

# SOCIAL SCIENCIES

## STRATEGIC MANAGEMENT CONCEPT IN HEALTH INSTITUTIONS

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### Abstract

From the perspective of health institutions, researchers may have different approaches to the concept of strategic management. In this paper we review these approaches in the literature, paying a close attention to Henry Mintzberg's usage of strategic management in connection with planning, maneuvering, behavioral pattern, vision, and environmental positioning.

We discuss the concepts of external environment, recurrent process, future orientation, core capabilities of health institutions, considered to be closely related to the strategic management. The discussion has been extended with a reference to Miles and Snow's study of strategic behavioral patterns. Furthermore, we provide examples of strategic management from real life experiences.

**Keywords:** Strategic Management, Strategic Management in Health Institutions

### Introduction

Based on correct data, if a health institution aims to enlarge its enterprise in health tourism sector through spending millions of dollars to launch a new operation unit or increase its capacity utilization rate, we can argue that this company follows a correct strategy. On the other hand, if we see many ads for sale for health institutions in a metropolitan city and if numerous contracts between health institutions and social security system are terminated, then we can presume that these health institutions cannot understand the society's health needs, cannot calculate their costs correctly, do not use competition analysis method, cannot comprehend the country's health policies, that is, they do not develop correct strategies.

Health institutions operate in a dynamic and changing environment. Change in society's health needs and expectations, rise in service costs, extension of social security system's savings measures, and intensification of competition in health sector oblige hospitals and other health institutions to set up and apply strategic management methods.

### Purpose of the study

The aim of this study is to investigate the concept of strategic management in a comprehensive manner. We try to determine what the concept of strategic management implies for health institutions. For this purpose, we review how different researchers studying health institutions conceptualize strategic management. Based on this review, we try to explain the concepts such as external environment, future orientation, strategic management as a process, and core capabilities of health institutions.

We pay close attention to in what contexts Henry Mintzberg use the concept of strategic management and what the concept of strategic management implies as a plan, as a maneuvering approach, as a perspective, as a behavioral pattern, and as an environmental positioning. The study has been enriched by centering the discussion on Miles and Snow's strategic behavioral patterns approach.

### Methodology

As a first step we conduct an intensive review of the literature in line with the purpose of the study. Based on the literature review, we assess the concept of strategy from the perspective of health institutions.

### Conceptual framework

#### Strategic management

Why do some hospitals grow while some close or do not grow? Why do some hospitals expand their market share while others lose their market share? Why do some hospitals prefer to serve to private patients while others accept the patients subsidized by social security system. Why do some hospitals charge government set 200% contribution margin while others charge lesser contributions or do not charge any contributions at all? Why do some hospitals provide services such as MR or Tomography while other outsource these services? We can look for the answers to these questions in the strategies hospitals design and apply. Success and fail are not rassal outcomes; they are the results of planned and applied strategies.

Strategy is one of the mostly used concepts in daily language. We frequently hear utterances such as: a student- "I have made a strategic error in the exam by starting with verbal questions"; a real estate agent- "The house is very strategically located because it is quite close to business center"; and a teacher- "Today's subject is the most strategic part of our course". The concept of strategy used in the daily langue may have very different meanings by referring to "very important", "critical", "action plan", or "roadmap" (Mac-Millan and Tampoe, 2001: 12).

Table 1 provides different definitions of strategy concept. When we review these definitions, we can infer that the common feature is the fact that it refers to design focused on environment including decisions and actions aimed at attaining competitive advantage. Although the concept of competitions is commonly

thought to be the main notion in the private health institutions, there is fierce competition in the health sector between public and private institutions both in Turkey and globally. For example, there has been a sharp decline in the number of patients transferred from public hospitals to private hospitals since 2005 when performance-based payment system put in effect at the

Health Ministry' hospitals. Furthermore, there has been significant improvement in the infrastructures of public hospitals in order to provide patient comfort similar to private hospitals, such as tv, refrigerator, air-conditioning, and bathroom, similar to private hospitals.

Table 1.

**Definitions of Strategy**

Authors	Definitions
<b>Henry Mintzberg (1987)</b>	Strategy may have different meanings such as plan, maneuver, behavior, perspective, and environmental positioning.
<b>Michael Porter (1996)</b>	Strategy is the set of activities providing an institution with a unique and value creating position [in a competitive environment]*.
<b>Ansoff (1965)</b>	Strategy is the decision rule guided by product/market, growth performance, competitive advantage, and synergy.
<b>Luke, Walston, Plummer, (2004: 15)</b>	Strategy is the set of core concepts and ideas utilized by a health institution to establish and sustain its competitive advantage.
<b>Kenneth Andrews (1980: 18-19)</b>	Strategy is the set of decisions, comprising [a health institution's]* purpose, target, and aim; and plans and policies to achieve these targets, to define which services to provide to construct organization structure from an economic and social perspective, and lead [the health institution] to respond to the expectations of stakeholders (shareholders, employees, customer (patients) and the society).

\* Statements in square brackets are those of the author.

We provide a brief description of the concepts presented in Table 1.

### **External Environment**

Health institutions do not operate in an isolation from their existence external environment. Every they face the consequences of external factors. These consequences may either be subversive or beneficial for the health institutions. For instance, while a rise in exchange rates generate damaging financial results for the health institutions which borrow and hold debt in foreign currency, it generates advantages for the health institutions operating in health tourism or providing health services for foreign patients in collaboration with international insurance institutions. Hence, strategic management focuses on external environment. Constantly emerging external changes create uncertainty, which in turn harbor both opportunities as well as risks for the health institutions. A health institution will be able to survive and achieve its goals to the extent that it takes the advantage of opportunities and escapes from threats. Consequently, strategies employed by health institutions must be compatible with external environment and must constantly be improved.

### **Future Orientation**

Strategic management is shaping the future of the health institution today. Strategic management comprises both mission and visions of health institutions as well as determination of targets and aims to be attained. Strategic management is deciding where the health institution will be in the future. In simpler terms, strategic management is to establish a link between the present and the future, and to construct the future from today.

### **Recurrent Process**

Strategic management is a cycle of interrelated activities (stages). As external and internal environmental conditions continuously change, the health institution must respond competently to these developments. Strategic management is a process that includes more than one stage. Strategic management begins with the analysis of external environment, but does not end with strategic audit stage, rather it is a series of activities involving reanalysis of external environment.

### **Core (Unique) Capabilities**

There are core (unique) capabilities that make a health institution different from other health institutions. The existence of these core capabilities gives the health institution a different identity and facilitates it to gain competitive advantage against its competitors. The concept core capability was first used by Prahalad and Hamel (1990). Core capability refers specifically to the institutional (joint) learning process that enables the synchronization and integration of different production capabilities. For example, a hospital may specialize in organ transplantation or gene therapy more than other health institutions and may have health personnel (knowledge, skills) and technological opportunities to provide these services. This aspect of the hospital constitutes its core capability; as Prahalad and Hamel stated, it functions as a gateway that prepares institutions for the future. Core capability comprises the existence of basic talent, knowledge, skills, and technology, as well as the institutional processes related to their transformation into services. Core capabilities have three basic features (Prahalad and Hamel, 1990):

1. Core capabilities contribute significantly to the perceived user benefits (for example, patient satisfaction, effectiveness of treatment, cost of treatment) in using the service or product.

2. Core capabilities are hard for competitors to imitate. A healthcare institution can develop a new treatment method with an in-house development strategy. Since the rival health institutions do not have the opportunity to implement this new method yet, the health institution will increase its competitiveness.

3. Core capabilities expands the health institution's potential to serve to a wider area. For instance, a health center with very successful in vitro fertilization records can attract patients not only from local area but also from different regions and therefore, can raise its market share by expanding population it serves.

Developing core capabilities is not an easy process. To develop core capabilities, hospitals should focus on research and development activities and invest in medical technology.

### Competitive Advantage

There is an intense competition among health institutions in both public and private sectors. Health institutions attempt to attain competitive advantage in order to prevent the destructive effects of competition. Competitive advantage can be described as the rise in market power or marketing gains as a consequence of the health institution's usage of its resources and capabilities-based strategies (Luke, Walston, and Plummer, 18). Market power refers to the level of protection of a healthcare institution from the threats of its competitors. Examples of activities undertaken to contribute to market power and increase the number of patients or to

prevent current patients from choosing other hospitals are hospitals' offerings of free cafeteria, free check-up services, and free transportation for patients requiring dialysis services. The main objective in these kinds of activities is to gain competitive advantage. Improvement in the market of power of a healthcare institution points to increasing competitive advantage.

### Stakeholders (Strategic Groups)

Stakeholder or strategic groups refer to hospital owner/owners, board of directors, shareholders, firms (such as medical equipment providers), public institutions (such as Health Ministry and Social Security Institution), and competitive health institutions.

Strategic management is a process for determining and meeting the expectations, needs, interests, desires and roles of these individuals, groups and institutions that may affect the performance of the health institution positively or negatively (Freeman, 1984: 24-25).

### Mintzberg and 5P

Henry Mintzberg (1987) argues that the concept of strategy is used in five different senses. According to the author, strategy as a concept comprises the following meanings as given in Figure 1.

- Plan
- Pattern (Behavioral Form)
- Ploy (Maneuver)
- Positioning (Environmental Positioning)
- Perspective



Figure 1. Different Meanings of the Strategy Concept

#### 1. Strategy as a Plan

Strategy as a plan is the pre-decision of what, where, how, and when to do to achieve a desired outcome. In this respect, plans are road maps prepared deliberately and, in a goal-oriented manner before taking actions. Strategy as a plan is to specify the long-term goals and objectives of the health institution and determine what needs to be done (activities) and what resources (inputs) needed to achieve these goals and objectives. Strategy as plan is sometimes used synonymously with strategic management; however, it can be said that strategic planning has a narrower content than the concept of strategic management. Strategic management is a dynamic process, comprising strategic

planning as a key constituent. A strategic plan is essentially a draft, or a documentation. On the other hand, strategic management incorporates the operational processes that include putting the plans into practice, evaluating the performance results, and making the necessary corrections.

#### 2. Strategy as a Pattern (Behavioral Form)

Strategy is seen as a system of thought that reveals where the health institution is aimed to be in the future. Strategy as a behavioral form should not be perceived as a mere idea or concept, but as a set of activities related to the transformation of that thought into a product. Strategy as a behavioral form is the resulting coherences or regularities of business behavior.

Consistency in observed in behaviors may not result from the implementation of a plan; that is, strategy emerges not as a result of planning, but also with behaviors that have certain forms.

That is, strategy is not a random behavior, but a similar pattern that appears in a sequence of behaviors. Strategy in this respect is seen as consistency in behaviors, regardless of a plan; that is, strategy is not a long-term stereotyped (planned) concept based on technical analysis, on the contrary, it is a dynamic process. Strategy as plan and behavioral form are not mutually exclusive viewpoints, rather they are in interaction with each other. Strategy as a plan reflects the general expectations, designs, and intentions of top management. In this sense, strategy as a plan refers to the procedures that are intended to be employed. However, it is often not possible to fully implement the designed strategies. For example, the senior management (board of directors) of a hospital may intend to provide physical therapy and organ transplantation services in order to enable the hospital to grow.

To achieve this goal, groundworks such as new practice offices, physical therapy – rehabilitation unit, EEG unit, tissue typing laboratory, setting up a new operating room and finding a team of experienced medical personnel (physical therapist, general surgeon) will need to be carried out. It may not always be possible to effectively accomplish all these activities designed on paper. For instance, the hospital may easily realize its intention to provide organ transplantation services, while it may not have sufficient financial resources to purchase the necessary equipment for the physical therapy unit, or it may have problems in hiring required number of physical therapists or physiotherapists. For these reasons, the hospital may only realize a portion of its growth strategy through providing organ transplantation and physical therapy services. As can be seen from Figure 2, the realized strategies may not always be the intended strategies.

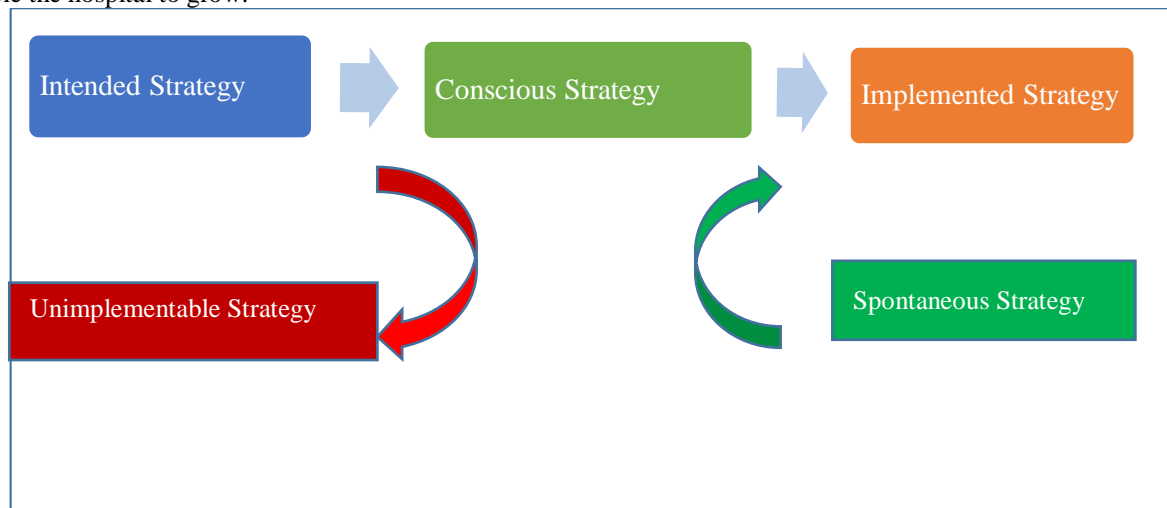


Figure 2. Types of Strategy

As can be seen from Figure 2, intended and implemented strategies may not be the same. Some of the intended strategies are discarded as unimplementable strategies, while implemented strategies are entitled as conscious strategies (Mintzberg, 1987; Mintzberg, 1987a). An example of intended strategy which turns out to be unimplementable is the Health Ministry's revoking of hospitals' licenses for organ transplantation. It is witnessed that the strategies of heart and organ transplantation service providing hospitals' strategies turn out to be unimplementable as a due to environmental factors. Although some the hospitals are very successful in heart transplantation, their strategies end up unimplementable because of the following reasons:

- a. lack of sufficient demand and/or the inability to provide sufficient organs even if there is sufficient demand, and
- b. decision enacted by the 4th paragraph of the 28th article of the Organ Transplantation Centers Di-

rective published by the Health Ministry in 2012 to revoke the operation license of the health centers that have performed less than three transplants in the previous year.

Implemented strategy partly includes the intended (planned) strategy, but it also covers the spontaneously developed strategy. Strategy in terms of behavioral form refers to spontaneously generated strategies. Spontaneous strategies are designed and implemented when a new opportunity or threat is perceived in the environment. Spontaneous strategies can also be encountered during the implementation of the strategy determined (intended) by the top management.

For example, the hospital may encounter problems in establishing the organ transplant center, in terms of licensing and importing equipment, and different strategies may need to be implemented to overcome these obstacles. On the other hand, Spontaneous strategies are usually decided and implemented by middle- and low-level managers.

### 3. Strategy as a Ploy (Maneuver)

The strategy can also be viewed as maneuvers against competing healthcare institutions. A health institution may engage in activities that differ from its true purpose to influence and deter its competitors. For example, a hospital receiving information regarding an attempt to open a new hospital in the same city may try to influence and discourage its potential competitor from investing by announcing that it has decided to expand its capacity. The main purpose here is not to expand the capacity of the health institution, but to prevent the opening of a rival health institution. Strategy as a maneuver also aims to misinform and mislead the opponents.

#### 4. Strategy as (Environmental) Positioning

The concept of strategy is also the determination of the position of a health institution in its environment. Health institutions, which are in a dynamic, changing, and competitive environment, are constantly under the influence of environmental factors. Environmental factors create both threats (such as increased competition and implementation of SSI's price limitation policy) and opportunities (innovative treatment methods and changes in disease occurrence and commonness) for health institutions. The success of the healthcare institution largely depends on its protection from these environmental threats as well as its ability to take advantage of environmental opportunities. Furthermore, the strategy as a positioning provides a link between the health institution and its environment. The strategy as a positioning is in essence to determine the place of the health institution in the competitive environment. It is because the competition in the health industry is not only limited to the level of rivalry between similar health institutions (for example, two hospitals in the same district or businesses selling medical supplies), but also under the influence of forces affecting most of the segments in the sector.

Strategy as positioning aims to raise the healthcare institution to a position that will allow it to be protected from the destructive effects of competition in the industry and to gain competitive advantage. However, strategy as a positioning is not only about competition and gaining an edge over competing health institutions. It is also collaborating or cooperating with competing health institutions. For instance, two competing private hospitals, instead of opening separate magnetic resonance and computed tomography units, may partner in creating these units for financial and operational reasons.

#### 5. Strategy as Perspective

While the strategy as a positioning is related to the external environment, as a perspective it is oriented towards the internal environment of the health institution. However, the strategy as a perspective is not completely unconcerned with the external environment, rather it relates to the form designing how external environment is perceived. While some managers of health institutions tend to follow and use new and innovative technologies, some managers may take the environment as a static system and therefore not see and the important developments. The reason behind this difference of opinion between these two types of managers is the dissimilar perspectives about the environment.

That is, strategy as a perspective is a product of managers' mental designs or deep-rooted thinking and perception of the world and, just in case of a person, it reflects the personality traits of the health institution. Therefore, strategy as a perspective can also be seen as shared "common wisdom" in the minds of managers who develop the strategy.

#### Miles and snow's strategic behavior typologies

Raymond E. Miles and Charles C. Snow, pioneering scientists in the field of strategic management, focused on the relationship between institution (organization) and its environment and sought answers to the following questions (Miles and Snow, 2003: 4):

- Why and to what extent do the strategies, organizational structures, and processes of organizations in the same industry differ?
- What is the relationship between an institution's strategy and its organizational structure and processes?
- How do institutions react to the changing environment? Is there a widely apparent common institutional behavior within an industry?
- Are an organization's strategy, structure, and processes compatible with environmental conditions?

To determine the relationship between environment and institutions and institutions' common behaviors in adapting to their environments, Miles and Snow conducted research in businesses in four sectors, namely book printing and publishing, electronics, hospital, and food production. According to Miles and Snow, achieving harmony between the institution and the environment is a highly dynamic process. The authors define this dynamic process as *adaptive cycle*. The adaptive cycle process is related to three basic sets of problems that managers face and must solve.

These sets problems, occurring simultaneously, can be examined in a logical order as given in figure 3:

##### 1. Entrepreneurial Problems

Entrepreneurship-related problems often arise in newly established and thriving organizations and in the organizations that have experienced a crisis recently. The following questions are examples of this set of problems:

- Which services will be produced and supplied?
- Who will benefit from these services?
- What is the target market or market segment?

After determining the services to be supplied and the target market or market segment, process of deciding on the channels of supply how becomes important. Choice of the channels for service supply is at the heart of the engineering problem.

##### 2. Engineering Problems

Engineering problems relate to the entrepreneurs' decision process for choosing the service supply channels. At this stage, the input, output, and supply processes of the institution are designed.

##### 3. Managerial Problems

Managerial problems are related to eliminating the uncertainties faced by the organization. Institutional uncertainties are usually deviations or irregularities that arise during the execution of solutions to problems of interest in the entrepreneurial and engineering phase. Managers are responsible from efficient and smooth

execution of corporate activities. In the words of Miles and Snow, managers try to ensure stability and rationality in the corporate system. For this purpose, managers perform executive activities such as changing the organizational structure of the health institution and re-designing the service provision processes. Managers

not only solve concurrently emerging problems, but also inspire the entrepreneur(s) by following the innovations that prepare the institution for the future. Lead steer

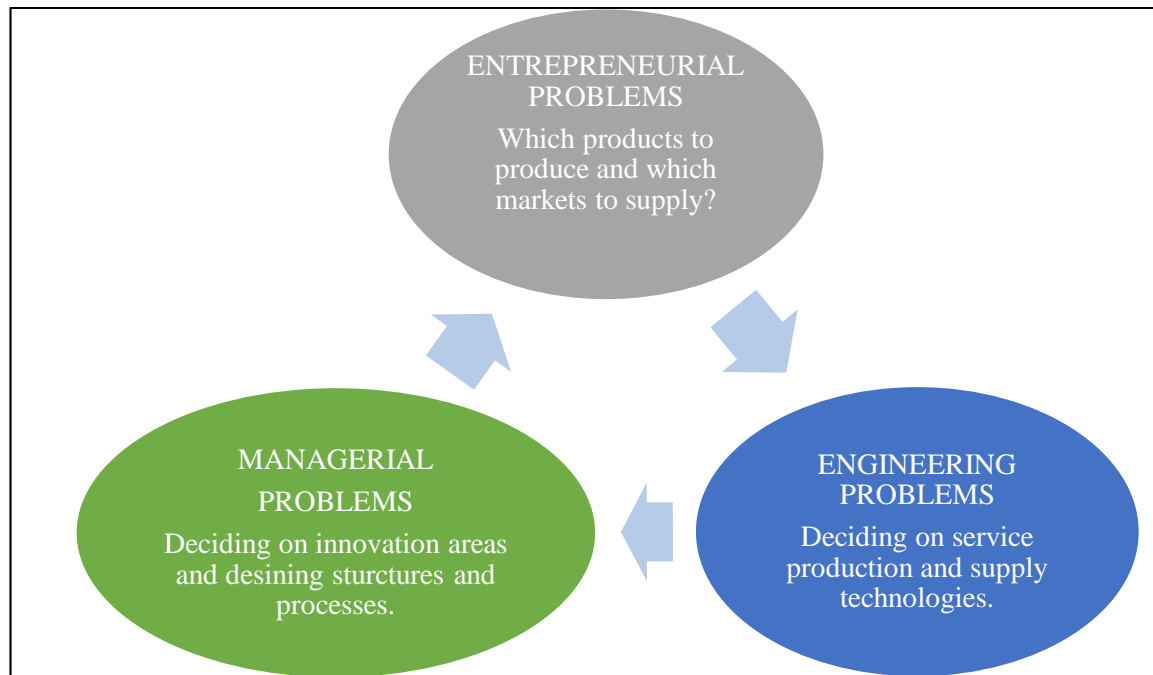


Figure 3. Main Problems that Managers Encounter and Have to Solve

We can explain adaptive cycle through a simple example:

-An entrepreneur may develop a project to establish a new dermatology clinic to provide service for high income segment of the market. This is the *Entrepreneur Stage*.

-In line with the entrepreneurial decision, a team of experts from hospital's medical services and finance marketing departments begins to plan building setting, determine required medical equipment, how to hire specialist personnel, and calculate expected cost. The necessary space for the dermatology clinic may be created through reconstruction and renovations in the hospital building. Then dermatology equipment is purchased, and medical personnel are employed. This is the *Engineering Stage*.

-The managers responsible for the dermatology clinic design the working guidelines for the tasks such as making appointments, welcoming the patients, and treatment and follow up visits. They also determine the working principles and schedules of the personnel. That is, they form the organizational structure of the dermatology clinic. Furthermore, at this phase the hospital's organizational structure is redesigned. This is the *Managerial Stage*.

After the clinic becomes operational, the managers also try to resolve the problems such complaints from the patients for long queues, and decreased patient

satisfaction. Managers' response to the problems encountered in the service delivery process reflects the reflective aspect of the managerial problems. By reviewing the suggestions and requests from the patients, the managers can prepare proposals for the senior management. New services such phototherapy, and the cosmetology unit are examples of such proposals. Such proposals by the managers may encourage the entrepreneur to seek innovative areas and services.

Miles and Snow, based on the adaptive cycle model described above, examine the behavioral patterns (strategies) developed by organizations to adapt to the environment. According to the authors, since their environmental conditions are not similar (for example, each organization has a different product market or market segment that it serves), the strategies that organizations follow will not be the same.

However, when the institutions competing in the same sector are examined, some common points can be discovered in their structures, technologies they adapt, process and strategies they follow (Miles and Snow, 2003: 29).

Based on these commonalities, Miles and Snow divide the organizations into four groups according to their preferred strategies to adapt to the environment: defenders, prospectors, analyzers, and reactors. We briefly examine the basic features of these strategies below (Miles and Snow, 2003; Swayne, Duncan, and Ginter, 2006; and Schulz and Johnson, 1990).



**1. Defenders:** Defenders are organizations that operate in a relatively stable environment and often offer limited types of services. Health institutions that implement a defense strategy supply to a narrow market and try to better serve the market (market penetration strategy) with their existing products. Such health institutions do not always search for growth opportunities and do not easily change their existing structure, technology, and strategies. Health institutions having a defense strategy give more importance to the improvement of the service delivery process and the efficiency (operational efficiency) in the service delivery. In other words, cost-effective service supply is the primary goal for these institutions.

Because they provide cost-effective services, these health institutions are very successful in price competition (Swayne, Duncan, and Ginter, 2006: 260).

**2. Prospectors:** Prospectors are health institutions that seek out new opportunities in the health sector and are constantly renewing and developing new services (Miles and Snow, 2003:29; Swayne, Duncan, and Ginter, 2006:260). Such health institutions generally operate in a changing environment. Health organizations adopting a pioneering strategy lead change and create uncertainty for their competitors. In addition to offering new services and entering new markets, these health institutions may sometimes follow downsizing strategies. As prospectors tend to gain competitive advantage through service development and innovation, they do not work as efficiently as health organizations that follow a defense strategy.

**3. Analyzers:** Analyzers are health institutions that follow partly prospective and partly defensive

strategies. With these aspects, analyzers try to maintain a balance between change and stability. While focusing on efficiency in service delivery, by monitoring the changes in their environments, health institutions implementing analyzer strategy also try to develop new services, offer promising services developed by their competitors, and enter new markets (for example, opening a new hospital in another city). Like defenders, analyzers also focus on market penetration and price competition in the service areas in which they have competitive advantages (for example, in vitro fertilization).

**4. Reactors:** Reactors are health institutions that do not have strategies with distinctive features similar to the ones outlined above. Although such health institutions are aware of environmental changes and trends, they are not successful in adapting to the environment. Because of failing to monitor environmental changes, reactive health institutions often have to deal with threats, and therefore, they are not very effective in spotting environmental opportunities. As it can be understood, the reactive strategy is not actually a strategy; it consists of unplanned, non-future-oriented, inconsistent decisions and behaviors.

Health institutions following strategies with defender, prospector, analyzer, and reactor characteristics briefly described above achieve different results.

As shown in Figure 4, health institutions following a prospector type strategy develop more new services, improve the technological infrastructure, provide services that require advanced technological applications, and give more importance to marketing research and planning targeting innovations. Sophistication

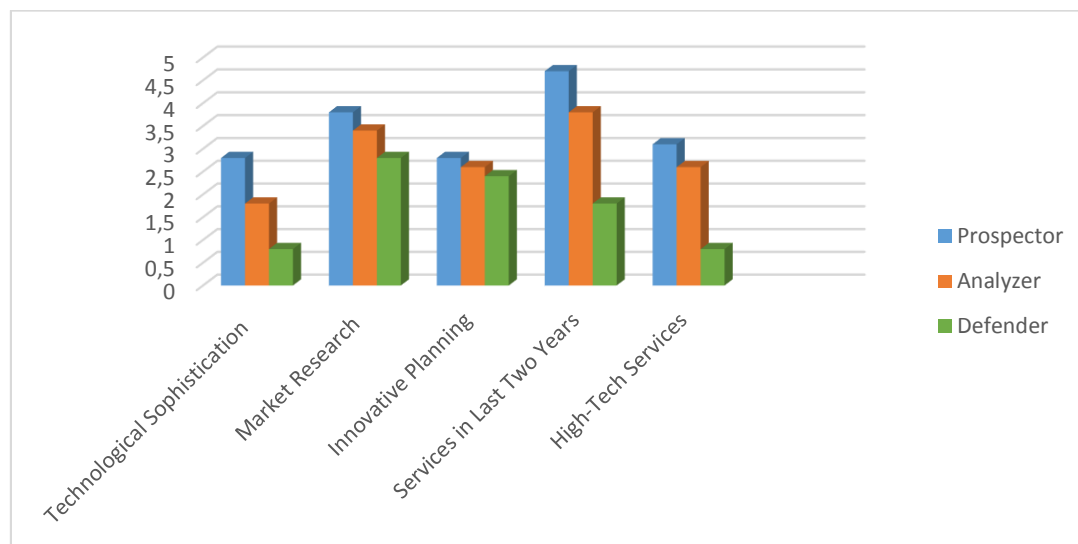


Figure 4. Adaptive Strategies and their Outcomes

Source: Adapted from Veliyath and Shortell (1993), Shortell and Zajac, (1990), and Zajac and Shortell, (1989).

## Conclusion

The success of health institutions is not a random outcome. In fact, they are results of the strategies designed and followed.

The concept of strategy does not have a single meaning. In its ordinary usage, strategy may refer to an action plan or a road map. On the other hand, in the health sector, we use the concept of strategy as a plan, as a behavior, as a maneuver, as a perspective, or as an environmental positioning.

Health institutions are in constant interaction with their environments. They are faced with the effects of environmental factors at any time. These effects can sometimes be destructive and sometimes an advantage for health institutions.

Health institutions can use their basic capabilities to gain a competitive advantage over their competitors. An example of a health institution with such a capability may be the one employing a heart surgeon who can perform off-pump (beating heart) heart surgery.

Environmental conditions have a substantial effect on the strategy choice. Since the environmental conditions of health institutions are unlike, the strategies they follow may differ significantly from each other.

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