to say that an organization becomes skilled at strategic management simply by practicing strategic management is not enough. It begs the question. Fortunately, other elements of developing strategic management have been discovered through trial and error and are described as follows.

Behavioral Considerations: The Human Dimension[1]

Central among the organizational capabilities that are alluded to may be the mind-set that permeates an organization and glues together the participants in a common endeavor. In the earlier illustration of the McKinsey 7-S Framework, "shared values" was at the heart. Likewise, in their ground-breaking study on strategic management, Gluck, Kaufman, and Walleck identified a corporate value system that reinforced managers' commitment to company strategies as one of three essential mechanisms used by strategically managed companies to link strategic planning to operational decision making. Amid diverse leadership styles and organizational climates, they found four common values held by personnel in all levels of strategically managed companies:

1. The value of teamwork, which leads to task oriented organizational flexibility.

2. Entrepreneurial drive, or a commitment to making things happen.
3. Open communication, rather than preservation of confidentiality.
4. A shared belief that the enterprise can largely create its own future, rather than be buffeted into a predetermined corner by the winds of environmental change. [22]

Shared values are chosen to illustrate only one aspect, but an extremely important one, of the behavioral considerations that are addressed throughout the literature of strategic management. The values deserve special attention from health care executives today. While shared values are important in any organization, they are all the more important in the diversified, complex, managerially decentralized, and geographically dispersed organizations that hospitals are becoming.

Under the direction of new leadership in the later 1970s, Lutheran General Hospital in suburban Chicago undertook an ambitious corporate reorganization and strategic reorientation. Central to that reorientation was the strengthening of the institution's commitment to the values and philosophy of human ecology, a philosophy of care that centers around treating human beings as whole persons in light of their relationships to God, themselves, their families, and the society in which they live [7]. The new chief executive and the board of directors began by developing a statement of mission emphasizing healing and education in furthering the human ecology philosophy. The strength of commitment to that mission and value system is evident in the chief executive's words:

> When Christ was on earth, he did two things: he taught and he healed. That's what we do in his name. It's that basic. We don't have a choice. We have to do this. If the reimbursement mechanisms don't happen to accommodate it, that doesn't mean we should stop. Our mission won't change just because the reimbursement mechanisms change. Our mission is fixed; it was fixed 2,000 years ago. [7]

It is no revelation, of course, that managers must attend to behavioral considerations. Time and time again, however, this message seems to get lost in the maze of life-cycle curves, growth and share matrices, and return on investment (ROI) calculations. The message of strategic management is that real competitive advantage is obtainable only through actual behavioral change in organizations, which is exhibited in individuals' actions as strategy is executed.

It is also apparent that this is no small undertaking. Figure 3 shows

Figure 3
Strategic Management: Areas and Tools

Managerial Areas	Managerial Tools: Mission and Strategy	Organization Structure	Human Resource Management
Technical System	• Assessing environment • Assessing organization • Defining mission and fitting resources	• Differentiation • Integration • Aligning structure to strategy	• Fitting people to roles • Specifying performance criteria • Measuring performance • Staffing and development
Political System	• Who gets to influence mission and strategy • Managing coalitional behavior around strategic decisions	• Distribution of power • Balancing power across groups of roles	• Managing succession politics • Design and administration of reward system • Managing appraisal politics
Cultural System	• Managing influence of values and philosophy on mission and strategy • Developing culture aligned with mission and strategy	• Developing a managerial style aligned with structure • Development of subcultures to support rules • Integration of subcultures to form company culture	• Selection of people to build or reinforce cultures • Development to mold organization culture • Management of rewards to shape the culture

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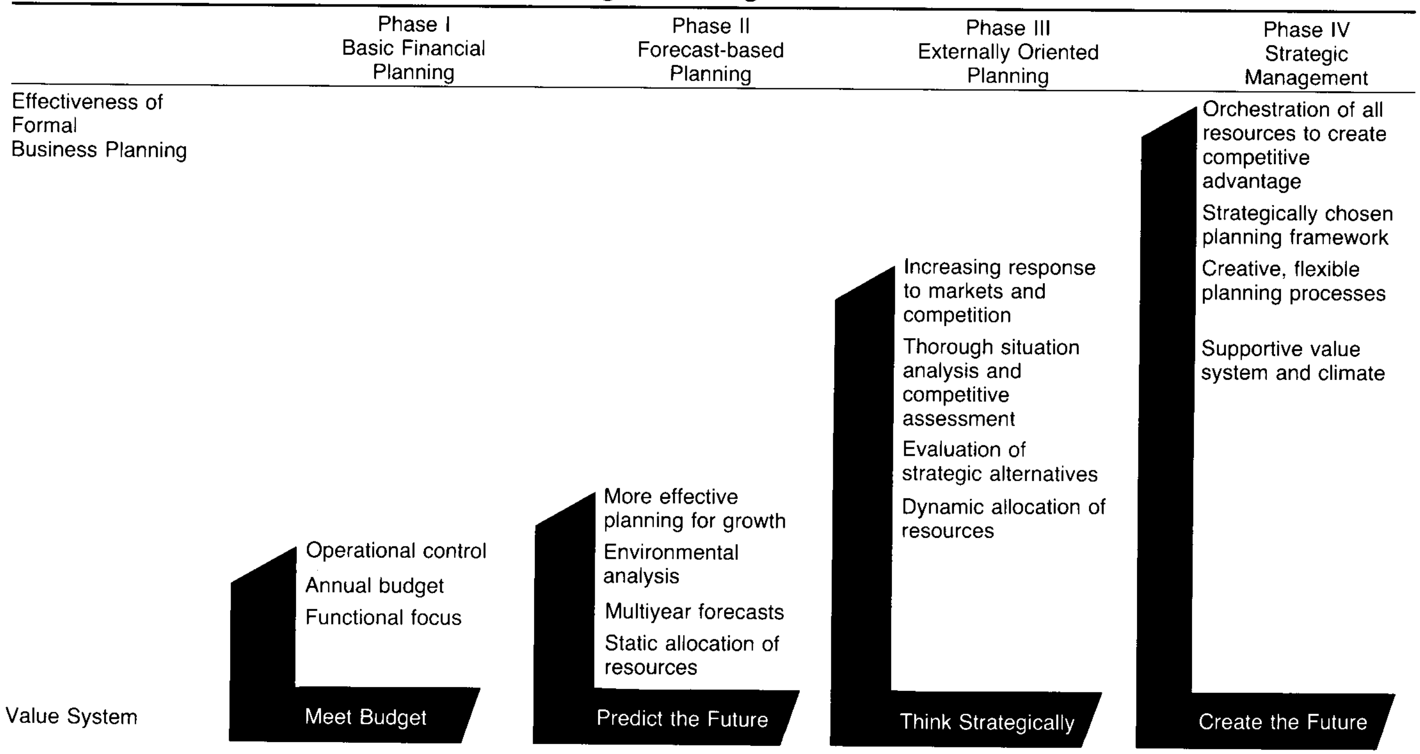
an almost overwhelming preoccupation with behavioral considerations and outlines a formidable agenda for those aspiring to strategic management.

The Players in Strategic Management: Planners and Line Managers

The strategic management school champions the role of line managers. Indeed, observations of the role of line managers in strategy development have been used to assess the progress of organizations toward strategic management [2]. Early stages of a four-phase evolutionary model developed to describe that progress (see Figure 4), especially Phase II, showed planning to be staff-driven, technocratic, and deterministic. Significant advances were found in subsequent phases, where related businesses were grouped into strategic business units (SBUs) for planning purposes. The researchers observed the following:

> The SBU concept recognizes two distinct strategic levels: corporate

Figure 4
Four Phases in the Evolution of Formal Strategic Planning



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decisions that affect the shape and direction of the enterprise as a whole, and business-unit decisions that effect only the individual SBU operating in its own environment. *Strategic planning is thus packaged in pieces relevant to individual decisionmakers, and strategy development is linked to strategy implementation as the explicit responsibility of operating management.* (emphasis added) [2]

The final phase, strategic management, is characterized by widespread strategic thinking capability and deeper, earlier involvement of top management in the planning cycle, which is important. The planning framework is broadened across organizational boundaries to address shared-resource issues and customer-group decisions, but the bulk of planning continues at the business-unit level. Execution is thereby facilitated because strategic planning and operational decision making are linked through a framework that makes planning meaningful to line managers and demands their involvement.

The authors of a study of hospitals that successfully managed strategic change also found the involvement of those outside of planning staffs to be crucial to successful change. They outlined an approach to change management in which the need for participation of line managers is self-evident:

> Once the leaders perceive the need for change, either because of an immediate crisis, an emerging threat, or a new opportunity, they face the difficult task of translating this awareness into action. Specifically, they must recognize the situation; convince themselves that something needs to be done about it; decide on a feasible course for action, often after reviewing a number of options and evaluating the risks; build coalitions of support as an incremental step in arriving at a broad consensus on an acceptable course of action; seek appropriate board and other approvals; and finally, motivate others to carry out the action. *In short, management must involve individuals who can affect the change or pose barriers to its accomplishments.* (emphasis in original) [7]

The authors observed that program management was a line-management responsibility at many of the hospitals they studied and also found that several planners had line-management responsibilities, which they believed strengthened the planners' roles and credibility in the change process.

Other tactics have been proposed for nurturing the involvement of line managers. For example, planning projects may be selected initially to target more immediate and manageable business issues as opposed to remote, complex, and far-reaching issues [8]. Likewise, planning projects might be initiated with those operating divisions and managers who demonstrate a receptiveness to the discipline of planning and the capacity to make it fruitful. Both tactics are based on the belief that for change to be accepted throughout an organization, early efforts must demonstrate success.

What then is the role of the planning staff? Clearly, they are not the leaders or decision makers in matters of strategy. Their role seems concentrated first in the stages prior to strategic decision making, as information gatherers and creative prodders, and second as facilitators in implementing strategic decisions. They gather and speed information to line managers, which is more often information on marketplace phenomena and customers as planning increases in sophistication. Their analytical tools are to stimulate thinking, not to provide formula strategies. The staff is a resource for line managers, who must be educated about how to work with planners versus simply, and grudgingly, responding to planner-generated initiatives. Rather than gumming up the works with stale bureaucratic processes, endless and mechanical analyses, and initiative-smothering evaluations, planners should be crusaders for flexibility, creativity, and action. In strategically managed companies, "Planning is a function—not a role. It should be done by those who have the right perspective—high enough to see the landscape, low enough to know the detail, and creative enough to pull it together." [9]

Whither Hospital Planning?

After examining planning in strategically managed companies, it is natural to speculate as to what it suggests about the state of hospital planning and its prospects. A number of questions come to mind: Where are hospitals in the evolutionary continuum of planning? Are they ready to adopt strategic management and are they progressing in that direction, or are there reasons to believe that strategic management is but a faint hope? Are the lessons of strategic management useful guides for hospitals?

While illustrations have been given of hospitals that break the mold, few hospitals or hospital systems are strategically managed. Indeed, the general business literature uncovers only a handful of strategically managed companies among the world's most advanced corporations [10]. A strong case can also be made that strategic management is a distant goal for hospitals. Despite advances in hospital planning practices in recent years, the fact that the environment was supportive and did not demand sophisticated planning and management until recently has hindered hospitals. It may be that hospitals must climb the same learning curve and endure the same painful lessons on the road to strategic management as others have—perhaps more so given their complexity. Gluck and his colleagues anticipated this issue saying

> It does not appear possible to skip a step in this evolutionary development, since attitudes and capabilities necessary for each successive phase are developed through a period of years spent in the phase before. It should be noted that many companies, including a number of large, well-respected, and financially successful enterprises have never advanced beyond the early phases of strategic planning sophistication. . . . Whether the lack of advancement of some companies represents a development need, or whether these less sophisticated companies are, in fact, well adapted to the pace of change in their industries and internal management requirements, and hence better off to remain where they are, is a question that must be addressed on a case-by-case basis. [10]

A more optimistic scenario, however, can also be supported. Ironically, this argument also relies for authority on the McKinsey group's studies. With reference to the phases of Figure 4, Gluck and his colleagues observed that

> A few companies have advanced beyond Phase 2 by accomplishing a quantum leap upward in strategic planning effectiveness. This third phase has been named Externally Oriented Planning, since *much of the improvement seems to be derived from a more thorough and creative analysis of market trends, customers, and competition.* Phase 4, Strategic Management, appears to be a systematization and company-wide extension of the benefits achieved in Phase 3, and thus represents a further evolutionary (rather than revolutionary) improvement. . . . *The compelling force behind the evolution of planning—particularly the quantum leap upward between Phases 2 and 3—appears to be the increasing complexity of business problems and the pace of change in the environment.* (emphasis added) [10]

Given the rapid growth and widespread adoption of a marketing orientation by hospitals over the last five years, it can be argued that the environment has already propelled hospitals into the externally oriented planning phase and that progression toward strategic management will proceed apace.

Perhaps the more relevant question is whether hospitals have any choice but to move swiftly through the progression. One reading of the environment says they do not. Briefly stated, that reading envisions a continuation of and acceleration in the pace of environmental change, most notably involving shifts in consumer and patient needs and demands, with utilization patterns moving away from inpatient acute care toward various types of ambulatory care, home care, skilled nursing care, and chronic care services. Simultaneously, pressure will continue to mount for unit cost efficiency in the production of the services that continue to be delivered in hospitals in response to new payment system incentives. The predominant hospital and hospital system strategy in this environment will likely entail movement toward a vertically integrated health services enterprise. That enterprise will have the following characteristics:

- Risk vehicles, that is, health plan or insurance offerings
- A comprehensive package of services, that is, primary through tertiary services, provided in various sites throughout a community or region
- A consolidated provider entity, that is, tightly linked hospital and medical staff/group
- A central corporate apparatus controlling finances, acquiring and allocating capital, and managing systemwide information systems

In the language of strategic management, movement toward such an enterprise will demand the type of strategic posture transformation (that is, new links with the environment *and* newly developed internal capabilities [1]) that is achievable, if the experts are to be believed, only through adherence to strategic management.

However, a note of caution is in order. It was observed earlier that the strategic management literature has an emphasis on the social and behavioral aspects of planning and management. Discussion of technical and analytical capabilities are notably absent, including the important issue of integrating the technical supporting disciplines of finance, marketing, and planning. In large part, this reflects the effort of critics to correct a perceived imbalance caused by the heavy emphasis historically afforded the technical and analytical aspects of strategic planning in business and industry. This does *not* mean that well-developed technical and analytical capabilities are no longer valued, only that they are a necessary but insufficient foundation for strategic management. Since hospitals have only recently begun to develop particular technical capabilities associated with apparent success in the new environment, any reorientation in practice that ignores the technical and analytical in favor of the social and behavioral would surely be misguided.

As with so many other issues, it is a matter of finding an appropriate balance. The concept of strategic management described here uncovers few, if any, new ideas. Rather than an appeal for new techniques and approaches, it is an argument for the integration of existing disciplines, roles, and functions. The values of seemingly competing schools of thought are recognized and synthesized. This integrating and balancing characteristic is the virtue of strategic management and the basis for confidence that it will be a durable guide for planners and managers.

Note

1. The label "behavioral" is used here as collective shorthand for the terms social, political, and cultural; the "soft" and human dimensions of strategic management as distinguished from the so-called "hard" technical, analytical, and quantitative dimensions.

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