

## PERSPECTIVES ON STRATEGIC THINKING AND ENTREPRENEURIAL ACTION IN THE HEALTH CARE INDUSTRY

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### **Article:**

Strategy and entrepreneurship have long been seen as separate realities to many scholars. In near-caricature form, the first has been seen as focused on large firms using explicit strategic planning methods supported by increasingly sophisticated information technology; and the second appeared primarily to reflect the actions of a determined, energetic, and intuitive founding entrepreneur or small entrepreneurial action team. Fortunately, many leading scholars in the two corresponding fields of study have recognized that these realities are indeed overlapping and should be approached by researchers as such, whenever possible.

We decided to use the concepts of "strategic thinking," rather than strategic planning, together with "entrepreneurial action" rather than focus on the "entrepreneur" or restrict our perspectives to a particular type of firm, such as new ventures. By focusing on the thinking and acting processes, we conceptually wanted to incorporate both deliberate as well as emergent or improvised strategy and entrepreneurial seizing of opportunity.

In this volume, we have made some progress in applying these issues to the health care industry by bringing together health care strategic and entrepreneurial issues within one volume, which was intended to:

- provide some conceptual perspectives on the factors in the health care industry that provide a context for strategic thinking and entrepreneurial actions,
- articulate separate cutting edge strategic and entrepreneurial concepts and approaches,
- find scholarly examples which have attempted to approach strategy and entrepreneurship issues in an integrative manner.

The chapters in this book were approached as a special issue of a journal often is — with a combination of openly solicited competitive papers and invited papers from leading experts in their respective areas. All manuscripts (except for this chapter) were rigorously peer reviewed, and all authors were required to respond appropriately to reviewers' comments if the editors thought the manuscript should be revised and resubmitted. Both competitive and invited papers were rejected when not meeting the editors' standards.

Strategic thinking and entrepreneurial action occurs within a rapidly changing external environment of the health services industry. In Part I, we have focused on this changing environmental context of the health care industry. Chapter 2 begins this section with a study by Barbara Bigelow and Margarete Arndt who examine how economic theories can potentially affect the way both practitioners and academics view the world. The fundamental question in this chapter asks to what degree economic theories describe pre-existing behavioral patterns or whether such behavioral patterns occur after the theories become accepted by the industry as describing what should occur?

Professors Bigelow and Arndt, whose previous research has focused on a critical examination of whether management concepts (i.e., re-engineering) apply to health care, examine the concepts of self-interest and opportunism in the U.S. hospital industry during the 20th century in their chapter titled "Self-Interest and Opportunism in the Hospital Industry." More specifically, they compare hospital self-interest and opportunism prior to and after the 1980s when those economic theories began to shape policies related to the industry. They conclude that self-interest predated the 1980s toward a greater emphasis on opportunism. The cause of the change is unclear, although it could be related either to economic theories of self-interest and opportunism taught in business schools and health administration programs or to economic incentives. The authors remind us all that theories concerning strategic thinking and entrepreneurial action may both describe managerial behavior and affect such behavior.

In Chapter Gregory Shea and Bruce Gresh provide the reader with four different scenarios concerning the future in their paper titled "Four Future Scenarios of the Consumer Role in American Health Care and the Implications for Entrepreneurship." Their future scenarios are based on projected high or low levels of two attributes of the health care consumer: consumer information and consumer financial exposure.

The authors describe the details of each of their four scenarios and suggest the most likely short-term and long-term scenarios. Implications for both employers and providers are addressed as well as implications for public policy and future research.

Part II, focusing on "Strategic Thinking" per se, starts with Chapter 4 by Tyge Payne, Justin Davis, and John Blair, who take a current strategic theoretical perspective to analyze how it might apply to health care organizations. Their chapter is titled "Fit as Moderation and Matching: A Test of Strategy and Structure Congruence in Relationship to Performance." As with this chapter, several other manuscripts in this volume also have used the context-free or generic literature as the starting point rather than the health care-specific research, which has often focused primarily on the changing realities themselves, not on the widely researched variables impacting strategic success outside of the health care industry.

Specifically, these authors examine the concept of strategy and structure fit in a large sample of medical groups to determine if and how fit might impact the performance of the group. In the strategic management literature, fit (i.e., alignment) has been extensively discussed as one of the keys to organizational success. This study empirically examines both external and internal fit as predictors of financial performance where: (1) external fit is the fit between the organization and task environment, and (2) internal fit is the matching of organizational strategy with organizational structure.

The results of this study by Payne, Davis, and Blair demonstrate the extensive influence the external health care environment has on dictating financial returns for medical groups. Indeed, the fit between strategy and structure within the medical group is found to be largely inconsequential to financial performance. These findings demonstrate how medical groups, and probably most health care organizations, are severely limited in managerial discretion, with restricted levels of functional equivalence. This suggests that organizational choices about organization design are severely constrained and that achieving internal fit between strategy and structure is less important than maximizing fit with external environmental demands.

In Chapter 5, "Strategic Management of Internal Customers: Building Value through Human Capital and Culture," Howard Smith, Deane Waldman, Jacqueline Hood, and Myron Foulmer examine a case study of an academic Medical center which attempted to enhance its internal culture and internal customers in order to enhance patient satisfaction and contain organizational costs. Their goal was to determine how the strategic management of internal customers may build value through enhancing human capital and culture.

Results indicate that clinical personnel (i.e., physicians, nurses, and ancillary staff) express more negative perceptions about their organizations compared with support or managerial staff. The retention rate for clinicians also declined from 0.64 during the 1990-1995 period to 0.34 during the 1995-2000 period. The costs

of these low retention rates were also calculated.. The authors conclude with a recommendation to resurrect the covenant between the organization and its staff through decentralized decision-making and resource control systems. They conclude that health care cultures enhance human capital and create service value.

In Chapter 6, Robert Phillips and Keith Brigham initiate Part III on "Entrepreneurial Action" by examining "High-Tech Entrepreneurship in the Health Care Industry: A Praxeological View." They conclude that when it comes to entrepreneurship in the health care industry, there are, to be sure, many things unique but nonetheless many things in common with entrepreneurship in general. Their purpose is to cover the latter, but try very hard not to give short shrift to the former. Entrepreneurship in the health care industry brings both additional obstacles and additional opportunities not available to entrepreneurial endeavors in the vast majority of other industries.

In their contribution, Phillips and Brigham provide an extremely integrative conceptual summary that furthers our understanding of the high-tech entrepreneurial process in the health care industry by providing a model with flow chart depiction for clarity. In building their Integrated Model, over 20 stage models in the academic literature were reviewed. The academic literature, the authors' experience in entrepreneurial endeavors, and research in case studies are combined to derive the Integrated Model. Two case studies are utilized to illustrate certain key points as the model is explained in detail, as well as to suggest some effective ways to cope with the unusual demands of the new venture process.

Their new Stage Model of entrepreneurship should provide a rough outline of issues to be addressed in some order with specific recommendations being made in general and by illustration from cases. What has been new to the stage model literature is the concept of critical junctures. Unlike the phases, the critical junctures constitute a much less flexible structure with which to skip and shuffle. Such understanding may provide an advantage in the early-stage management process.

Finally, they suggest that there are positive and negative elements for entrepreneurial ventures in the health care industry. Who could resist working on or investing in the cure for cancer? But, there are a host of issues to be addressed such as the customer not being the patient but a fragmented aggregate of economic interests, not the least of which is the government, itself both national and state.

One of the most entrepreneurial cities in health care is Nashville, Tennessee. It is the birthplace of Hospital Corporation of America (HCA.), Hospital Affiliates (HAI), Quorum, Healthtrust, and others. In Chapter 7, Sharon Topping, Jon Carr, Beth Woodard, Michael Bureham, and Kina Johnson describe the entrepreneurial activity of that city beginning in the 1960s and relate it to existing theory in their paper titled "The Entrepreneurial Process in Health Care: The Nashville Experience." The authors argue that the opportunities created by recent changes in the health care industry have allowed new and innovative organizational forms to flourish in places with the "right" combination of ingredients. These include entrepreneurial networks of experience, access, societal relationships, and work relationships.

A theoretical model of health care entrepreneurship is presented and then applied historically to entrepreneurial activity in the Nashville area since the 1960s. Three themes emerge from the data: (1) entrepreneurship is closely aligned with changes in the health care environment; (2) successful entrepreneurship is dependent on entrepreneurs with the requisite knowledge and expertise developed through apprenticeship in Nashville; (3) successful entrepreneurship is also dependent upon the entrepreneurial culture in the area which evolves from strong social networks and the existence of a community of entrepreneurs.

In addition to entrepreneurship as a phenomenon involving entrepreneurs funding new products, services, organizational forms, etc., the concept also involves innovation and risk-taking by existing corporate entities. (i.e., corporate entrepreneurship (CE)). As a result of the Sarbanes—Oxley legislation, corporate boards may be less willing than previously to undertake entrepreneurial ventures.

In Chapter 8, Richard Culbertson, Julia Hughes, and Eric Ford extend the typology of CE (developed by earlier scholars and discussed in depth in the chapter) to address governance in their paper titled: "Entrepreneurship in the Boardroom: Board Roles in Managing Innovation and Risk." Four types of CE are defined and case studies of each are provided including Allina Health Care System (domain redefinition), University Health. care (strategic renewal), Swedish Medical Center (organizational rejuvenation), and SSM (sustained rejuvenation). The authors conclude that health care boards are inherently conservative and will act to minimize or guardedly manage risk even though CE requires innovation and the intelligent management of risk. The paper concludes with implications for trustees, health care executives, and health care management researchers.

In Chapter 9, Jacqueline Zinn examines one aspect of entrepreneurship, innovation in nursing homes, in terms of its impact on nursing home performance, in her paper titled "The Performance Impact of Nursing Home Innovation." She hypothesizes that performance in nursing homes that engage in minimal innovation will not be significantly different from those who do not innovate at all. Alternatively, those who engage in more extensive innovation will exhibit superior performance.

Empirical results based on an online survey, certification, and reporting data from 1997 to 2002 support these hypotheses using multiple measures of performance. This evidence is consistent with contingency theory that argues that organizations not responsive to a changing external environment will experience declining performance. Entrepreneurship is clearly important in the nursing home industry.

Part IV of this volume focuses on "integrating Strategy and Entrepreneurship." This part starts with David Williams' contribution to this volume. In Chapter 10, he looks at the actions of entrepreneurs in the biotechnology industry, with a specific interest in the strategic issue of "how" opportunities are exploited within this industry, and draws from the strategic management literature to propose a typology for biotechnology firms that have undertaken an initial public offering (IPO).

Williams' chapter, titled "A Typology of Strategic Groups within Biotechnology IPOs," is interested in how firms intend to compete within this new industry and whether strategic groups are a key part of that. IPOs represent a rare opportunity to see how entrepreneurs initially decide to compete within a given industry. Williams has put forward a typology for biotechnology IPOs describing their entrepreneurial actions. His four types are:

- The *Sower* grows only through its own efforts related to a specific limited area.
- The *Applier* grows by way of expansion into additional uses for its already discovered technology (i.e., not drug).
- The *Collector* grows by way of acquisition within a limited area or segment of the industry.
- The *Scavenger* grows by way of acquisition not limited to one area

Williams' purpose in proposing such types has been to create a means to describe the strategic intent of embryonic organizations within an emerging industry. It remains to be seen if these groupings do exist and whether they have any bearing on the financial performance, and indeed, the survivability of biotechnology firms.

Finally in Chapter 11, Myron Fottler and Donna Malvey examine the phenomenon of strategic corporate entrepreneurship (SCE) in their manuscript titled: "Strategic Entrepreneurship in the Health care Industry: The Case of Wal-Mart." The SCE concept was originally developed by other scholars discussed in their chapter. It involves combining the entrepreneurial mindset, an entrepreneurial culture and leadership, and effective management of financial, human, and social capital to develop innovative products and services.

The authors present a case study of the Wal-Mart corporations in terms of its past, present, and future SCE activities in the retail, grocery, and health care industries. They note that health care is the latest and least-developed initiative. The paper then discusses how the SCE model applies to the company's processes for entering and exploiting market opportunities and outlines their current (2006) health care services and target markets. The authors note that Wal-Mart's resources for strategic entrepreneurship include an expansion focus, low-cost culture, supply chain management, adoption of new technology, and market intelligence. The paper concludes with future predictions and recommendations for potential research on the broad topic of health care services provided in retail settings.

As the editors, it is our hope that you will benefit conceptually and practically from this multi-faceted collection of quality chapters by gifted scholars and insightful practitioners. Collectively, these chapters have helped us all focus on the often elusive phenomenon of successful strategic choice over environmental determinism — as aided by quality strategic thinking as well as decisive entrepreneurial actions, whatever the size of organization or in whichever industry is home.