

Chapter 2

Strategic Directions and Views

Once the goals and objectives of an enterprise have been set, different strategic views and directions ought to be solicited in attempt to meet those goals. Two main views are traditionally used in any industry and these include the positional view and the resource based view [1].

In the *Positional view*, strategic planning primarily lies in envisioning the position of a given healthcare provider in the healthcare arena whether it is a primary care or tertiary care provider. The strategist tries to answer the question “where do we stand, what is our market share, and how can we defend it?”. The main Competitive advantage of the firm or hospital is its current position in the market with the industry structure being the arena for competition. In this perspective marketing information system is often deployed as a competitive advantage and used to determine the hospital market share and position. This fact mandates proper understanding of the various industry’s attributes as well as the competitive forces that shape the position of the firm and its long term profitability [2]. The main Industry attributes that are analyzed are the rate of growth and profitability, geographic accessibility, strategic alliances, in addition to the weight and impact of technological innovation on its performance.

In the healthcare industry both growth and technological advances carry significant weight on the Performance of healthcare providers. A fast growing industry is inclined to empower both suppliers and consumers. This is attributed to the demographic changes, advances in research and explosion in medical knowledge at large. Demographically, the increase in the overall world population in parallel with the increase in the average lifespan puts the healthcare industry on a fast growing track with growing demands such as the need for geriatric medical facilities, home care centers and palliative medicine. Similarly, the Technological advances have an impactful role on the growth and profitability of healthcare providers. In the healthcare industry at large and in hospital settings in particular, technological growth is key in providing medical care. Hospitals that assume a forefront position in the health care arena have to ensure a constant stream of financial and human resources to maintain their technological advancement, which in turn challenges

administrators who are keen on providing state of the art diagnostic and therapeutic regimens. On the other hand, when technological advancement is slow, the impact of technological shifts on medical practice is little. This is more commonly seen in primary care facilities or practice in rural areas.

Of equal importance to the industry attributes is the ecosystem which allows the success or failure of a firm's complementary products and services [3]. Example is the role of governmental rules and regulations in healthcare which plays a tremendous role in the insurgence of new competitors such as new hospital facilities and or in fostering the expansion of existing capacities, such as the increase in the number of beds within a hospital. Other examples of Complementary products in healthcare are the means for financial and geographic accessibility to medical services, availability of accessory and adjunctive therapeutic services such as physical therapy following major head and neck surgery.

Once the aforementioned industry attributes have been examined, the strategic analyst in his positional view must dissect Porter's five forces in order to estimate Industry profitability and the rivalry among the existing competitors [4]. The major competitive forces include the "threat of entry", the "power of suppliers", the "power of the customer", the "threat of substitute" and "rivalry among existing competitors" [4].

The threat of entry is intimately related to capital cost requirement, the demand side benefits of scale, and or customer/patient switching cost, in addition to restrictions imposed by governmental policies such as trading barriers, emergence of new laws and patents [4]. In healthcare provision, invariably a large capital is needed as a start, which makes the threat of entry low, especially if the local healthcare policies deter the development of new healthcare facilities. This threat is further deterred by constraints in the healthcare budget. Patient loyalty is also a crucial fact when new threats are in surge. This latter can be enhanced thru the availability of electronic medical record and the accessibility of patients to medical information. The threat of entry also depends on incumbency advantages in terms of cumulative experience and competencies, access to distribution channels, and economy of scale from the supply side. A fifty year old medical center with inherent competencies in terms of processes, flow of patients and flow of information, in addition to a strong network with physicians and neighboring healthcare providers, must have a strong position in the market and thus raises the barriers to entry.

Customers may also exert tremendous power. By customer we are obviously referring to patients who can often exert pressure on hospitals and medical centers especially if they are self-payers. Patient's power can also be derived from group purchasing as seen in compacts made by selected groups, usually of similar profession, and hospitals. A low switching cost exemplified by the presence of nearby competitors, the lack of differentiated services secondary to insufficient resources and expertise, and the ability of customers to integrate backward are also factors that strengthen patient's position in the healthcare chain. The ability to integrate backward is often exemplified when insurance companies buy group practices and

consolidate with hospitals in attempt to control cost and exert pressure on health-care providers.

Substitutes can also represent a threat and limit the profitability of hospitals by reducing their dominance in the market as well. Again this is more prominent when medical services lack differentiation and or branding. Substitutes for conventional medicine can include acupuncture, homeopathic therapy, cognitive therapy, meditation, Chinese medicine and biologically based therapies [5]. These alternatives or complementary medical therapies will not be the subject of discussion in this chapter, but suffices to say that these need to be considered as threats given the cultural context and environment.

Last but not least is market rivalry among existing competitors. This latter is more precipitated in the presence of numerous competitors with almost even powers and when the industry growth is low. When Growth in healthcare is slow, hospitals can turn aggressive in order to either maintain their market share or increase their profitability. The competition becomes fiercer when the exit barriers are high making it very hard and non-lucrative for competitors to leave.

Once the industry attributes have been examined and the competitive forces have been understood with all their underpinning, the role of the strategist is to properly position the firm or hospital vis-à-vis its competitors in the market, to anticipate possible shifts in the market, and to exploit the expected industry changes in attempt to identify emerging opportunities and claim new strategic position. The strategist should also shape the industry structure by reacting to the competitive forces in a constructive manner [6]. In healthcare two examples can be given; one is value constellation and two is Game theory. In value constellation the role of all the key players is reconfigured in order to add value to the end product. The conventional role of each is re-examined in attempt to provide a better product or service [7]. In the supply to purchasing (S2P) project, where suppliers, surgeons and purchasing are the key players, surgeons are invited to examine the most common surgical supplies used with the purpose of optimizing utilization and cost. Engaging physicians in the design and utilization of supplies is an example of value constellation and value addition. Another example of reacting to the competitive forces is the value net strategic frame by Brandenburger and Nalebuff [8]. In any game the essence of a win-win relation lies in the provision of an added value to the end product or service by all the key players. By looking at the position of all the stakeholders and using an allocentric rather than egocentric perspective, the cooperative as well as the competitive nature of any game is enhanced. This value net strategic framework highlights the interdependence of the participants in healthcare provision, namely the patient, physician, medical staff and third party players, while emphasizing the strong interaction between them. So in order to create value within this framework identification of the major players and the understanding of the basic rules of the game is crucial.

Another equally important strategic view in addition to the positional view is the **Resource based view**. In this view the strategist looks within the institution at its resources and capabilities in attempt to develop new competencies that are of strategic relevance [9]. The main question to be answered is “What are we good at”

and how can we leverage on our competencies to expand our market share and grow further. This view is more commonly adopted in unstable environments characterized by turmoil that makes industry attractiveness an elusive strategic start [10]. Instead, the firm's bundle of resources and capabilities are exploited in a strategic competitive manner. The resources, defined as "the productive assets of a firm" can be either tangible such as properties and equipment or intangible such as branding, reputation and tacit information embedded in routinization and processes. Capabilities on the other hand are the way resources are deployed in a constructive manner towards the achievement of a desired end result. These can be classified either on a functional basis thru the identification of various capabilities within the different functional units of the institution, or based on a value chain analysis of the main activities undertaken by that institution. An example of a capability within a functional unit is the diagnostic yield in the department of radiology. The imaging equipment considered as resources are deployed in a successful manner thru the radiology staff to generate a major capability that carries a high diagnostic yield. Similarly, if we were to examine the value chain activities in the work up of a patient with chest pain, the Fast flow of information and efficient management in the emergency department may be considered as major capabilities. In both cases, it is important to note that for a capability to be of strategic relevance it must generate a competitive advantage through proper exploitation of its corresponding competencies.

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