The U.S. Hospital Management from a Strategic Management Viewpoint

Abstract
Historically, competition has toughened the U.S. hospital industry, while hospitals and managers have created innovative health care and treatments for their survival. This paper reviews interdisciplinary studies of hospital management and percolates them into a strategic management perspective, so hospital management in practice can grasp a big picture to lead their hospitals. Additionally, the paper is anticipated to be a guide for management researchers to re-examine hospital management and health care industry. Reflecting on the prior achievement of strategic management unveils that so far hospital management studies have not integrated the progress of fragmented studies of hospitals. Thus, this study suggests that strategic management researchers can further take this research opportunity to better build theoretical and empirical research model of how to increase success likelihood of innovation in the health care industry.

Keywords: Hospital management; Innovative health care; Strategic management; U.S. hospital industry; Strategic cognition; Organizational capabilities

Introduction
The U.S. health care industry has been rattled since The Affordable Care Act (AFA), also known as Obamacare, was activated. The AFA created many political complications and conflict of interests between federal and states government and the two main political parties [1]. Meanwhile, there were ongoing discussions of possible mergers and acquisitions among the top five health care insurers in order to both develop efficient operating costs and to generate more than half of their revenues from the Medicare and Medicaid government programs. Regardless of AFA’s success or not, the industrial tension is indicative of major upcoming changes. In this crucial timely juncture, a strategic management viewpoint may offer suggestions for hospital managers to achieve strategic success, both now and in years to come.

This paper reviews strategic management literature and connects the validated management constructs with hospital management to help managers achieve their mission. As manifested in hospitals’ mission statements, hospital organizations intend to prevent and cure disease and to serve patients with a high quality of care. In addition to assisting hospitals managers, this review might offer insightful management constructs for researchers to further investigate in the context of hospitals. This line of work remains understudied in the context of hospitals; although there are numerous studies regarding the sectional aspects of hospitals.

Response to Regulatory Changes: Early Studies
There was high turbulence in the hospital industry in the 1980s as changes in reimbursement policies were changed and new technologies emerged. This resulted in changing consumer expectations and new sources of competition [2,3]. Around this time, U.S. health care public policy shifted from planning and regulation toward being pro-competitive [4]. In 1974, the Hill-Burton Act expired and federal legislation pursued cost reduction and health care quality improvements. In 1982 and 1983, federal and state governments launched regulatory actions. Essentially, Medicare Prospective Payment System (PPS) was a prospective reimbursement of hospital expenses for Medicare patients in 1983 and forced hospitals to contain operation costs and vigorously compete with other hospitals. Under the prospective reimbursement system, hospitals receive a set amount to treat a patient with a given diagnosis regardless of the actual costs. This change in policy has forced all hospitals to be more economically oriented.

These industrial challenges led scholars to investigate whether environmental changes have an impact on strategy changes, which offered the most veritable anatomy of hospital management and provided the most valuable contributions to future researches at the time [2,5-8]. Studies revealed that hospital management
is distinctive from other business settings [3]. After 1983, most hospitals became strategic, moving from less aggressive to more aggressive strategies. Meanwhile, some of the hospitals with less aggressive strategies had lower profitability in 1985 [5]. Research also showed that more hospitals became strategically aggressive from 1980 to 1985 compared with the increase of aggressiveness from 1976 to 1980 [2].

Researchers studied hospital strategies by comparing the actual diversification of hospital services, number of new such services initiated, and related measures, which indicated a high degree of validity [5,8]. Generally, most hospitals responded to industrial changes as expected [2,5,7]. The most illuminating top management study was the investigation of managerial cognition and strategic issue interpretation in a hospital setting [3,9]. By interpreting external environment conditions, top management’s cognitive role was understood as relevant to strategy changes. This was based upon consistent patterns between the decision process and the strategic decision [10]. Thus, the pioneering research of hospital management at an industrial level seemed to reveal that hospitals tend to change strategies when their environment changes according to their sets of data. This result was what most organizational and management theorists anticipated. However, it is important to mention that financial performance was noticeably inconsistent with other variables in the studies, in that aggressive strategies did not have a positive impact on financial performance [2,5].

Financial Performance and Strategic Performance

As an organization, per se, hospitals pursue effective care to best serve patients and efficient operation to meet financial measures. Needless to say, the pursuit of these two goals has been extremely challenging due to their inherent contradictions. Until 1996, most hospital top management was haunted by financial performance that did not reflect quality care. However in rural hospital settings, cost efficiency and financial performance were relevant [11,12], while financial performance was not linearly related to the degree of strategic aggressiveness [5].

With both practitioners and researchers struggling with financial performance limitations, Kaplan and Norton [13] suggested the use of a Balanced Scorecard; this would serve as an integral measure of both external and internal aspects of a hospital organization, such as customer service, innovation, learning, and financial performance. This eludes short term and long term objectives that lead organizations measurable and controllable as employees’ daily operations can be linked to. Evaluating internal and external components of the organization offered a way to better understand a hospital’s short and long-term objectives while also measuring aspects directly related to employees daily operations. Subsequently, the balanced score card provided a tool to analyze short-and long-term objectives, financial and non-financial measures, lagging and leading indicators, and external and internal performance perspectives and to operationalize particularly non-financial and strategic performance [13]. This integrated performance measure provides organizations and their leaders with long-term goals and short-term objectives based upon the long-term goals. As Atkinson and Epstein [14] pointed out, performance measures must be complete, measurable, and controllable, otherwise employees may not see the linkage between their daily operations and long-term goal and performance measure. This is a crucial component of success as the short-term objectives serve as milestones toward the long-term strategic goals. Similarly, Shortell and colleagues [15] pointed out the value of hospitals’ services became more significant than the profit verse expenses. Moreover, specific services were valued and rewarded by patients, which were viewed as hospitals’ strategic capabilities [16]. Managerial focus on cost containment remained a constraint in the pursuit of inter-professional knowledge sharing and quality care [17]. It is clear that financial performance fails to measure and indicate quality care, specialized services, and hospitals strategic capabilities. Although the dominant criterion is still cost, quality of hospitals service is now considered a performance measure, which includes a hospital’s nationwide reputation and specialized services.

Currently, public and private efforts to report on hospital performance have mostly utilized process and outcome measures of quality (see Joint Commission: Accreditation, Health Care, Certification (JACHO), The Healthcare Effectiveness Data and Information Set (HEDIS). Outcome measures are predominant and include mortality, complication rates, costs, etc.; process measures include evidence-based care guidelines [18]. For instance, HEDIS indicators demonstrate (1) effective disease management, (2) access to preventive and follow-up care, and (3) medication compliance in treating depression [19]. Notably, HEDIS also includes preventative care measures: breast cancer screening high blood pressure control, use of a beta blocker after CVA, cholesterol management-LDL-C Screening, diabetes care-HbA1C tested, poorly controlled, diabetes care-eye exam, and diabetes care-kidney disease monitoring. Aiming for high levels of preventative care may become a measurement tool for future health care management. It is ideal to target preventive service as a norm in practice and to evaluate their strategic performance.

Finally, quality care and internal learning were considered as of performance measures in hospital management, which enabled managers and researchers to differentiate health care providers from companies in business settings. The most significant contribution management researchers have ever made in the hospital management field is the introduction of the balanced scorecard performance measures.

Organizational Capabilities and Managerial Cognition

While managers and researchers of hospitals strived to develop multi-dimensional performance measures, strategic management researchers began defining companies as more than economic entities. For example, Ghoshal [20-22] and other scholars described companies as organic beings with unique cultures, competences, paths, and customer relationships [20-25]. Further, they recognized what differentiates top companies from others was distinctive organizational capabilities that enabled to surpass others even in turbulent environment. Mostly, scholarly theorists with a focus on ‘dynamic capabilities’
While most empirical studies tested and established the ‘dynamic capabilities’ of organizations, other researchers noticed that managerial cognition was missing in the management studies [28-30]. Managerial cognition and organizational cognition were first identified in the late 1980s [31], and then in the 1990’s managerial knowledge and cognition were examined in relation to decisions about technological innovation [32-34]. Research revealed a link between managerial cognition and organizational performance [35]; further, managerial cognition seemed to drive strategic decision-making [36] and strategic action [37]. This finally led to integrating and solidifying longitudinal studies on the relationship between an organization’s managerial cognition and strategic behavior [38,39]. Current organization and management study findings show that managers and their managerial cognition are key factors in sensing opportunities and reconfiguring resources to sharpen organizational competitive advantages [40-42].

Current industrial turbulence may offer great opportunities for strategic managers to identify and to make managerial sense of, while allowing researchers to examine various organizational dynamics. Missing opportunities and failure might be related to bounded managerial cognition shared within the industry, a term Porac and his colleagues refer to as cognitive oligopolies [43-45] and similar to the industrial macro-cultures studied by Abrahamson and Fombrun [46]. Their approaches need to be furthered by researchers in this turbulence. As the prior researchers Friedman, Shortell, Ginn, Meyer, Brooks, Goes, Shortell, Zajac, [2,5,7,8] did. Just as prior researchers discovered new links and correlations between factors, future researchers will hopefully be able to better understand how and if, cognitive oligopolies are related to missed opportunities and failure.”

As seen above, organization and management studies have tapped into establishing that managerial cognition and managerial behavior are antecedents of organizational behavior [46]. For example, [3] conducted surveys to elucidate the most tantalizing yet tentative relationships between managerial information seeking and issue interpretation, an essential part of what strategic management studies have long sought. Although their methodology is based upon written scenarios that allow managers to interpret, this may extend to building constructs related to strategic issue interpretation and information seeking behavior. Recent studies have showed reliable relationships between managers’ strategic cognition, strategic behavior, and innovative products and services, though causality cannot be assured [47]. When managers were more in collaboration with external partners, there were more innovative products and services [47-49]. Though the industrial logic of the biotechnology industry is not the same as the hospital industry, it is still worthwhile to extend the interplay of managerial cognition to the hospital industry. Based on the findings from previous studies, hospitals have already begun connecting relevant factors with performance improvement. It is recommended for future hospital management studies to also utilize the current progress and findings of strategic management studies.

Some hospital management study authors have already addressed managerial interplay and factored the influence of top managers in adopting innovative management practices [50,51]. However, it seems limited in terms of managerial cognition or strategic aggressiveness since the researchers used demographic characteristics of hospital directors from Veterans Health Administration (VHA). Essentially, the authors examined personnel files of VHA directors, including their age, organizational tenure, and prior Total Quality Management (TQM) exposure to build constructs for innovation management.

In addition to the influence of top managers, future researchers need to be mindful that hospitals are among the most complex types of hierarchical social organizations [52]. There is a need for further hospital studies to focus on middle managers’ involvement, and how their involvement significantly impacts idea generation and internal networking as the element of strategy makings [53,54]. Previous research showed that middle managers influenced factors regarding strategic inertia or strategic renewal while interacting with top management [55,56]. In line with this view, there seems to be an insufficient number of empirical studies that link managerial behavior and hospitals’ strategic behavior. Prior management studies have shown that managerial behavior in strategy-making challenges the bias of the dominant logic and develops new capabilities for a firm to enter new markets [57,58]. Moreover, managerial behavior was seen as deeply embedded in social relationships [58-60]. However, the theoretical definition of middle management remains somewhat ambiguous [61].

In furtherance of recommendation from management studies, it might be essential to view hospitals as knowledge-based organizations, in that medical care is readily available knowledge of best practice in the medical literature [62-64]. Principally, professionals are ranked by the depth of medical and health care knowledge and positioned by their decision capabilities and resultant responsibilities. Within hospitals, there are experiences of professionals working with patients, which need to be shared across their departments. In order to be innovative, it is necessary to collaborate and communicate inter-departments, beyond the boundary of functionality. Sharing the knowledge of experience has been noted as tacit knowledge by many authors, though not in hospital setting [65-68]. Specifically, some authors viewed organizational knowledge as embedded in organizations [25,69] organizational routines as shared norms, beliefs, and patterns of behavior [70,71]; and organizational procedural knowledge based on prior experiences [72]. On the other hand, other researchers noticed the importance of social relationships within an organization since it influences the level of shared cognition and actions of the organization [73]. This line of work still needs to be done in hospital setting.

For hospitals’ strategic success, which serves as their main objective, they must seek innovative solutions to better cure diseases and serve patients in both effective and efficient ways. As scholars began defining companies beyond their economic being, it became sensible to connect managerial cognition...
and strategic behavior. Damanpour and Evan [74] stated that innovation in health care helps hospital managers and health care practitioners better face regulatory and social changes and uncertainties by adopting new technology and having organizational flexibility. Moreover, innovation in the health care sector should assist health care professionals to function at their best, in terms of cost efficiency and quality care [75,76]. In practice, collaboration across hospital departments improves the efficiency, the effectiveness, and the quality of services [60,77], while poor management of resource allocation and professionals’ different interests hinder innovation [52,77-79]. By definition, innovation is new knowledge creation [67,80,81], which stems from both explicit and implicit (tacit) knowledge sharing. In the process of innovation, knowledge sharing involves both divergent and convergent managerial cognition [82].

In regards to knowledge sharing within hospitals, studies have already established this construct and connected it with organizational performance. Knowledge sharing in hospitals improved quality of care in terms of hospital coding accuracy, which required network development and managerial leadership [83]. Empirical and case studies of knowledge sharing among inter-professionals at the intensive unit care showed promising results for better quality care [17,63]. A shared electronic medical record (EMR) improved communication and patient care, which doctors viewed as knowledge recreation [84,85]. While innovation diffused, network factors provided a relatively greater determinant of the diffusion process. In the case of Norwegian hospitals, a patient nutrition innovation program was successful with collaborations [79]. Additionally, a pilot study regarding the training and evaluation of residents showed patient care was improved with low complications, which leads to innovative medical procedure services [86]. Some managers have perceived that knowledge is a competitive advantage, to the various degrees which depended upon organizations and industries according to the study comparing the textile companies and hospitals [87,88].

In addition to studying the response to external factors, researchers may need to go deeper to establish reliable constructs of managerial cognition, managerial behavior, and organizational behavior. As this paper has affirmed, hospital management and the health care industry has come a long way from struggling to meet social responsibility and regulation-forced financial performance to now being recognized as knowledge sharing and value creating organizations. Nonetheless, there is still a need to examine the relational constructs of hospitals in comparison with the various performances aforementioned. Hospitals view themselves as the knowledge creators of innovative care and treatment and their health care professionals as knowledge sharers and creators providing the innovative care and treatment. In the United States, health care reform offers great opportunities for researchers to study the impact of managerial cognition in response to regulatory changes; which is right time to do so. [11,12], while financial performance was not linearly related to the degree of strategic aggressiveness [5].

Conclusion

This review of hospital management and health industry literature has assuredly revealed great opportunities for strategic management researchers to investigate how hospital managers see the aforementioned challenges and how they respond to them, both within their own hospitals and with other hospitals, to provide innovative patient care and treatment. In this crucial time of industrial turbulence, managers should embrace the new era as a potential gain for innovative health care providers. First, it seems relevant for the managers of hospitals to view internal professionals as knowledge providers and create knowledge-sharing networks within their own organizations and with other organizations. Second, as the paper has discussed, there have been promising results to support the relationship between managerial cognition and organizational behavior. Additional research may further empirically establish the relationship between managerial cognition, managerial behavior, organizational behavior, and strategic performance.
References


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