

# Managing Health Care Business Strategy

George B. Moseley III



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# DEDICATION

Dedicated to my good friend and one of the most competent attorneys in Palestine, Tawfik Abu-Ghazaleh.



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# ABOUT THE AUTHOR

George B. Moseley III holds the position of Lecturer in Health Law and Management on the faculty of the Harvard School of Public Health. He currently teaches the courses Introduction to the New American Health Care System: Law, Policy, and Management; and Leading and Managing People in Health Care Organizations. He is the author of *Managed Care Strategies: A Physician Practice Desk Reference*. He is a consultant on strategic management for new biotechnology ventures, physician group practices, and hospitals, and he conducts research on the adoption of new technologies by healthcare organizations. He received his MBA from the Harvard Business School and his JD from the University of Michigan Law School.



# P R E F A C E

Both the healthcare and biotech industries are sorely in need of the application of modern and innovative professional management principles, as well as a new generation of managers skilled in using those principles. The purpose of this book is to teach knowledge and skills of strategic management to the students who will become the healthcare and biotech executives of the future.

Healthcare organizations began two decades ago the transition from entities that were passively administered to ones that are actively managed. Many of the larger hospitals, physician group practices, integrated delivery systems, and managed care organizations have completed the transformation to run efficient business operations. Those that have been acquired by for-profit corporations or have converted to for-profit status were compelled to adopt modern management practices very quickly. There still are a great many healthcare businesses that are lagging in making this transition. Many of them are smaller and medium-sized, or of nonprofit status.

The pharmaceutical and biotechnology industries are also at turning points. The development of new drugs has become much more expensive, it takes years longer to complete the research and development process, and the probabilities of creating blockbuster products that are worth the investment are declining. The hope that was placed in new small, highly innovative research-oriented ventures and startups has not been borne out. The existing research and financing models for development of new healthcare technology no longer seem to be effective. New models are being tested and tried.

In particular, these industries need to practice strategic planning and management. The environments in which they operate are in constant ferment. The national healthcare “system” is undergoing persistent, radical changes and adjustments. There is an accelerating flow of proposals for revolutionary reform of the system at both the state and national levels. The market for healthcare services has become increasingly competitive. Some might argue that strategic planning does not make sense in such a fluid environment. Quite the contrary. An organization needs a thoughtful long-range perspective if it is to chart an optimal course through this turbulent sea of threats and opportunities.

Health care and biotechnology do not need to invent new management practices. There is a wealth of proven management models and techniques from other industries. However, there are features and characteristics of healthcare delivery and payment, and of biotechnology research, that

distinguish them from all other industries, and that make it inappropriate to apply blindly the strategic management principles that are practiced in most other industries. Those principles do provide a solid foundation of knowledge and practice, which must then be interpreted and tailored to the healthcare and biotechnology settings.

These trends have created a demand for skilled managers who are both trained in modern management principles and familiar with the conditions of the healthcare market and industry. Healthcare management has become a viable and promising career path. A number of business and other schools, both graduate and undergraduate, are now offering degrees, concentrations, and courses in healthcare management.

Because the demand for professional managers in health care has emerged only recently, it has taken some time for related books and other materials to be developed. Although there is a fairly substantial booklist dealing with healthcare operations, relatively few books attempt to discuss strategic issues in the healthcare context. Most of these are not designed as textbooks. They do not include material to facilitate the learning process. Some are idiosyncratic in their explanations of basic strategy concepts. Some do not offer comprehensive coverage of the full range of established principles of strategic planning and management. There is a need for textbooks and other learning materials for people at the beginning of their careers, studying modern business management for the first time, seeking a foundation in professional management concepts, particularly relating to strategic thinking and acting, but as applied to the healthcare and biotechnology industries. That is the idea behind this book.

The book has been conceived from the beginning with an audience in mind of students who are excited by the prospect of a career that takes them to high-level executive positions in healthcare or biotechnology organizations. Its purpose is to help them, with the aid of their instructors, to comprehend the basic principles of managing strategy in those organizations. Throughout the book, the emphasis is on the practical application of those principles. The goal is to give students knowledge and skills that they can employ directly in the jobs that they will hold. It is assumed that most of them will have no or very little previous exposure to management, strategy, or the healthcare industry. The intention is that students who complete a course using this book will be well positioned to assume strategic management responsibilities with any organization they join.

The book incorporates numerous features designed to provide optimal learning value to the students. The foundation of the book lies in the fundamental strategic management principles and practices that are well established in professionally run organizations throughout the world. These principles are interpreted and applied in the healthcare and biotech-

nology contexts. There are frequent references to specific applications in those fields. At the end of each chapter, there are study questions that do more than ask students to repeat information found in the text; rather, they encourage students to do creative thinking about the issues they have just studied. Even more stimulating are the learning exercises that call for interviews with strategic decision-makers, research on strategic challenges facing real-world organizations, and the preparation of consultant-like recommendations on strategic issues.

The chapters are arranged in a natural progression that follows the traditional strategic planning and implementation process. After establishing and explaining basic strategy concepts in Chapter 1, the next four chapters are devoted to the ground-laying assessments that must precede serious strategic planning. These include an internal audit of the organization's strategic assets, assessment of general factors in the organization's external environment, assessment of the markets and customers that it is serving, and assessment of the industry in which it operates and competitors that it faces there. The separate chapter examining market and customers, so important in the healthcare field, is unique among strategic management textbooks. On the basis of those assessments, the organization defines its future direction in the ways described in the following chapter. Actual formulation of strategies is explained in the next two chapters. One concentrates on strategy at the level of the large multi-unit corporation, while the other explores strategy within individual business units and functional areas. The next chapter addresses another topic often given inadequate attention in strategic management textbooks—the implementation of the strategies selected. The final step in a superior strategic and management process is for monitoring and fine-tuning of the strategies, and is examined in the following chapter. A separate chapter is dedicated to the critical topic of strategic financial management. The final chapter in the book covers alternative organizational types that are so prevalent in the healthcare field—not-for-profit organizations, public/government agencies, and new ventures/startups.

The book content is based on my own training and experience in general business management, strategic management, and the U.S. healthcare system. It reflects case studies I have researched and written about healthcare organizations, my professional contacts with healthcare industry leaders and biotech entrepreneurs, and consulting work that I have done on strategic matters for physician groups, hospitals, and new technology ventures.

I wish the students who read this book, with the coaching of their instructors, great success in their careers as healthcare and biotechnology executives.

