

# Strategic Planning and Marketing

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Today, as the hospitals' environment become more complex, increasing number of organizations are developing strategic plans. Changes brought by Indonesia's policy objective of development through industrialization, manufacturing and the push for export-oriented industries are creating new demands and expectations for the nation's hospitals. These changes, the dynamics of health care, the need to improve the delivery of health services, and the need to contain rising health care costs, argue for effective responses from hospitals. The formulation of responses is an outcome associated with strategic planning and marketing. Adjusting the positions of organizations to fit the changes in the environment is a function of strategic management.

This paper is a review of some of the approaches US hospital management have used in responding to the rapid changes brought by intense competition and prospective payment system. Given there are differences between Indonesia's and United State's health care systems, to a great extent, however, there are parallels and similarities between the two. In my opinion it is a matter of degree. Subsequently, broad efforts and trends in the US to control cost and improve accessibility have indirect implications to Indonesia as these are goals both countries share. To this end, it is hoped that this paper will contribute positively to the discussions and debates on how we could perfect the nation's delivery system and meet its goal, that of, providing the best health care possible, within reason.

## **STRATEGIC PLANNING DEFINED**

Strategic planning is an activity that supports strategic management. Inherent in the concept is the idea that an organization can best serve its overall purpose when there is a grand design or a prethought scheme to develop and manage the

organization.

The concept may be described as matching organizational resources and capabilities with environmental changes, threats and opportunities. Strategic planning is a formal, ongoing process of developing, evaluating and implementing goals selected from key alternatives to guide actions and decision-making. The process is comprehensive in that it involves consideration of the interrelatedness of problems and issues, and seeks to understand the full implications or likely consequences of proposed actions in advance of making decisions. Strategic planning as a prerequisite to action is imperative.

Plans, the outcome of strategic planning process, are a blueprint for operating decisions. Key features in a effective plan are as follows :

- Plans should strive for higher level of achievement.
- Plans should be based on a thorough assessment of the community needs, organizational capabilities, and the conditions in the external environment.
- Plans should be comprehensive in scope and developed with the broadest participation of key players.
- Plans should be realistic, action-oriented, and continually evaluated as important changes occur.

There are at least two dimensions of strategic management: the process of strategic planning and the content (programs and structures) of strategic activity. While there is not a single universal model on the sequence and process of planning, the essential elements of a generic strategic planning process include the following:

- Defining the organization's mission.
- Assessing strategically important information, such as;  
Trends – economic, industry, demographic shifts  
Resources – internal strengths and weaknesses

Competition – competitors' profiles, competitive position

Market – needs and gaps, depth of service, perceptions,

- Identifying major or high impact issues

Major opportunities, major threats and major shifts

- Formulating goals and objectives
- Selecting a grand strategy.

## **MARKETING ORIENTATION AND REALIGNMENT**

Improving management's ability to assess and be responsive to the needs of the market constituencies is one of the major purpose of strategic planning. The development of a market plan links strategic planning to the external environment. The market situation is analyzed with an interest on identifying and defining needs on existing and future programs and or services, and determining the capability of the hospital resource base to respond to the dynamic and changing environment.

As the markets of hospitals change, as health service needs, preferences, and attitudes shift and change, and as competition and technology intensify, hospitals must evaluate and realign the mix of services, products and programs offered. Such realignment with market conditions obviously must be done consistent with the hospital's chosen mission, capabilities and limitations.

### **Realignment**

Realigning a hospital's direction in response to market changes is the responsibility of hospital directors. The range of alternative strategies considered and eventually chosen is influenced by among others, the outcome of a portfolio analysis, the organization's position and service within the organization life cycle and marketplace life cycle, the managerial style of the hospital director, the organization's tendency to adapt toward changes described in such terms as defensive, prospective and reactive. Prospector organizations are those that, from time to time, redefine its directions to capitalize on opportunities to meet the market needs. In contrast, reactor organizations are those that analyze changes, tend to be passive and seems to be lacking a sense of direction.

### **Most Favorable Position**

Generally, hospital directors are empowered to make changes that reorient the hospital's direction in ways that are thought to improve its performance and chance of survival or growth. This perspective derives from two closely held traditions in organization theory, the first of which stresses the idea that under norms of rational behavior of key members of the organization, energy will be exerted to align the institution vis-a-vis the environment and market so that it will be in the most favorable position possible. Thus a purposeful scanning of the environment; a hard-headed assessment of the forces impinging on the hospital, and a calculation of risks and benefits for hospital innovation are key actions that would be expected of hospital directors. The second tradition is derived from the strategic management perspective positing that directors not only react to changing market and environmental forces but also anticipate and help shape these forces via aggressive strategic change.

## **Portfolio Analysis**

The importance of portfolio analysis to strategy choice and marketing has to do with the degree to which decision-makers recognize the high growth, high income programs from the low growth, low income programs. The Boston Consulting Group is credited for devising a matrix that assist management to examine the entire hospital portfolio of services. This type of analysis is an effort to avoid mistakes such as: promoting or focusing on unprofitable lines, overlooking promising or potential services, concentrating on product lines or programs that may offer attraction but whose relative size is too small to merit attention.

## **Product Lines Management**

Product management, a market-oriented approach, facilitates strategic planning by focusing on strategic issues program by program. As some program cut across departmental boundary lines and involve multidisciplinary teams, breaking up the hospital into distinct market-oriented programs allows management to define each program by such criteria as cost, target, segmentation of market, its stage in the marketplace life cycle, and the manpower required. Product management looks at the product line as a competitive entity. Two disciplines are helpful in developing product line management, cost accounting and marketing. True product lines have their focus on the marketplace. Their value lies in establishing groups that are identifiable and manageable as separate businesses within the hospital. Some important features to consider in developing product lines are as follows:

- Be identifiable to the market by program/product line
- Be recognized as a unique or special program
- Have an identifiable market
- Be an administratively manageable unit
- Establish a reputation for excellence
- Aim to have complete diagnostic and therapeutic supports in terms of equipment and personnel.
- Practice state-of-the art medicine and remain current with progress.
- Be involved in research and education.

The objective behind the product line management is to create something unique and different (differentiation). Two examples of product line application: HUMANA\*, a for-profit healthcare corporation created what it calls regional Centers of Excellence strategically located among their 90-hospitals network. Practicing state-of-the-art medicine, these referral and consultation centers provide the highest quality of care in a given clinical specialty and serve as distinguishing centerpiece of their network. Another application in the spectrum of product line management is an approach used by Republic Health Corporation of Dallas, Texas by branding their products or services. Republic has identified 10 "product lines" as follows<sup>(1)</sup>:

- "Gift of Sight" – cataract surgery
- "Step Lively" – podiatric services
- "You're Becoming" – cosmetic surgery
- "Call Me" – alcoholism treatment
- "Sound Sense" – hearing examinations
- "Impotency Solutions" – urology service

- "View" – women's health problems
- "Miracle Moments" – obstetrics
- "ReNew" – cocaine addiction treatment
- "Reach" – adolescent psychiatric treatment

The examples serve to illustrate the need of differentiating programs and services so to be distinguished from competitors'. Hospitals compete in two distinguishable levels of the market: price-based competition, or non-price competition. Naturally, there are only three major themes from which hospitals develop strategic responses:

- Differentiating hospital products from the competitors.
- Identifying and focusing on segments of the market, by age, diagnosis, geographic location, income level, etc.
- Pursuing aggressive cost management and compete on cost.

## STRATEGIES

There are a number of patterns to describe the long-run strategic thrusts of hospitals. The following summary are generic grand strategies applicable for health care organizations considered common: expansion of the product line or area, service specialization or niche, vertical or horizontal integration, joint venture, diversification, and retrenchment.

### Expansion of the Product Line

- A strategy to increase or maintain market share.
- Developing new product lines, Pediatric Cardiovascular, Oncology, etc.
- Selling of underused capacity, (dietary, housekeeping, laundry, EDS).
- Establishing freestanding ambulatory service, diagnostic department, dialysis.

### Service Specialization

- A strategy to focus and serve a particular segment of the market; differentiation.
- Service to age group, diagnosis group, socioeconomic class, or geographic area.
- Specialization in Pediatric, Rehabilitation, Prenatal Care, Oncology, Burn Unit, Sport Medicine, Geriatric Care, Mammography.

### Integration, Service Vertical Integration & Horizontal

- Establishing organizational arrangements that provide a range of services.
- A strategy to retain patients within the system or chain by providing more services. Pre-admission services and post-discharge care. Post discharge care: skilled-nursing care, long-term care, home care.
- Non-clinical integration include entering businesses that supply/manufacture hospital products or services (pharmaceuticals, prosthesis, linen, IV).
- A strategy to control the use of supplies and resources used by hospitals.
- Voluntary merger of two entities providing same or related

service, products.

- Geographically dispersed, or geographically proximate.
- A strategy to achieve economies of scale, avoid duplication, increase availability of skills and talents in management and clinical applications, increased access to capital, and lower cost of capital.
- A strategy to achieve stability as risks are reduced.

### Joint Venture

- Similar to horizontal integration, except autonomy is retained.
- A strategy to shared opportunities and risks; mutual benefits and risks.
- May be used to integrate forward, backward, diversity or expand service.
- Hospital and Physician groups joint ventures, common and relevant (PHO, physician-hospital-organization).

### Diversification

- Entering into related or unrelated businesses: real estate, shopping centers, restaurants, medical plaza or medical office buildings.
- A strategy to spread risks or maximize earnings through investment opportunities.
- A strategy to protect against the risks of uncertainties.
- A strategy to improve cash flow.

### Retrenchment

- Downsizing, divestment, eliminating unprofitable services or reducing in order to survive.
- A strategy to prevent insolvency by reprioritizing funds allocation.

## STRUCTURE AND PROGRAMS

There are two main strategic variables at the disposal of hospital management that may be altered to meet changes in the environment: organizational structure or organizational programs. These are the variables and the focus of strategic planning when reviewing and analyzing the market. The structures and programs reviewed in this paper have to be viewed in the context of the prevailing conditions in the United States, and they are:

- growing trend of prospective payment system
- decreasing reimbursement from third party payors
- continued high health care costs
- accelerated competition
- tighter profit margins
- decreasing inpatient census
- large excess capacity, overbedded
- intense consumer pressures and expectations for change
- growing pressures from business community
- labor shortage in professional and technical categories
- new delivery systems, HMOs, PPOs, IPAs
- increasing ambulatory services
- declining average length of stay (ALOS)
- increase in investor-owned corporations
- growing participation in alliances, chains

- increased regulations

Consequently, What are the measures hospitals undertake in order to survive in this increasingly hostile climate; How do they position their organizations in a way that ensure continued growth and survival, and How do they adapt to the changes? How should hospitals orient their strategies? The following I submit are some of the answers in terms of organizational structures and programs.

### 1. Medical Staff Relations

Medical Staff are the single most critical factor in a fiercely competitive climate. They serve as gatekeepers for a hospital's flow of patients. Without incorporating physicians into the strategic plans of hospitals, it is unlikely that hospitals will develop a foundation for responding adequately to competition. From the hospital's perspective it is highly important to attract and retain the best qualified medical staff. Physicians are the key ingredient in maintaining a desired census. Some measures used to enlist physicians loyalty and cooperation:

- adequate and or reasonable compensation
- assistance in new equipment financing
- participation in the development of strategic planning
- participation in joint ventures with the hospital
- hospital-physician alliance, partnership, joint owners of hospitals business units
- professional development allowances: continuing education, journals, national/overseas programs observation trips
- hospital allowances for: club memberships, home loans food or meals, housing and transportation.
- funds for research and development.

The two main strategies employed in dealing with the medical staff as shown in the preceding list are, the extension of financial and non-financial benefits, and incorporating physicians as partners and/or owners of hospital or hospital's business units. Key advantages of the partnerships are as follows:

- shared risks and shared profits
- higher motivation to control costs
- improved capability of the partnership to offer diverse services

Much is at stake if a hospital is unable to obtain and retain competent medical staff, or enlist their cooperation in the hospital's expansion program or cost reduction program, all of which involve physicians. Acute care hospital is physician-intensive, and without acute care, the hospital is just another clinic. Hospital executives must gain the support and cooperation of physicians in order to continue a viable hospital operation.

### 2. Hospital-Physicians Joint Ventures

By engaging in joint ventures with those who control access to patients, principally physicians, hospitals can lock in their existing patient base (market share) and possibly increase it by (1) giving the physicians a financial stake in the operation of certain lines of business, such as ambulatory surgery centers, and (2) tying into potential new sources of patients. Hospitals hope that engaging in joint ventures will enable them to be more effective competitors in the marketplace by enabling them to

offer a broader range of services and in more markets. To do so hospitals are better off to collaborate with physicians rather than be in opposition or competition with them.

The area where joint ventures have been formed include the establishment and operation of urgent care centers, ambulatory surgery centers, medical office buildings, skilled nursing facilities, independent laboratories, home health care agencies, the acquisition and operation of major medical equipment such as CT scanner, MRI, and lithotripters. The joint ventures may be any of the following three forms:

- Contractual Agreement.  
A form of alliance with the physicians, ensuring their participation and mutual sharing of benefits and risks, for specified purpose(s) and or a specified period.
- Corporation.  
Incorporation limit the liability of both parties to the extent of their investment. Physicians gain liability protection. Control rest with a new entity and separate board of directors represented by both parties.
- Limited Partnership.

Hospital often is the general partner thus exposed to risks, physicians as limited partners are precluded from sharing in the management.

The real value of joint ventures is when both hospitals and physicians recognize that there are overlapping values and benefits to be gained if both parties join their resources together and accept that they are better off joined than separate.

### 3. Diversification

To compete effectively hospitals have to implement measures to control operations and attain high operational efficiency. The other option is to maximize revenue by engaging in or entering promising markets. In rural hospitals where funds are scarce and there is no excess of hospital beds, diversification may be an inappropriate strategy. Some reasons given for diversification:

- The hospital diversify its program in order to capture a larger share of all patients served in a community, by offering new services to unserved market segment.
- The hospital strive to become the sole source of a medical technology, such as diagnostic imaging equipment or MRI.
- The hospital seek feeders or satellite facilities to function as sources of referrals.
- The hospital seek to protect its exposure by entering into profitable ventures, related or unrelated to its core business.

A survey conducted by "HOSPITALS" as published in the January 5, 1989 issue, rank most successful hospitals' ventures as follows:

1. Freestanding outpatient diagnosis
2. Inpatient rehabilitation
3. Freestanding outpatient surgery
4. Industrial medicine
5. Women's medicine
6. Psychiatric outpatient services
7. Home health
8. Substance abuse

9. Cardiac rehabilitation
10. Nursing facility
11. Preferred Provider Organization
12. Intermediate care
13. Obstetrics
14. Pediatrics
15. HMO
16. Trauma center
17. Satellite urgent care
18. Retirement housing
19. Wellness/health promotion

Many hospitals experienced failures with diversification projects because they are undercapitalized, had conducted poor planning, lack the entrepreneurial managerial skills, and lacking the required support from physicians. The following criteria are important when a hospital considers diversification:

- Rate of Return Project generates positive cash flow
- Mission Venture is compatible with mission
- Community Projects improves service to the community
- Market share Hospital gain market share
- Patients Hospital gain new referrals
- Autonomy/control Hospital are in control
- Patient care Interest in quality is an important factor
- Physicians Possess the education and skills
- Support Approved by key participants
- Interests No conflict of interests with MDs/board

Caveats for hospitals already diversifying into programs or services in their community: First, to recognize as soon as possible when demand for a program is declining. Hospitals should not wait too long to discontinue the line or sell it, second, be financially ready to handle any temporary downturns for extended period of time.

An important source for diversification is the creative use and development of hospital's hidden and under-utilized assets. Converting these into new profit centers, is the challenge for management. Examples of those hidden assets could be as diverse as:

- Excess capacity or off-hours of plant and equipment
- In-house support services
- Proprietary software (developed in-house)
- Real estate, medical plaza
- Vendor relationships, endorsement for royalty
- Reputation and image, acceptance
- Technical expertise and technology

A number of viable structural methods may be employed to facilitate diversification. Diversification does not have to include formal alliance with another health care organizations through merger, consolidation or combination. Diversification implies that the hospital is rearranging its programs and services. Prospectively, diversification's real value is revenue maximization, defensively, it is a means of protecting the hospital from the risks of uncertainties.

#### 4. Outpatient Care and Referral Networks

Outpatient revenues currently account for about 25% of community hospital's revenue. There are predictions that by year 2000 the percentage will increase to 50%. This major change in health care delivery presents US hospitals with one of the most difficult strategic planning issues today. The number of hospitals decreased 5 percent from 1980 to 1990, while the number of freestanding ambulatory centers increased 57 percent from 19,516 to 45,510<sup>(2)</sup>.

To shift to ambulatory care, in several cases, is to place the hospital in direct competition with physicians. However, in order to remain viable in the emerging delivery model, hospitals must capture a significant share of the growing outpatient business. This effort require physicians involvement, capital investment in facilities, equipment and information systems to support growing ambulatory care demands.

In the evolving opportunities for outpatient care and referral, at least four types of strategies can be adopted :

- Inpatient-oriented, specialty ambulatory care services
- Comprehensive primary ambulatory care services
- Ancillary ambulatory care services that are part of overall diversification
- Joint ventures with physician group that may expand the current level of patient referrals.

#### *Surgicenters*

The growth of ambulatory surgery has been due to advances in medical science such as the use of anesthesia in a precise manner. New technologies that offer greater precision in measuring blood gases and that permit a patient to be anesthetized just sufficiently for the procedure are expanding the number of operations that can be done on an outpatient basis. Third party payers are reluctant to pay inpatient stays associated with surgical procedures that can be performed on an outpatient basis. Selected categories of surgicenter procedures :

OB/Gyn - - gynecological surgery, laparoscopy/tubal ligation  
 Orthopedics - - orthopedic surgery, arthroscopy  
 ENT - - myringotomy, tonsillectomy or adenoidectomy  
 Dermatology  
 Plastic surgery

#### *Urgent Care Centers - - Freestanding Emergency Facilities*

In many cases, hospitals emergency room have been used by patients for nonemergency cases. To meet these needs, hospitals have opened up Urgent Care Centers, a cross between a physician's office and an emergency room, complete with laboratory and radiology facilities. Minors surgeries can be performed in some centers. Urgent care centers owned and operated by physicians are a threat to hospitals as these tend to draw patient away from hospitals.

#### *Freestanding Dialysis Centers*

At one time kidney dialysis was an extremely expensive procedure and could be performed only in a hospital setting. With significant technological advances, most dialyses can now be

performed on an outpatient basis, further eroding traditional source of inpatient revenue. As more physician Group Practices provide comprehensive outpatient services by doing more of what traditionally are inpatient functions, hospitals responses could be either to let the physicians be joined owners with the hospitals or, concentrate and focus on hospital core functions.

#### Wellness Programs

This strategy is used to approach the health conscious members of the population. These programs may include hypertension screening, medical evaluation, alcohol and drug rehabilitation, injury prevention, etc. Studies have shown that the real benefits of wellness programs appears to be the positive community image that it fosters.

### 5. Multihospital Systems

Some hospitals have turned to multi-institutional alliances in an effort to stem the adverse influence of prospective payment and competition. Indications are that these multihospital systems will continue to expand as regulations and competition increases. System affiliation was designed to provide the following benefits :

- increased access to capital markets
- reduction in duplication of services, increase in efficiency
- economies of scale
- access to management expertise
- increased personnel benefits
- improved patient access through geographical integration of various levels of care
- improvement in quality through increased volume of services for specialized personnel
- increased volume due to increased number of services

Formerly it was possible to classify hospital cooperative arrangements in two classes. First, alliances that bring independent organizations together to share and cooperate in solving problems, second, independent organizations together combines under a common organizational framework. The concept has now a spectrum of formats that begins with one that is highly informal to highly formal :

Consortia on planning or education, professional associations, shared or cooperative services, formal contractual associations, contract management, leasing, corporate ownership with separate management, complete ownership, complete ownership with large-scale system.

#### Shared Services

Sharing involves two or more organizations joining together to produce and/or use the same service for the member institutions. This ranges from the joint use of computers, laundry, and laboratories to purchasing and specialized clinical facilities. Sharing of MRI and CT scanners are good examples of this model.

#### Consortia

Consortia hospitals, often including medical schools, are membership organizations with full time staff devoted to joint

planning and programming. Agreements usually include criteria for the size of investment which can be made by individual member institutions without efforts to plan the program jointly and/or share each major clinical service. This will help to limit major investment to fewer institutions and to improve utilization patterns and thus may help to ensure efficient and quality services. Hospitals join consortia because they find it difficult to survive as independent units. The more important benefits include reduced environmental uncertainty and complexity and improved access to resources, which is achieved through linkages with both the consortium management and other affiliated hospitals.

#### Mergers

Mergers by acquisition are when two entities merged to become one. Two organizations are integrated into one single legal body with one sole corporate board. Merger is a strategy for capturing a larger market share by integrating vertically or horizontally, or as a means of providing more comprehensive services.

#### Contract Management

For agreed fees contract management companies provide specialized services ranging from hospital management, house-keeping services, laundry, emergency room staffing, pharmacy, laboratory, food services to contracting hospitals. More often than not, contract management companies can deliver their services more efficiently and cheaper. Hospitals benefit from reduced salary, retirement and benefit expenses. Marriott Management Services, one of the largest contract management company, is a large hotel restaurant corporation which diversified into the hospital industry business. Being large and highly capitalized, their expertise in food distribution and production result in high operating and cost efficiency. Contracts are typically based on a fee or a fee bonuses. Increasingly, however fees will be based on capitated rates based on patient days or the number of enrollees. A survey published by Modern Health care August 30, 1993 issue growing trend for this mode of service as evidenced by the reveals increased number of contracts :

	1992	1991
Food Service	1,936	1,833
Hospital-based Emergency	1,547	1,476
Housekeeping	1,462	1,639
Clinical, diagnostic equipment	812	726
Laundry	662	593
Pharmacy	566	545
Cardiology Services	421	404
Rehabilitation/physical therapy	352	302
Psychiatric	223	214
Respiratory Therapy	155	168
Home Care	147	152
Materials Management	82	75

### 6. Investor-owned Multihospital Systems

Investor-owned systems are growing in terms of hospitals and hospital beds at the rate of 100% a year. This growth has been

achieved largely through the acquisition of independent investor-owned hospitals. Investor-owned systems are constructing and acquiring freestanding nursing homes and psychiatric hospitals at a rate more than three times that for community hospitals. The financial performance of investor-owned system has been impressive. A report by the Institution of Medicine, Washington states that a dollar invested in an investor-owned system has returned nearly 40 percent more in earnings than the average for other industries in recent years. The major advantage of systems is their ability to finance capital purchases. Empirical evidences indicates strong preference for system by capital markets. Diversification into nonhospital markets provides additional financial stability to systems; separate lines of business offer the potential of offsetting cash flow demands during the downturn of the hospital's business cycle.

Investor-owned hospitals shows they provide care cheaper or equal to non-profit institutions. On top of this, having stabilized or reduced costs, investor-owned systems pay taxes. The trend shows growing trend of investor-owned hospitals 10.3 percent per year. Major benefits offered by this model are : economic benefits, planning and organizational benefits, personnel management.

#### *Economic Benefits*

##### *1) Access to Capital*

The financial institutions, banks and nonbanks provide more favorable borrowing conditions to systems than to independent hospitals. Multi-institutions (both tax-exempt or investor-owned) are perceived as more stable therefore less risky because of their larger revenue, asset and equity bases. Systems are better able to spread risks among its units or member hospitals. Furthermore, investor-owned systems may raise capital through the issuance of stock which means the cost of funds are low. In the US capital market, \$1 in equity may raise \$15 or \$20. As a result shareholders equity in the largest four investor-owned multihospital systems quadrupled during 1977 to 1981, from an aggregate of \$461 million to \$1,832 billion.

##### *2) Increased Efficiency and Economics of Scale*

Systems realize savings through mass purchasing. Systems uses capital facilities and equipment more efficiently through sharing and specialization. System uses highly skilled and highly experience personnel than independent hospitals. They pay better compensation therefore attract skilled professionals. System hospitals use fewer staff per bed than other systems.

##### *3) System Diversification*

Profit from health and nonhealth lines of business provides a source of internal fund for financing new capital acquisitions. Diversification into non-hospital markets provides additional financial stability.

In summary, the obvious economic benefits of multi institutional arrangements may be the following :

- Ability to afford specialized management talent
- Standardization of supplies and equipment
- Volume purchasing
- Sufficient breadth and diversity to attract capital

- Lower levels of average case cost
- Lower ALOS-tighter control of medical practice patterns
- Higher rates but not high labor costs
- Higher outputs

#### **7. Government-owned Hospitals\***

Public hospitals in the US, burdened with the care of indigent, suffered from poor management and inadequate funds. Constrained by the peculiar nature of public hospitals, they are limited in their options in such areas as diversification, joint ventures and so forth. These prohibitions consequently limit the flexibility of public hospitals to participate financially with physicians or others in lucrative alternate delivery methods such as ambulatory surgical centers, urgent care centers, and diagnostic imaging centers. Public hospitals also face particularly acute problems in raising sufficient capital to make the renovations and plant improvements necessary to furnish an acceptable level of care, to meet accreditation standards, and to attract the increasingly important private pay patients. They lack the flexibility enjoyed by private facilities in raising funds. They are frequently forced to compete for funds with other equally important government social programs.

Recognizing the need for greater flexibility on the part of public hospitals, many state legislatures have amended pertinent statutes to provide latitude for the disposition, lease, contract managed of public hospitals. Acquisition of public hospitals through lease or contract management can be attractive, both for the government entity and for the acquiring entity. Major advantages for the government entity :

- Management contracts or lease by multi-hospital bring the benefits of resource-strong organizations such as highly skilled professionals, economies of scale, and known organization development experience.
- Contractual agreement/lease reduce the politics present in the management of government-controlled institutions.
- Contracts/lease arrangements establish ahead of time the annual costs - - facilitating precise government budgeting.

Important consideration when considering the lease, contract or sale of public hospitals. At a minimum, the terms of transaction must include the following items :

- Protection of the constituents, of the solemn public interests, (Continues obligation to provide indigent care; details of the level of staffing, breadth of service, hours of operation, rates, etc)
- Assumption of labor, liability and pension and employee benefits.
- Compliance with disclosure laws.
- Clear accountability line to the governing authority.

#### **8. Rural Hospitals\***

Rural hospitals in the US are in crisis. Their problems include inadequate funding, shortages of health care professionals, facility deterioration, and high administrative turnover. From 1980 to 1990, 330 rural hospitals were closed due to financial stress. Major theme in their strategic response has to do with networking or affiliation with larger organizations. A study

done in 1988 showed the following strategic activities engaged by rural hospitals :

Multi-hospital system affiliation	34%
Consortium affiliation	30%
PPO affiliation	27%
HMO affiliation	22%
Corporate restructuring	20%
Ambulatory Service	17%
Downsizing	15%

**PLANNING AHEAD**

Expecting the worst, hospitals in the US are stepping up planning. Two main forces are rearranging hospital system in the United States : President Bill Clinton's proposed managed competition and prospective payment system. A survey published by hospitals & health networks of October 5, 1993 indicate the following hospital planning activities :

Managed care planning	76%
Expense reduction	74%
Physician/hospital; organization	69%
Affiliation with another hospital	62%
Medical Staff development	59%
Job- reengineering	53%
Strategic planning	55%
Merger activity	15%

These planning activities indicate that in order to redefine the US imperfect health care system two trends will emerge :

- Increased used of competition to enhance market efficiency. The use managed care models (PPOs, HMOs, IPAs) which compete on price, to screen out excesses and inefficient hospitals.

- Facilitate integration
  - Integrating providers through, affiliation, and networking to share and widen the risks and costs among many, and achieve economies of scale resulting in lower costs.
  - Integrating hospitals and physicians and provide incentive to contain hospital costs jointly through prospective payment system or capitation.

The race is on now in the United States for large-scale mergers, integration among medical groups and integration between institutions. These realignment are in search of lower costs and higher operating efficiency for the same high level of care. The changes are forcing organizations to be innovative and flexible in their organizational structures and program offerings.

**CONCLUSION**

Today, health care organizations are intently concentrating on strategy formulation as the focal point of strategic planning. There is greater interest in the output of strategic planning - strategies - as opposed to the process. Selecting a strategy with a view of defining a destiny - is the challenge hospital management must face with. In the final analysis, doing the right thing at the right moment at the right place is what strategic management is all about.

As Indonesia moves into the rank of the newly industrialized countries (NICs), commensurable responses from hospitals shall be evaluated for their appropriateness, effectiveness and cost efficiency. Strategic planning is a tool among many strategic planning I submit, may be the most effective tool available for the hospital management to span the entire horizon, and select the most fit organisational structure and program and redefne its destiny.

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