

**Fundamentals
of
Strategic
Planning
for
Healthcare
Organizations**

R. Henry Migliore

The Use of Long-Range Planning/MBO for Hospital Administrators

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If hospital administrators can use Long-Range Planning/MBO to determine the results expected of them, it will be a giant stride in the move from a crisis situation to a results-oriented management system.

The concept of management by objectives (MBO) was introduced by Peter Drucker in 1954.¹ However, many elements used in MBO were actually developed earlier. Various authors, managers and consultants contributed to the growth and acceptance of MBO. George Odiorne, Dale D. McConkey and others are credited with giving MBO a substantial boost in the mid-60s. The personnel view of MBO as being installed and encouraged by a staff entity has since evolved into the organization view, which sees it as being installed and encouraged by top management.

Odiorne has defined MBO as "a process whereby the superior and subordinate managers of an organization jointly identify its [the organization's] common goals, define each individual's major area of responsibility in terms of the results expected of him or her, and use these measures as guides for operating the unit and assessing the contribution of each of its members."² An even broader definition would consider the firm's purpose, the environment in which it operates and its strengths and weaknesses. Moreover, assumptions would be made before setting objectives.

Based on these definitions and actual practice, the following specific elements in MBO can be identified: planning, objectives and goals, negotiation, performance review and evaluation.

The mounting, even skyrocketing, cost of health care is a matter of deep concern in many sectors. The health care industry is now the nation's third largest. In no other industry is management faced with satisfying the needs of such a wide constituency. If hospital administrators can use Long-Range Planning/MBO to determine the results expected of them, it will be a giant stride in the move from a crisis situation to a results-oriented management system.

Management by Objective is essentially a philosophy of management based on identifying purpose, objectives and desired results; and evaluating performance in achieving them. It entails the following nine-step process:

1. defining the organization's purpose and reason for being;

2. monitoring the environment in which it operates;
3. realistically assessing its strengths and weaknesses;
4. making assumptions about unpredictable future events;
5. prescribing written, specific and measurable objectives in principal result areas contributing to the organization's purpose, which involves:
 - negotiating and bargaining at every level from top line and staff positions down to the blue-collar level
 - recognizing a performance contract embracing the agreed-upon objectives
6. developing strategies on how to use available resources to meet objectives;
7. making long- and short-range plans to meet objectives;
8. constantly appraising performance to determine whether it is meeting the desired pace and remaining consistent with the defined purposes, which requires:
 - being willing to change or modify objectives, strategies and plans when conditions change
 - evaluating progress at every stage so that needed changes can be made smoothly
 - making sure that rewards are thoughtfully considered and are appropriate for the accomplishment
 - recognizing the strengths and weaknesses of the extrinsic and intrinsic rewards
9. reevaluating purpose, environment, strengths, weaknesses and assumptions before setting objectives for the next performance year.

An examination of each of these steps will show how MBO functions and the results that can reasonably be expected. The particular brand of MBO here described has been installed in a rather wide range of organizations over the past few years, including a railroad, an oil company credit card center, a coal company, a church, a city parks and recreation department, a university's school of business and a dental practice. Each installation has been rated as highly successful.

DEFINING THE PURPOSE

The first and probably most important consideration when developing a long-range plan is to define the purpose or the "reason for being" for the organization or any specific part of it. This often does not come

easily. Drucker starts with the marketing concept which is to organize a business to satisfy a need in the market place. He says, "It is defined by the want that the customer [patient in this case] satisfies when he buys a product or a service. To satisfy the customer is the mission and purpose of every business. . . . Business enterprise requires that the theory of the business be thought through and spelled out. It demands a clear definition of business purpose and business mission. . . . This demands the question, 'What is our business and what should it be?'"³

In light of the *Hospital Code of Ethics* adopted by the American Hospital Association in 1957, a relevant

It is vital for the organization to gauge the environment within which it operates.

statement of purpose for the health care industry could be worded along the following lines:

Recognizing that the care of the sick is their first responsibility and a sacred trust, hospitals must at all times strive to provide the best possible care and treatment to all in need of hospitalization. Cognizant of their unique role of safeguarding the nation's health, hospitals should seek through compassionate scientific care and health education to extend life, alleviate suffering and improve the general health of the communities they serve.

Beth Israel Hospital has defined its purpose as: . . . to provide medical and hospital services for the sick and disabled of any race, creed, color or religion, and to carry on such education, philanthropic, and scientific activities and functions as are a part of efficient, modern hospital service.'

MONITORING THE ENVIRONMENT

It is vital for the organization to gauge the environment within which it operates. A speaker at a long-range planning seminar reminded the audience that people really have no idea what things will be like in the future despite attempts to predict the future. As an example, who could have foreseen 15 years ago within a dozen years the following portentous events would take place:

1. The United States would lose its first war.
2. A president would be assassinated.
3. Another president, the first in the United States to do so, would resign from office.
4. A vice-president would resign.

5. A president and vice-president not elected by the people would be in office.

What this is telling us is that we are in effect managing change. The only way we can manage change is to constantly monitor the environment within which we operate. This gives us clues to changes. Examples for business might be the trends we see in gross national product, governmental control, the labor movement, interest rates, consumer preference and other indicators.

A helpful way to relate shifts in the dynamic environment to current operations of a hospital is to move first from the general environment to an industry analysis, and then to assess how the particular hospital stands in that industry.

In environmental analysis, the past is reviewed and trends are identified—in effect the pulse of the organization's environment is taken. Industry surveys, marketing research, Dow Jones stock averages and recent commodity prices are all environmental factors. At the Continental Can Company, for example, pork prices are watched as a signal for the demand for ham cans. Environmental analysis, however, should not be confused with the assumption base.

Hospital boards face a variety of environmental factors:

- the expansion of technology, both administratively (e.g., computers) and clinically (e.g., transplants);
- the impact of soaring costs on the health care industry;
- the increase in malpractice suits filed against physicians and hospitals alike;
- the trend toward unionization of hospital employees;
- the loss of the physician's hallowed mystique and the new view of the physician as a highly trained technologist;
- the enactment of legislation affecting hospital administration; and
- the fact that health costs now account for ten percent of the nation's total production of goods and services.

Unger has noted the following environmental factors:

- The nation's total spending on health care was \$139 billion in 1976, more than three times what was spent a decade earlier.
- Philanthropy provided \$4.4 billion for health causes in 1976, up 67 percent from \$2.6 billion a decade earlier.

- The federal government's participation in health care financing has expanded dramatically. Primarily due to Medicare and Medicaid, introduced in the mid-1960s, the federal share of total health spending jumped from 12 percent in 1965 to 30 percent in 1976. The federal government allocated \$42 billion for health care last year—nearly ten times the sum donated by private sources.
- Private health insurance—practically nonexistent at the end of World War II—now pays for more than 26 percent of all health care costs.⁵

ASSESSING STRENGTHS AND WEAKNESSES

To assess strengths and weaknesses, managers must examine their key resources: human, financial, physical and natural. It is relatively easy to identify the strengths in each. With regard to weaknesses, it is a little more painful. Often organizations must call in outside consultants to candidly pinpoint their limitations.

Major assumptions need to be made about those areas over which the manager has little or absolutely no control (i.e., the external environment).

But weaknesses and limitations must be recognized before moving on. Only with a realistic appraisal of strengths and weaknesses can realistic objectives be set.

MAKING ASSUMPTIONS

Major assumptions need to be made about those areas over which the manager has little or absolutely no control (i.e., the external environment). This process can be begun by extending some of the items studied in the environmental analysis.

The importance of assumption making in developing long-range plans for a hospital can be somewhat comprehended by considering how assumptions, or the lack thereof, regarding the possibility of a labor strike or an oil embargo might affect the formulation of objectives. Assumptions might be made regarding the health of key managers, the supply of key materials, or the climate of governmental regulations.

This stage seems elementary but it must be done. It helps identify all the important factors that are likely

to remain constant. If any one changes drastically, major revisions in plans might be needed.

Major assumptions that those in the health care field might wish to reevaluate are listed below.

1. Federal government intervention in hospital-planning law will continue to climb.
2. Health care insurance will be ranked after energy, welfare and tax reform on the next list of national legislative priorities.
3. A national health care plan ("socialized" medicine) will *not* be approved by Congress in the upcoming year.
4. State rate-review programs will go into effect to regulate pricing should hospital costs continue to escalate.
5. Outside pressures could push hospitals to employ basic cooperative marketing techniques in an attempt to meet cost containment.
6. Mandatory retirement age for staff orderlies will be raised from 62 to 65 years of age.

OBJECTIVES AND GOALS

Management by objectives has caused a stir in all areas of organizational life over the past 20 years. It is well to remember that the word *management* is the key—the use of objectives to help manage for results. The specification of objectives, however, can begin only after the purpose of the organization has been defined, its environment analyzed, its strengths and weaknesses assessed and the relevant assumptions made.

Subunit objectives must be clear, concise written statements outlining what is to be accomplished in a key priority area, in a certain time period, in measurable terms that are consistent with the overall objectives of the business. Objectives can be classified as routine, problem solving, innovative, team, personal and budget performance. Drucker feels that "objectives are not fate; they are direction. They are not commands; they are commitment. They do not determine the future; they are means to mobilize the resources and energies of the business for the making of the future."⁶ According to Mali objectives can be set at upper organizational levels in:

- profitability and growth;
- market position and penetration;
- productivity;
- product leadership;
- employee morale, development and attitudes;

- physical and financial resources; and
- public responsibility.⁷

Every hospital administrator should set a long-range objective in each of these areas.

Performance Contract

Objectives can be formalized in a performance contract by following the process sketched below.

1. The objectives are properly written and submitted to the appropriate authority.
2. They are discussed and negotiated.
3. The revised objectives are resubmitted.
4. They are approved by both parties. (Some organizations have both parties sign the objective sheet.)

Periodic Review

One practical, easy way to record, communicate, measure and update objectives is through a "Performance Plan Book" or a "Management Plan Book." All objectives for the organization are listed in this book. The objectives are reviewed each quarter and updated. Figure 1 illustrates how objectives can be listed, kept track of and presented for review. Such a routine greatly reduces paper work and provides a convenient method for review.

FIGURE 1

MANAGEMENT PLAN BOOK, 1978

Our Objectives	8/1	10/1	12/3
1. <i>Routine.</i> Review all building-expenditure proposals each calendar quarter in 1979.			
2. <i>Problem Solving.</i> Develop a regional fee schedule to be adopted by January 1, 1980.			
3. <i>Innovative.</i> Devise a better system for the screening and placement of medical interns by no later than October 1, 1979.			
4. <i>Personal.</i> Improve my understanding of management by reading a good book on MBO.			
5. <i>Budget Performance.</i> Keep within the \$1 million operating budget during 1979-1980.			

STRATEGY

After the objectives and goals have been set, a strategy must be developed to achieve the goals and objectives. A good way to determine a strategy is to ask: how are the available resources to be allocated? The answer to this question will provide the strategy to be followed.

It is during the strategy phase that decisions regarding the organization's structure are made. Strategy also has to do with timing. The timing of the introduction of a new health care service, for example, can be very important. Strategy in health care encompasses decisions about such matters as bed capacity, the amount and type of services rendered, the charge for emergency service, the level of research and development expenditures, and so on. Strategy is the "thinking" stage of the long-range plan.

Several examples of how particular strategies might be formulated are given below.

1. Intensify research and development activities in cancer research.
2. Cooperate with the local hospital to share support services, purchasing, blood banking, training and so forth.
3. Employ institutional advertising to promote good will toward the medical profession.
4. Plan to invest funds in continuing education services for administration to ensure that talent in the organization is fully developed.
5. Allocate hospital funds to the respective departments on the basis of beds being used.

Longest has found that there is a relationship between the strategy used and the perceived environment in which the community operates.⁸

OPERATIONAL PLANS: LONG- AND SHORT-RANGE

After all these steps have been taken and a strategy has been developed to meet objectives and goals, it is time to develop both a long- and short-range plan. Examples of where long-range plans should be made are in building for future expansion, allocating funds for equipment acquisition, and hiring to meet organizational needs, all of which are needed to obtain the desired results agreed upon in the stated objectives. It is important not to confuse objectives and strategy. Operational planning is the "action" stage. Here hiring, firing, building, advertising and so on are performed. It is in this stage that projections are made in

cash flow, use of services in all areas, etc. All relevant projections must be made for at least five years. This way all organizational units can develop their long-range plans.

APPRAISAL

The last stage is to appraise the organization and each of its subunits to determine if all of the objectives have been met. Have the measurable objectives and goals been accomplished? How far did actual performance miss the mark? Did the attainment of the objectives and goals support the overall purpose? Has the environment changed enough to change the objectives and goals? Have additional strengths or weaknesses been revealed that warrant changing the organization's objectives? Has the organization provided its members with organizational rewards, both extrinsic and intrinsic? Is there a feedback system to help the members satisfy their high-level needs? By allowing such questions to be framed and answered easily, long-range planning/MBO is practically a self-correcting process. If there is a deviation from the plan, the problem is "red flagged" and given attention.

Part of the appraisal process is the reward system. This system is difficult to manage. To determine if it is working properly, ask organizational members this question: "What is the most satisfying thing you do?" If a good portion of the respondents fail to list their work, then the organization has a problem. People strive to fulfill the higher level needs of self-esteem, recognition and autonomy. If the organization does not satisfy these needs, its members will attempt to satisfy them elsewhere. When this happens, the outside areas of interest—Girl Scouts, PTA, church clubs and so on—receive the major part of their enthusiasm and innovative work. Their jobs, and the organization itself, receive only their indifferent efforts. An organization can sustain itself for quite a while in such a situation. The loss is in that hard-to-measure area of "what could have been." All industries and organizations have problems in giving extrinsic rewards for performance. Provision must be made for satisfying higher level needs *within* the organization. This can be done if MBO is used properly.

REEVALUATION

At the end of the performance year, and as part of the thinking for the new year, the purpose, environ-

ment, strengths, weaknesses and assumptions must be reevaluated.

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to provide medical and hospital services for the sick and disabled of any race, creed, color, or nationality, and to carry on such educational, philanthropic, and scientific activities and functions as are a part of efficient, modern hospital service. (Extracted from the Founding Charter of Beth Israel Hospital, Boston, Massachusetts.)

Craig General Hospital, a thirty-year-old, thirty-eight-bed rural hospital in northeast Oklahoma, has recently experienced a rejuvenation arising from an excellent medical staff, a progressive board, and a re-focused operational mission and values statement. The hospital is now making known to employees, volunteers, and all involved in the organization that "Craig General Hospital exists to create an environment where healing can occur and wellness is promoted." (See sidebar for purpose and mission statements for other healthcare organizations.)

Monitoring the Environment

It is vital for the organization to gauge the environment it operates in. Its leaders must ask What is going on around us? The answer to this question will help healthcare leaders to manage change, a key task for success-

ful leaders. In order to do this well, leaders must constantly monitor the environment to identify clues to upcoming changes. For example, for business the indicators to watch might be trends in gross national product, governmental control, the labor movement, interest rates, and consumer preferences.

A helpful way to relate shifts in the dynamic environment to current operations of a hospital is to move first from the general national environment to state and area analysis, and then to assess how the particular hospital or clinic stands in the delivery system.

In environmental analysis, the past is reviewed and trends are identified; in effect the pulse of the organization's environment is taken. Industry surveys, marketing research, Dow Jones stock averages, and recent commodity prices are all environmental factors. For example, a hospital emergency room might chart a profile of use which could include each patient's problem, age, ability to pay, and the treatment required. This information could help hospital administrators make emergency room staffing decisions.

Among the environmental factors that currently affect healthcare are outpatient/inpatient activity; changes in physicians' use of hospital and free-standing outpatient centers or clinics; shifts in the acceptance of managed care by employers and providers; changing practice profiles of physicians (employed versus private practice); increasing governmental controls on reimbursement and shrinking profit margins; and the market share of each phase of the delivery system. For other examples of environmental factors, see sidebar.

Assessing Strengths and Weaknesses

To assess strengths and weaknesses, managers must examine their key resources—human, financial, physical, and natural. It is relatively easy to identify the strengths in each area. Weaknesses are a little more painful. Often organizations must call in outside consultants to candidly pinpoint their limitations. But only a realistic appraisal of strengths and weaknesses can enable realistic objectives to be set. One of the advantages of developing network relationships is that the network can assist in assessing strengths and weaknesses.

Making Assumptions

Large assumptions need to be made about those areas over which the healthcare manager has little or no control (the external environment). For example, assumptions might be made regarding the health of key managers, the supply of key materials, or the climate of governmental regulation. An assumption can be made as to what will happen in the aftermath of the failed Clinton healthcare plan. This stage helps identify all the important facts that are likely to remain significant. If any one factor changes drastically, major revisions in plans might be needed.

SAMPLE PURPOSE STATEMENTS

Saint Francis Hospital: The mission of Saint Francis Hospital is to be a regional, integrated, Catholic healthcare system providing a broad range of clinical, educational, research, and related services, primarily through the operation of a general acute-care hospital and other affiliated organizations.

This mission will be accomplished without discrimination, in a Christian environment of responsible stewardship, which promotes justice, respect for life, compassion, competence, a spirit of love, and concern for the respect, dignity, and well-being of each person served, each employee, and each practitioner.

Hillcrest Healthcare Corporation: Hillcrest Healthcare Corporation is a not-for-profit healthcare delivery system whose primary mission is the continuous improvement of the health status of the communities of greater Tulsa, Eastern Oklahoma, and contiguous areas. The key values guiding this mission are service, performance, integrity, respect, innovation, and teamwork. Service leadership is the hallmark of the Hillcrest organization.

Strategic Planning/ Management by Objectives

A Boon for Healthcare Administrators

R. HENRY MIGLIORE and B. JOE GUNN

The means of delivering effective, efficient healthcare are undergoing rapid change. Hospitals, clinics, and all organizations must react to change to meet the needs of their clientele and to survive. This article demonstrates how strategic planning can contribute to that end.

THE CONCEPT OF *MANAGEMENT BY OBJECTIVES* (MBO) was introduced by Peter Drucker in 1954. However, many elements used in MBO were actually developed earlier. Various authors, managers, and consultants contributed to the growth and acceptance of MBO. George Odiorne, Dale D. McConkey, and others are credited with giving MBO a substantial boost in the mid-1960s.

Odiorne has defined MBO as "a process whereby the superior and subordinate managers of an organization jointly identify its [the organization's] common goals, define each individual's major area of responsibility in terms of the results expected of an individual, and use these measures as guides for operating the unit and assessing the contribution of each of its members" (1965, 55). An even broader definition would consider the firm's purpose, the environment in which it operates, and its strengths and weaknesses. Moreover, assumptions would be made and identified before setting objectives. Therefore, a number of steps must occur before organizational objectives are set.

The mounting, even skyrocketing, cost of healthcare is a matter of deep concern in many sectors. The healthcare industry is now the nation's third largest. In no other industry is management faced with satisfying the needs of such a wide constituency. President Bill Clinton and his reform ideas have made the public even more aware of the industry's problems. If healthcare executives can use strategic planning/management by objectives to develop solutions, not only in the operation of facilities, but also in developing proper network relationships and managed care strategies, it will be a giant stride from a crisis situation to a results-oriented management system.

NINE-STEP PROCESS

Strategic planning/management by objectives (SP/MBO) is essentially a philosophy of management based on identifying purpose, objectives, strategy, and desired results, and evaluating performance in achieving them. It entails the following nine-step process (see figure 1):

1. Defining the organization's purpose and reason for being
2. Monitoring the environment in which it operates
3. Realistically assessing its strengths and weaknesses

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4. Making assumptions about unpredictable future events
5. Prescribing written, specific, and measurable objectives in principal result areas contributing to the organization's purpose, which involves
 - Negotiating and bargaining at every level from top line and staff positions down to the lowest level in the hospital or clinic
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9. Reevaluating purpose, environment, strengths, weaknesses, and assumptions before setting objectives for the next performance year

An examination of each of these steps will show how SP/MBO functions and the results that can reasonably

be expected. The particular type of SP/MBO here described has been installed in a wide range of organizations over the past few years. Each installation has been rated highly successful.

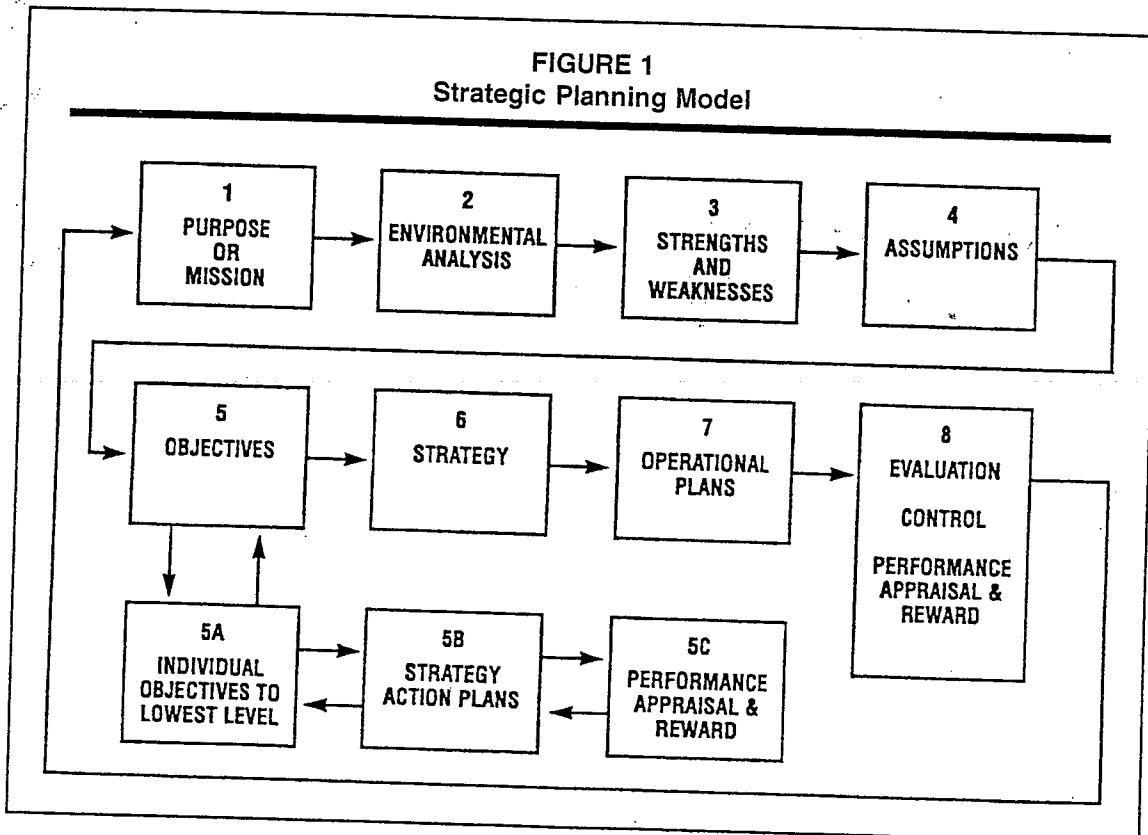
Defining the Purpose

The first and probably most important consideration when developing a long-range plan is to define the purpose or reason for being of the organization or any specific part of it (Drucker 1974, 79). This often does not come easily. Drucker starts with the marketing concept: a business is organized to satisfy a need in the marketplace. He says

It is defined by the want the customer (customer base) satisfies when he buys a product or a service. To satisfy the customer is the mission and purpose of every business. . . . Business enterprise requires that the theory of the business be thought through and spelled out. It demands a clear definition of business purpose and business mission. It demands the question, "What is our business and what should it be?" (1974, 79).

In light of the Hospital Code of Ethics adopted by the American Hospital Association in 1956, a relevant statement of purpose for the healthcare industry could be worded along the following lines:

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To assess strengths and weaknesses, managers must examine their key resources—human, financial, physical, and natural. It is relatively easy to identify the strengths in each area. Weaknesses are a little more painful. Often organizations must call in outside consultants to candidly pinpoint their limitations. But only a realistic appraisal of strengths and weaknesses can enable realistic objectives to be set. One of the advantages of developing network relationships is that the network can assist in assessing strengths and weaknesses.

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EXAMPLES OF ENVIRONMENTAL FACTORS

1. In 1985, despite an almost 20 percent decline in inpatient use nationwide, hospitals enjoyed record operating margins. By 1987, they had almost doubled their 1980 revenues.
2. Health insurance premium increases of 20 to 40 percent have prompted employers to renew their scrutiny of benefit costs.
3. Thirty percent of the money goes to benefit the sickest 1 percent of the population—those with AIDS and cancer, as well as those requiring organ transplants, heart surgery, and other costly treatments.
4. Health insurance plans have been practicing their own risk shifting and risk avoidance.
5. Hospitals are being slapped with hefty fines as they struggle with new federal guidelines for dealing with tuberculosis. An American Hospital Association survey earlier this year of 763 hospitals showed that some hospitals would have to spend \$50,000 to \$150,000 per room to improve ventilation associated with care for tuberculosis patients.
6. That same survey also showed 88 percent of the hospitals admit tuberculosis patients, and nearly 30 percent of those polled did not have isolation rooms that meet Center for Disease Control criteria.
7. It's predicted that one in ten of the nation's 5,300 acute-care hospitals will close its doors by the year 2000.

Some assumptions that those in the healthcare field might wish to evaluate are the following:

1. reimbursement for services on a local, state, and national level
2. the supply of physicians and other providers
3. the willingness of employers to become partners with healthcare providers
4. the ability of Medicare and Medicaid to function in changing systems

Writing Objectives and Goals

Management by objectives has caused a stir in all areas of organizational life over the past twenty years. Remember that the word *management* is the key—MBO means using objectives to help manage for results. The specification of objectives, however, can begin only after the purpose of the organization has been defined, its environment analyzed, its strengths and weaknesses assessed, and the relevant assumptions made explicit.

Subunit objectives must be clear, concise, written

statements outlining what is to be accomplished in key priority area, in a certain time period, in measurable terms that are consistent with the overall objectives of the business. Objectives can be classified as routine, problem solving, innovative, team, personal, and budget performance. Drucker believes that "objectives are not fate: they are direction. They are not commands; they are commitment. They do not determine the future; they are means to mobilize the resources and energies of the business for the making of the future (1974, 102). According to Mali (1972) objectives can be set at upper organizational levels for profitability; market position and penetration; productivity; product leadership; employee morale, development, and attitudes; physical and financial resources; and public responsibility (117).

Every hospital or clinic administrator should consider a long-range objective in each of the following key result areas:

1. percentage of doctors who are board certified
2. number and quality of advanced teaching programs
3. number of patients served
4. successful surgery and treatment rates
5. financial/budget/surplus
6. new services, buildings, and projects
7. measures of quality
8. productivity
9. quality
10. customer service
11. innovation
12. percentage occupancy rate

Performance Contract. Objectives can be formalized in a performance contract by following the process sketched below.

1. The objectives are properly written and submitted to the appropriate authority.
2. They are discussed and negotiated.
3. The revised objectives are resubmitted.
4. They are approved by both parties. (Some organizations have both parties sign the objective sheet.)

Consumers are being encouraged to check out the performance of hospitals and clinics. The general public will demand better care and accountability. Why not be proactive and set long-term objectives in the key results areas (Unger 1978)?

Periodic Review. One practical, easy way to record, communicate, measure, and update objectives is through a Performance Plan Book or a Management Plan Book. All objectives for the organization are listed in this book. The objectives are reviewed each quarter and updated. Figure 2 illustrates how objectives can be listed, kept track of, and presented for review. Such a routine greatly reduces paper work and provides a convenient method for review

Developing Strategies

After the objectives and goals have been set, a strategy must be developed to achieve them. A good way to determine a strategy is to ask, How are the available resources to be allocated? The answer to this question will provide the strategy to be followed.

During the strategy phase, decisions about the organization's structure are made. Strategy also has to do with timing. The timing of the introduction of a new healthcare service, for example, can be very important. Strategy in healthcare encompasses decisions about such matters as bed capacity, the amount and type of services rendered, the charges for emergency service, the level of research and development expenditures, and so on. Strategy is the "thinking" stage of the long-range plan.

Several examples of how particular strategies might be formulated are given below.

1. Intensify research and development activities in cancer research
2. Cooperate with the network hospitals to share support services, purchasing, blood banking, training, and so forth
3. Initiate institutional advertising campaign to promote good will in the patient community
4. Plan to invest funds in continuing education services for administration to ensure that talent in the organization is fully developed
5. Allocate funds to the respective departments based on reimbursement strategies
6. Consider benefits and disadvantages of merging with a healthcare system

B. B. Longest Jr. (1978) has found that there is a relationship between the strategy used and the perceived environment in which the community operates. See sidebar for specific examples of strategies.

Making Operational Plans: Long- and Short-Range

After all these steps have been taken and a strategy has been developed to meet objectives and goals, it is time to develop both a long- and a short-range plan. Examples of areas in which long-range plans should be made are building for future expansion, allocating funds for equipment acquisition, and hiring to meet organizational needs, all of which should move the organization toward its stated objectives. Operational or short-range planning is the "action" stage of SP/MBO. Hiring, downsizing, building, advertising, and so on are included. During this stage projections are made in cash flow, use of services in all areas, etc. All relevant projections must be made for at least five years. Then all organizational units can develop their long-range plans.

EXAMPLES OF STRATEGIES

1. Decrease employee turnover by 20 percent within one year
2. Provide twelve hours of training to each employee annually.
3. Attain 99 percent patient satisfaction rating within one year.
4. Decrease overtime to less than 2 percent annually.
5. Expand patient base by 8 percent within one year.

FIGURE 2
Management Plan Book, 1996

Our objectives	4/1	7/1	10/1
1. Routine. Review all building expenditure proposals each calendar quarter in 1995.			
2. Problem Solving. Develop a regional fee schedule to be adopted by January 1, 1995.			
3. Innovative. Devise a better system for the screening and replacement of medical interns by no later than October 1, 1995.			
4. Personal. Improve understanding of management by reading a good book on MBO.			
5. Budget Performance. Keep within the \$1 million operating budget during 1995.			

