CHAPTER 1

Is Strategic Planning Still Relevant?

Planning is bringing the future into the present so that you can do something about it now.

—Alan Lakein

If you don’t know where you’re going, any road will take you there.

—Lewis Carroll

Strategic planning has been an important and frequently used management tool, both inside and outside of healthcare, for decades; however, questions about its relevancy and effectiveness in that role have persisted.

Swayne, Duncan, and Ginter (2008) note that “After almost four 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.”

While academicians and industry analysts are divided on the bottom-line value of strategic planning, executives and managers on the front lines argue that it is still relevant and even consider it a central management and governance discipline, especially in rapidly changing operating environments. Bellenfant and Nelson
(2010) write, “Those organizations that look to the future, by planning and evolving to meet expected changes head on, will have a better chance of survival. Strategic planning has added value to hospitals that are looking for ways to protect their financial viability while adapting to the ever-changing environment around them.” While Begun and Kaissi (2005) confirm that little is known about the extent to which healthcare organizations conduct formal strategic planning or how it affects performance, their study of 20 healthcare organizations indicates that strategic planning is a common and valued function. Most of the leaders at the organizations studied responded that strategic planning contributes to organizational focus, fosters stakeholder participation and commitment, and leads to achievement of strategic goals.

A 2005 survey of 440 provider-based healthcare professionals found that strategic planning is practiced with regularity by healthcare organizations and appears to be a well-regarded process among executives (Zuckerman 2007). Nearly 40 percent of respondents developed or updated their strategic plans annually, and another 40 percent did so every two to three years. On a five-point scale, with five being the highest rating and one the lowest, questions asking respondents to rate their strategic planning processes and outcomes received an average response of nearly four.

**STRATEGIC PLANNING IS . . .**

The concept of strategy has roots in both political and military history, from Sun Tzu to Homer and Euripides (Swayne, Duncan, and Ginter 2008). The word *strategy* comes from the Greek *strategos*, which means “to plan the destruction of one’s enemies through effective use of resources” (Bracker 1980). Many terms associated with strategic planning, such as *objective*, *mission*, *strength*, and *weakness*, were developed by or used in the military (Swayne, Duncan, and Ginter 2008).
A number of definitions have evolved to pinpoint the essence of strategic planning. According to Swayne, Duncan, and Ginter (2008), “strategic planning defines where the organization is going, sometimes where it is not going, and provides focus. The plan sets direction for the organization and—through a common understanding of the vision and broad strategic goals—provides a template for everyone in the organization to make consistent decisions that move the organization toward its envisioned future. Strategic planning, in large part, is a decision-making activity.”

Beckham (2000) describes 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, 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 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 OF HEALTHCARE**

Strategic planning has been used in the general business community since the mid-twentieth century. Planning, programming, and budgeting systems were introduced in the late 1940s and early 1950s but used only sparingly by business and government at that time. 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). An emphasis on total quality management and productivity also emerged in strategic planning in the 1980s as strategists followed the lead of Jack Welch, head of General Electric.

In the twenty-first century, competitive strategy has become a prominent feature in strategic planning practices, along with a notable uptick in plans that call for alliances and mergers. But today’s profoundly uncertain times have forced business strategists to acknowledge that strategic planning as usual will not provide the foundation needed to survive tumultuous economic conditions. Dye, Sibony, and Viguerie (2009) note that scenario planning, a tested technique for coping with uncertainty, will play a more critical role in strategic planning and companies must consider more variables and involve more decision makers than in the past. They also predict that greater emphasis on measurement will be needed to monitor changing market conditions and make quick strategic adjustments.

Rheault (2003) contends that quick reactions are valued more than well-reasoned responses in highly dynamic markets, but Einblau (2003) points out that change is inevitable—sometimes it happens quickly and other times it evolves slowly, 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. Operating in this uncertain climate requires 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.

An irony noted by Hamel (1996) is that most strategic planning is not strategic. He stresses that only a small portion of an indus-
try’s conventions is ever challenged and that the planning processes harness only a small amount of an organization’s creative potential. Hamel suggests that most strategy planning can be characterized as ritualistic, reductionist, extrapolative, positioning, and elitist. Instead, he says, strategic planning should be inquisitive, expansive, prescient, inventive, inclusive, and demanding. Hamel also emphasizes that strategy making is assumed to be easy, which of course it is if organizations limit the scope of discovery, the breadth of involvement, and the amount of intellectual effort expended.

A 2006 McKinsey Quarterly survey of almost 800 business executives found that while three-quarters of the respondents reported that their company had a formal strategic planning process, fewer than half were satisfied with their company’s approach to planning strategy. The most significant concerns focused on executing the strategy, communicating it, aligning the organization with the strategy, and measuring performance against the plan (McKinsey 2006).

Despite the uncertainties about its value, strategic planning is being used frequently and is considered critical to the success of organizations. A 2003 survey by the Buttonwood Group of 225 US 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 represented in the survey spent $3.1 million to produce the plan (Taub 2003).

HEALTHCARE STRATEGIC PLANNING

Healthcare organizations have used strategic planning sporadically since the 1970s, orienting it toward providing services and meeting the needs of the population. Prior to the 1970s, healthcare organizations were predominately independent and not-for-profit, and healthcare planning was usually conducted on a local or regional basis by state, county, or municipal governments.
As illustrated in Exhibit 1.1, from the 1970s through the early 1980s, regulation became more prominent, but the fee-for-service system ensured steady revenue sources. When healthcare organizations engaged in strategic planning, the effort 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 who had previously been collegial. Strategic planning conducted in that decade 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. The Patient Protection and Affordable Care Act, signed into law in March 2010 and preceded by many months of speculation about what the legislation might include, has ushered in a new era of strategic planning. Providers across the country are examining their current and future role in an era of reform where quality, service, cost competitiveness, scale and scope, and integration will move to the forefront of strategic priorities.

For many healthcare organizations, previously crafted strategies must be reexamined, and in some cases, a strategic overhaul may be needed to orient the organization to the realities of the reformed marketplace. Providers are being challenged to focus on improving their market positions and increasingly differentiate themselves from the competition in their key service lines. Merger or acquisition strategies are prominent nationwide, particularly so in crowded markets and those with financially fragile healthcare organizations.

Rapidly changing technology; increasing competition from physician entrepreneurs and for-profit niche providers; and the looming shortage of physicians, nurses, and other healthcare professionals will also contribute an element of uncertainty to the healthcare environment. Healthcare organizations with comprehensive, sound strategic plans will be best positioned to respond with contingency plans as change emerges.

The Strategic Planning Process

Many variations of a strategic planning model have emerged in the business and healthcare communities, but the basic model remains relatively unchanged. Two similar approaches to strategic planning were developed in the 1980s. The first, documented by Sorkin, Ferris, and Hudak (1984) features the following steps:

- Scan the environment
- Select key issues
• Set a mission statement and broad goals
• Undertake external and internal analyses
• Develop goals, objectives, and strategies for each issue
• Develop an implementation plan to carry out strategic actions
• Monitor, update, and scan

The second was tailored to healthcare and included these steps (Simyar, Lloyd-Jones, and Caro 1988):

• 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-range and short-range plans to support and carry out the strategy
• Implement the plan and conduct an ongoing evaluation

For the purposes of this book, the steps from the two approaches are synthesized into four stages, as illustrated in Exhibit 1.2. The first stage is the environmental assessment, which focuses on the question, Where are we now? It includes four activities:

1. Organizational review, including mission, philosophy, and culture
2. External assessment
3. Internal assessment
4. Evaluation of competitive position, including advantages and disadvantages
The goal of environmental assessments is to determine how external forces might affect the organization in the future and what factors might be addressed to deal with environmental challenges.

The second stage of the planning process is organizational direction, followed by the third stage, 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 by examining alternative futures, mission, vision, values, and key strategies for the organization. Strategy formulation establishes goals, objectives, and major initiatives for the organization. The purpose of stages two and three of the planning process is to determine what broad, future direction is possible and
The fourth stage is implementation planning—How do we get there? This stage involves identifying the actions needed to implement the plan. Key activities include mapping out the tasks to accomplish the goals and objectives, setting a schedule, determining priorities, and allocating resources to ensure implementation. Implementation should occur as soon as possible after completion of the plan, if not during the final stage. Commitment to ongoing monitoring of plan implementation and completion of periodic updates and revisions, as needed, should be in place prior to finalizing the plan. Each stage of the planning process is discussed in detail in the following chapters.

**WHY STRATEGIC PLANNING?**

The pervasive and deep impact of environmental change on healthcare providers may lead some healthcare executives and boards to conclude that long-term planning is a pointless exercise. Could ad hoc planning be as effective as a long-term strategic plan that is crafted during a period of rapid change and uncertainty? Healthcare organizations have historically survived using less formalized planning approaches.

Despite uncertain market conditions and unstable economic circumstances, healthcare providers can rely on a number of certainties. Regardless of whether healthcare reform is repealed, altered, or left as is, healthcare organizations will have to do more with less. Value will be the hallmark of successful providers. The population will continue to age. Patient care that is coordinated and of the highest quality will be rewarded. The shortage of physicians, nurses, and other care professionals will not go away. Failing to plan for these inevitabilities and others or postponing action to mitigate them could weaken a healthcare organization to the point where survival is not possible.
THE BENEFITS OF STRATEGIC PLANNING

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

- It **secures the future** for the organization and its leaders by crafting a viable future business.
- It **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 each part of the organization align its activities with the direction of the corporation in a continuous process.
- It **sets priorities** for the crucial strategic tasks, including the complex, 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.
- It **allocates resources** available for growth and change to the programs and activities with the highest potential payoff.
- It **establishes measures** of success so that the progress of the organization and individuals can be gauged. Knowing where one stands is a fundamental business and human need.
- It **gathers input and ideas** from all parts of the organization on what can be done to ensure future success and eliminate barriers to that success, following the old adage that ten or one hundred or one thousand heads are better than one.
- It **generates commitment** to implement the plan by involving all parts of the organization in its development.
- It **coordinates** the actions of diverse and separate parts of the organization into unified programs to accomplish objectives.

Fogg (1994) further 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.

Swayne, Duncan, and Ginter (2008) believe that the three stages of strategic management—strategic thinking, strategic planning, and strategic momentum—provide many benefits, including

- tying the organization together with a common sense of purpose and shared values;
- improving financial performance in many cases;
- providing the organization with a clear self-concept, specific goals, and guidance and consistency in decision making;
- helping managers understand the present, think about the future, and recognize the signals that suggest change;
- requiring managers to communicate both vertically and horizontally;
- improving overall coordination within the organization; and
- encouraging innovation and change within the organization to meet the needs of dynamic situations.

According to Nadler (1994), for many organizations the true value of strategic planning lies in the 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 that influence a strategic plan may occur daily, 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 it is also a living document that must be monitored and revised to meet anticipated and unanticipated needs of the organization and the market, whether changes occur in managed care, integrated delivery, healthcare reform, systems development, technological advances, or other arenas.
WHAT IS EFFECTIVE STRATEGY?

Beckham (2000) proposes seven key characteristics of effective strategy:

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 to 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.** Its components have a high level of interdependence and synergy.
7. **Importance.** It may not be essential to organizational success, but it is certainly significant or fundamental.

Healthcare organizations undertake considerable strategic planning and strategizing, yet much of this effort fails to achieve the benefits and outcomes cited in this chapter, and sometimes it is completely ineffective. Senior leaders can increase the value of their strategic planning by measuring the performance of the organization’s strategy against Beckham’s seven characteristics and avoiding many of the problems described in the next section.

TYPICAL PROBLEMS THAT LIMIT THE EFFECTIVENESS OF STRATEGIC PLANNING

Many healthcare organizations that undertake strategic planning experience common problems that leave their leaders jaded about the value of such planning.
Failing to Involve the Appropriate People

Sometimes too many stakeholders are involved; sometimes too few are. Sometimes, the number of participants is fine but those involved are not necessarily 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 Analysis Paralysis

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, very 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 challenges.
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 Achieve Consensus

Even a great strategic plan cannot succeed without strong support and enthusiasm. Leadership must garner support directly from stakeholders to ensure that the benefits of the strategic plan are realized.

Lacking Flexibility and Responsiveness to the Dynamic 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.

Ignoring Resistance to Change

Resistance to change can cause delays, waste, or complete derailment of a strategic priority. Failure to address resistance swiftly and directly may lead to chronic and long-term consequences with devastating effects.
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 than we operate in today. Thirty years later, state-of-the-art strategic planning has become much more sophisticated, driven by improvements in related disciplines 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, the increasing for-profit influence in healthcare delivery, the decline of geographic barriers to competition as a result of the Internet, and other less significant factors raise the competitive stakes 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 environment 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.