

GEORGE B. MOSELEY III, JD, MBA

Managing Health Care Business Strategy

SECOND EDITION



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*Dedicated to all the students in the first three cohorts of
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About the Author

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of *Managing Health Care Business Strategy*, and *Managing Legal Compliance in the Health Care Industry*. He is a consultant on strategic management to bioscience startups and new ventures, physician group practices, and hospitals. He conducts research on national policies for developing biotechnology education, research, and entrepreneurship, health care reform in developing countries, and strategic healthcare initiatives for emerging markets. He received his master of business administration (MBA) from the Harvard Business School and his juris doctor degree from the University of Michigan Law School.

Preface to the First Edition

Both the health care 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 health care and biotech executives of the future.

Two decades ago health care organizations began 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 health care businesses that are lagging in making this transition. Many of them are smaller and medium-sized or of non-profit 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 start-ups has not been borne out. The existing research and financing models for development of new health care 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 health care “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 health care 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 health care 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 health care 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 health care market and industry. Health care 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 health care 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 health care operations, relatively few books attempt to discuss strategic issues in the health care 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 health care 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 health care 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 health care 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 health care and biotechnology 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 think creatively 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 health care 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, and 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—monitoring and fine-tuning of the strategies—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 health care field—not-for-profit organizations, public/government agencies, and new ventures/start-ups.

The book content is based on my own training and experience in general business management, strategic management, and the U.S. health care system. It reflects case studies I have researched and written about health care organizations, my professional contacts with health care 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 health care and biotechnology executives.

Preface to the Second Edition

In the 7 years since the publication of the first edition of *Managing Health Care Business Strategy*, the pace of change and competition in the health care industry has become more tumultuous. Obamacare has made progress in reducing the number of people who are uninsured but also is showing significant weaknesses. Consolidation through merger and acquisition is sweeping up health plans, hospital chains, drug companies, and biotech firms. Nearly every provider organization continues to operate under financial duress. The leadership of these businesses has faced up to the challenges by becoming more professional and better trained. More than ever, managers are taking a long-term, forward-looking attitude toward their decisions. Their thinking is becoming more strategic.

The first 10 chapters of the first edition provided a solid, concise introduction to the “best practices” in strategic planning and management. They make up the core of the second edition but in an enhanced form. They are organized into four sections titled Introduction, Audit of Assets and Environment, Formulating Strategies, and Implementing Strategies. Those chapters now include new material on:

- Role of Leadership in Strategic Planning
- Role of Board of Directors in Strategic Planning
- Balanced Scorecard: A Tool for Linking Strategy to Action?
- The Transition to Value-Based Reimbursement
- Linking Strategy to Operations
- Comparing the Critical Success Factors in Multiple Competitors
- Anticipating a Competitor’s Response to a Firm’s Strategic Initiative

- How to Execute a Strategy That Builds a Sustainable Competitive Advantage
- Guidelines for Defining an Organization’s Mission
- Guidelines for Describing an Organization’s Vision
- Guidelines for Articulating an Organization’s Values
- Corporate-Level Strategies in Health Care Today
- Globalization of Health Care and Its Implications for Strategic Planning

They also benefit from 11 new study questions and 11 new learning exercises.

The purpose in writing a second edition of the book is to take the study of strategic planning to a deeper level of skill and knowledge. Through ten additional chapters, students of strategy will be introduced to the finer details of formulating and implementing strategic initiatives.

All the options most commonly employed by business leaders to carry out their strategies are explained in a section encompassing four new chapters. They include practical guidelines on when and how to use them. Chapter 11 starts with methods for growing an organization by expanding from within, relying solely on its own resources to enter new markets, open new distribution channels, or develop new products. Chapter 12 takes a wider view, looking outside the organization to other entities that might be potential collaboration partners. The even bolder strategic move of a merger or acquisition is explored in Chapter 13. When the strategic situation becomes problematic, the alternatives presented in Chapter 14 are often necessary: downsizing, divestment, and bankruptcy.

To have any chance of success, both the planning and the implementation of strategies must be supported by an organization's key functional areas or departments. Another four chapters are devoted to the strategic contributions of finance, marketing, human resources, and legal. Chapter 15 describes how financial management can be integrated with strategic planning, particularly on matters like organizational creditworthiness and capital allocation. Chapter 16 demonstrates the strategic value of marketing's unique knowledge of markets, customers, and their needs. Competently implementing a strategic plan and gaining a competitive advantage through effective use of human resources is the topic of Chapter 17. The effects of numerous laws and regulations on health care organizations and their strategies, and how to cope with them, are covered in Chapter 18.

The chapters in the last section look at a few general factors in the management of organizations that have a direct bearing on the execution of their strategies. In Chapter 19, the way that an organization structures itself and the values and beliefs that guide its employees' behaviors are discussed for their strategic relevance. One of the major challenges for managers at all levels, in a constantly evolving work environment, is how to carry out change. Chapter 20 examines the change inherent in every strategy initiative. Executives and managers are always looking for devices that will assist them in their decision making. Several such mechanisms for different stages of the strategic planning process are described in Chapter 21. Chapter 22 is an enhanced version of the material on strategy in other types of organizations that appeared in the first edition.

With the added content, the second edition comes closer to being a comprehensive manual for strategy planners in all kinds of health care entities—for-profit pharmaceutical companies and multi-state health plans, non-profit hospitals, clinics, and charitable foundations, governmental health financing and regulatory agencies, non-governmental health organizations, and new

biotech ventures. It now offers a framework of widely-accepted strategic planning principles coupled with practical advice on how they work in the real world. Completing a course using this book will put a student in a position to facilitate, if not lead, an organizationwide strategic planning effort.

This book can be used as the basis for several course configurations:

- a. A one-quarter course of 8 to 10 sessions using the first 10 chapters, constituting a foundation course in strategic planning. For some students, this may be all they need or want. Assignments or references may be made to material in Chapters 21 and 22.
- b. Another one-quarter course of 8 to 10 chapters using Chapters 11 through 20, with course (a) as a prerequisite. This builds on the first course and is for students more seriously interested in strategic planning.
- c. A full-semester course of 16 to 20 sessions that combines the fundamentals in Chapters 1 to 10 with content on options, functional areas, and support factors in the second half of the book. Specific chapters can be added or omitted to fit the needs of the instructor and the students.
- d. A course that applies basic strategy principles to one type of organization, such as a non-governmental organization or a start-up venture. It would include Chapter 22 with the first 10 chapters.

There are numerous other ways that this book can be utilized for short executive management programs, continuing education courses, small group seminars, massive open online courses (MOOC), and in-house corporate training activities.

My primary purpose in writing this book is to empower people and organizations to practice strategic management at the highest levels. I invite you to collaborate with me in achieving that aim. Please contact me with your comments, questions,

and suggestions. I would specifically like to hear the following.

If you are an instructor of a course on strategic management ...

- What is the title of the course in which you used this book?
- Are you satisfied with your decision to use this book in your courses?
- What should I add to or subtract from the book to make it more useful to you in your teaching?
- What suggestions do you have for improving the book?

If you are a student in a course on strategic management ...

- Will you keep this book for future reference after you have graduated?
- How easy was it to read and understand the concepts presented in the book?
- What is your opinion of the general writing style?
- What suggestions do you have for improving the book?

If you are a manager responsible for planning or implementing strategy ...

- Will you keep this book for future reference in your career?
- Are you aware of case study situations that might be researched for inclusion in the next edition of the book?
- Are you able to use this book for practical advice in your work-related strategy activities?
- What suggestions do you have for improving the book?

You may contact me at gmoseley@post.harvard.edu.

I want to thank one of my students in the health care management MBA program mentioned in the Dedication for his valuable comments on a preliminary draft of this book. His name is Tariq Lodhi.

Once again, I am convinced that you have the potential to be outstanding business leaders, with expert strategy skills, and I wish you great success in the career that lies ahead of you.

