Chapter 1

Is Strategic Planning Still Relevant?

“If you don’t know where you’re going, any path will take you there.”

—Sioux proverb

“Every moment spent planning saves three or four in execution.”

—C. Greenwalt (quoted in Fogg 1994)

Strategic planning remains an important and frequently used management tool, both inside and outside healthcare. Despite its prevalence and prominence, evidence of its effectiveness is mixed. Ginter, Swayne, and Duncan (2002) note that, “After almost three decades of research, the effects of strategic planning on an organization’s performance are still unclear. Some studies have found significant benefits from planning, although others have found no relationship, or even small negative effects.”

Although academicians and pundits are divided on the bottom-line performance of healthcare strategic planning, executives and managers on the front lines of healthcare delivery argue that strategic planning is still relevant and a central management and governance discipline, especially in the rapidly changing operating environment. According to Thomas C. Dolan, Ph.D., FACHE, CAE, president and CEO of the American College of Healthcare Executives, “Ten to 20 years ago, a trend in one part of the country might take years to get to your area. Today, that can happen in a matter of months, and you need to be prepared” (Trustee 2004). Bellenfant and Nelson (2002) note that, “Too often strategic planning fundamentals . . . are neglected during times of...
high pressure and crisis. Yet the stronger an organization is at developing and implementing a strategic plan, the better it can anticipate the environment’s changing demands and opportunities.”

My unscientific observations of the field indicate that strategic planning is practiced with regularity by a majority of healthcare organizations. Some organizations carry out strategic planning on an ongoing basis, much as they perform financial planning. Others completely update their strategic plans every three to five years and carry out a variety of related activities between major updates. Still others may develop a strategic plan periodically, perhaps precipitated by the arrival of a new CEO or a change in board leadership. While the scope and extent of strategic planning vary widely in the field, most healthcare leaders view it as a necessary and important practice.

**STRATEGIC PLANNING IS . . .**

The concept of strategy has roots in both political and military history, from Sun Tzu to Euripides (Duncan, Ginter, and Swayne 1995). The Greek verb *stratego* means “to plan the destruction of one’s enemies” (Bracker 1980). Many terms associated with strategic planning, such as objective, mission, strength, and weakness, were developed by or used in the military (Duncan, Ginter, and Swayne 1995).

A number of definitions have evolved to pinpoint the essence of strategic planning. According to Ginter, Swayne, and Duncan (2002), “Strategic planning is the set of organizational processes for identifying the desired future of the organization and developing decision guidelines.” Those authors also note that, “When an organization exhibits a consistent behavior it has a strategy,” and “A strategy is the means an organization chooses to move from where it is today to a desired state some time in the future.”

Beckham (2000) describes a true strategy as “a plan for getting from a point in the present to some point in the future in the face of uncertainty and resistance.” Campbell (1993) adds the concept of measurement to his definition: “Strategic planning refers to a process for defining organizational objectives, implementing strategies to achieve those objectives, and measuring the effectiveness of those strategies.”

Evashwick and Evashwick (1988), incorporating the concepts of vision and mission in their definition, define strategic planning as “the process for assessing a changing environment to create a vision of the future, determining how the organization fits into the anticipated envi-
environment based on its institutional mission, strengths, and weaknesses; and then setting in motion a plan of action to position the organization accordingly.”

**Strategic Planning Outside Healthcare**

Strategic planning has been used in the business sector since the mid-twentieth century. The concept of planning, programming, and budgeting systems was introduced in the late 1940s and early 1950s and used only sparingly by business and government. In the 1960s and 1970s leading firms such as General Electric practiced strategic planning, promoting the merits of providing a framework beyond the 12-month cycle and a systematic approach to managing business units (Webster, Reif, and Bracker 1989). Strategic planning in the 1980s and 1990s was based on corporate market planning, which emphasizes maximizing profits through identification of a market segment and development of strategies to control that segment (Spiegel and Hyman 1991).

In today’s business sector it is common to hear that things are changing too quickly to make strategic planning worthwhile. Real-time processes are thought to be the antidote for dealing with rapid market shifts and competitor moves. Quick reactions are valued more than well-reasoned responses (Rheault 2003). Einblau (2003) counters this reasoning with the point that change is always inevitable—sometimes it happens quickly and other times it slowly evolves, but it always happens:

> Our external environment is one of market uncertainty, international political unrest, and shifting social values; current economic imbalances will continue to occur and will continue to be managed. This is why it is important that we envision our desired future and then plan the strategies needed to get us there; otherwise we will always be accepting the future someone else has worked to make happen, and in business, that “someone else” is usually a competitor.

Hamel (1996) notes that most strategic planning is not strategic. He stresses that only a portion of an industry’s conventions are ever challenged and that the planning processes harness only a small amount of an organization’s creative potential. Hamel suggests that most strategic planning can be characterized as ritualistic, reductionist, extrapolative, positioning, elitist, and easy; instead, strategic planning should exhibit the qualities of being inquisitive, expansive, prescient, inventive,
inclusive, and demanding. Hamel (1996) also emphasizes that strategy making is assumed to be easy, which of course it is if organizations limit the scope of discovery, breadth of involvement, and amount of intellectual effort expended.

Many organizations are now finding that strategy development needs to be reintroduced and reinvigorated (Rheault 2003). And despite the uncertainties about its value, strategic planning is being used with some frequency. A 2003 survey by the Buttonwood Group of 225 U.S. companies (the average company having more than 3,000 employees and $850 million in sales) revealed that the annual strategic plan required 10.5 days of work for about 22 percent of that company’s employees. The average company in the survey spent $3.1 million to produce the plan (Taub 2003).

**Healthcare Strategic Planning**

Strategic planning has been used by healthcare organizations somewhat sporadically since the 1970s, oriented toward providing services and meeting the needs of the population. As illustrated in Figure 1.1, prior to the 1970s hospitals were predominantly independent and not-for-profit, and healthcare planning was usually conducted on a local or regional basis by state, county, or municipal governments. In the fee-for-service, cost-plus reimbursement environment there was little need for formal strategic planning.

From the 1970s through the early 1980s, regulation became more prominent, but the fee-for-service system ensured steady revenue sources. When strategic planning was conducted, it often focused on facilities, with the prevailing notion that, “If you build it, they will come.” The 1990s were characterized by the chaos generated from the emergence of managed care and competition among providers that had previously been collegial. Strategic planning conducted in the 1990s featured a heavy emphasis on maximizing reimbursement.

Chaos is still evident in twenty-first-century healthcare organizations as they continue to contend with competition and reimbursement issues and the added challenge of an increasingly dynamic environment. Technology advances; new competitors, such as physician entrepreneurs and for-profit niche providers; demands for demonstrated quality and increased attention to patient safety and convenience; and the current nursing crisis and looming physician shortage have converged to create an environment in which hospitals and systems
must be prepared to cope with a variety of contingencies that can best be managed by a comprehensive and sound strategic plan.

**THE STRATEGIC PLANNING PROCESS**

Many variations of a strategic planning model have emerged in both the business and healthcare sectors, but the basic model has remained relatively unchanged since its inception. Two similar versions of strategic planning emerged in the 1980s. Sorkin, Ferris, and Hudak (1984) presented the following basic steps of strategic planning:

- Scan the environment;
- Select key issues;
- Set mission statements and broad goals;

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**Figure 1.1: Healthcare Strategic Planning: A History**

Pre-1970
- Fee for service
- Cost plus reimbursement
- Little need for strategic planning

1970 to early 1980s
- Regulation
- Fee for service
- Strategy = Build it (facilities) and they will come

1990s
- Chaos
- Competition
- Managed care
- Uncertainty
- Strategy = Maximize reimbursement

2000+
- Chaos + Dynamic environment
- Strategy = Contingency-based approaches

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Undertake external and internal analyses; 
Develop goals, objectives, and strategies for each issue; 
Develop an implementation plan to carry out strategic actions; and 
Monitor, update, and scan.

Simyar, Lloyd-Jones, and Caro (1988) tailored the process to healthcare strategic planning.

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

For the purposes of this book these various steps of strategic planning have been synthesized into the four stages illustrated in Figure 1.2. The first stage is the environmental assessment that focuses on the question of where we are now; it includes four activities:

1. Organizational review, including mission, philosophy, and culture; 
2. External assessment of the market structure and dynamics; 
3. Internal assessment of distinctive characteristics; and 
4. Evaluation of competitive position, including advantages and disadvantages.

The goal of the environmental assessment is to determine which factors are subject to the organization’s control and how external forces will affect the organization.

The second stage of the planning process is organizational direction, followed by the third stage of strategy formulation. Stages two and three address the question, Where should we be going? The main activity of the organizational direction stage is to develop a future strategic profile of the organization by examining alternative futures, mis-
**Figure 1.2: Strategic Planning Approach**

**Focus**

Where are we now?

- **Environmental Assessment**
  - Organizational Review
    - Mission
    - Philosophy
    - Culture
  - External Assessment
    - Market structure and dynamics
  - Internal Assessment
    - Distinctive characteristics

Where should we be going?

- **Organizational Direction**
  - Evaluate Competitive Position
    - Competitive advantages and disadvantages (SWOTs*)
  - Develop High-Level Direction
    - Alternative futures
    - Mission, vision, values, and key strategies

How do we get there?

- **Strategy Formulation**
  - Establish Goals and Objectives
    - For critical issue areas identified in preceding activities

- **Implementation Planning**
  - Identify Actions Required
    - Implementation plan
      - Schedule
      - Priorities
      - Resources

**Selected Issues**

- Which factors are subject to our influence or control?
- How will our competitive position be affected by external forces?
- How are mission and business responsibilities balanced?
- What is our stance in terms of total independence vs. affiliation or collaboration?
- How are resources allocated?
- What are the priorities for implementation?

**Update/Revise**

- SWOTs = strengths, weaknesses, opportunities, and threats.
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vision, vision, values, and key strategies. Strategy formulation, stage three, establishes goals and objectives for the organization. The purpose of these stages of the planning process is to determine what broad, future direction is possible and desirable and what, generally, the organization is going to target as its future scope of services and position.

The fourth and final stage is action planning, determining how we get there. This stage involves identifying the actions needed to implement the plan. Key activities include setting a schedule, determining priorities, and allocating resources to ensure implementation. While implementation needs to occur as soon as possible after completion of the plan, if not actually during this final stage, a return to the initial stages and updating of the plan, at least in part, ensures that strategic planning becomes an ongoing activity of the organization. Each of these stages will be discussed in detail in the following chapters.

WHY STRATEGIC PLANNING?

With the chaos pervading the healthcare field, many executives and not-for-profit boards may wonder if it is possible to plan effectively or plan at all given the uncertainty ahead. Why not rely on ad hoc planning based on educated guesses and intuition? Healthcare organizations may have historically survived using less formalized approaches to make policy decisions, but today’s providers must be more thoughtful about their choices. Mistakes will result not only in lost revenue but also closure.

Fogg (1994) suggests the following benefits of strategic planning:

- **Secures the future** for the organization and the individual by crafting a viable future business.
- **Provides a road map, direction, and focus** for the organization’s future—where it wants to go and the routes to get there. It lets the organization align its activities with the thrust of the corporation, a continuous process that most people and organizations subconsciously and inherently seek. People know that aimlessness gets you anywhere the winds of competition and serendipity take you, often to detours and dead ends.
- **Sets priorities** for the really important strategic tasks that absolutely must be accomplished, including those hairy, burning issues, such as lack of direction and growth, lack of profitability,
and organizational ineffectiveness, that everybody talks and knows about, while wondering why they are not being addressed.

- **Allocates resources** available for growth and change to the programs and activities with the highest potential payoff.
- **Establishes measures** of success so that the progress of the organization and individuals can be measured. It is a fundamental business and human need to know where you stand.
- **Gets input and ideas** from all parts of the organization on what can be done to ensure future success and eliminate barriers to that success in accordance with the old adage that ten or one hundred or one thousand heads are better than one.
- **Gains commitment** to implement the plan by involving the organization in its development.
- **Coordinates** the actions of diverse and separated parts of the organization into unified programs to accomplish objectives.

Fogg (1994) notes that

When all is said and done, employees also recognize what’s in it for them personally: the resources to do what they want if they plan; a more secure future if the organization plans well and does well; financial rewards if they make themselves heroes as a result of the process; recognition by their peers and superiors if they succeed; and, of course, the inverse of all the above if they fail.

Ginter, Swayne, and Duncan (2002) believe that strategic planning

- Ties the organization together with a common sense of purpose and shared values;
- Improves financial performance in many cases;
- Provides the organization with a clear self-concept, specific goals, and guidance as well as consistency in decision making;
- Helps managers understand the present, think about the future, and recognize the signals that suggest change;
- Requires managers to communicate both vertically and horizontally;
- Improves overall coordination within the organization; and
- Encourages innovation and change within the organization to meet the needs of dynamic situations.
According to Nadler (1994), for many organizations the true value lies in the planning process, not the plan: "Most plans have a tremendously fast rate of depreciation. By the time they’re printed and bound they’ve become obsolete. The value of planning is largely in the shared learning, the shared frame of reference, the shared context for those small decisions that get made over time."

Indeed changes may occur daily that influence a strategic plan, and new ideas may surface once the plan is complete. A successful strategic plan enables providers to establish a consistent, articulated direction for the future. But the plan is also a living document that must be monitored and revised to meet both anticipated and unanticipated needs of the organization and the market, whether these changes are related to managed care, integrated delivery, healthcare reform, systems development, technological advances, or other challenges on the horizon.

WHAT IS EFFECTIVE STRATEGY?
Beckham (2000) indicates that when strategy is effective, it has seven key characteristics:

1. **Sustainability.** It has lasting power, with greater long-term impact than other initiatives.
2. **Performance improvement.** It results in significant improvement in key performance indicators.
3. **Quality.** It is a demonstrably superior approach versus those of competitors.
4. **Direction.** It moves the organization toward a defined end, although not necessarily in a linear fashion.
5. **Focus.** It is targeted and represents a choice to pursue a certain course over other attractive alternatives.
6. **Connection.** The set of strategies employed have a high level of interdependence and synergy.
7. **Importance.** It may be not essential to organizational success, but it is certainly significant or fundamental.

Considerable strategic planning and strategizing occur in healthcare organizations, yet much of this effort fails to achieve the benefits and outcomes cited in this chapter, and some is blatantly ineffective. Measuring the performance of strategy against Beckham’s seven characteristics and avoiding many of the problems described in the next
section should go a long way toward increasing the value of strategic planning.

**TYPICAL PROBLEMS THAT LIMIT THE EFFECTIVENESS OF STRATEGIC PLANNING**

Many healthcare organizations that have undertaken strategic planning experienced problems that jaded their leaders to the value of planning. Several problems are typically encountered during the strategic planning process.

**Failing to Involve Appropriate People**

Sometimes there is too much involvement; sometimes too little. In other cases, the amount of participation is fine but does not necessarily come from the right people. Thoughtful involvement of the right type and mix of internal and external stakeholders is essential.

**Conducting Strategic Planning Independently of Financial Planning**

If financial considerations are excluded from the strategic plan, strategies may never become a reality. Sound strategic planning will explicitly incorporate financial realities and capabilities.

**Falling Prey to Paralysis of Analysis**

The fast-paced healthcare market demands that providers respond to opportunities and threats without extensive delays. Many providers are lulled into a sense of security when they are planning and squander time over endless fine-tuning and revisions. When exhaustive planning takes over, little change or progress occurs.

**Not Addressing the Critical Issues**

The most pressing issues may not be addressed because they are too difficult to deal with or so many issues are identified that none are appropriately addressed. If leadership is not prepared to initiate discussions of key issues, strategic plans focus on minor topics and ignore the most critical and threatening ones.

**Assuming that Established Objectives Take Care of Themselves**

Failure to implement a strategic plan is one of the most common flaws of the planning process. Staff may be overwhelmed with managing day-to-day crises, leaving little time to implement strategic
objectives. The objectives may also lack precision so that ensuing activities lack direction.

**Failing to Develop Consensus**
Even though a great strategic plan may have been developed, it is imperative that strong support and enthusiasm exist for the recommendations. Leadership must address this issue directly to ensure that the benefits of the strategic plan are realized.

**Lacking Flexibility and Responsiveness to the Environment**
Plans can be too rigid, inhibiting flexibility, creativity, and innovation. A more fluid, dynamic, and ongoing process, as suggested in the strategic management approach described in Chapter 9, should help address this issue.

**CONCLUSION**
When strategic planning first became commonplace in healthcare in the early to mid-1980s, it was a first-generation approach applied in a far less complex healthcare environment. Twenty or so years later, state-of-the-art strategic planning has progressed to at least the third or fourth generation of sophistication, driven by improvements in the discipline and developments in the field.

Strategic planning’s application in healthcare organizations today differs from that of the past in five critical ways:

1. **The environment has evolved and is changing at an even faster pace.** The rate of change is a key factor in causing strategic planning to be practiced in a more dynamic fashion.
2. **The competitive environment is much more intense than at any time in the past.** The number of competitors, increasing for-profit influence in healthcare delivery, decline of geographical barriers to competition as a result of the Internet, and other less significant factors raise the competitive ante and force strategic planning to be more externally focused and fluid.
3. **Healthcare organizations have grown into vast multientity systems.** The emergence of systems, especially in the past five to ten years, has ratcheted up the complexity of strategic planning.
4. **The financial underpinning of healthcare delivery has been destabilized.** When organizations are operating in an environ-
ment of increasing financial risk and uncertainty, strategic planning needs to be linked more clearly to financial planning and contribute more directly to financial performance.

5. **The time frame within which to act and generate results is increasingly shortened.** Strategic planning must address near-term pressures while still directing organizations toward long-term targets.

With this chapter as a backdrop, succeeding chapters present contemporary strategic planning approaches.

**REFERENCES**


