Key Terms

- Competitive strategy
- Core technology
- Cost leader
- Decision autonomy
- Division of labor
- Environmental complexity
- Environmental stability
- Environmental uncertainty
- Force-field analysis
- HR strategy
- HRD strategy
- Internal strategy
- Market leader
- Mechanistic design
- Nonroutine technology
- Organic design
- Organizational design
- Organizational development (OD)
- Organizational mission
- Organizational strategy
- Organizational structure
- Proactive strategy
- Reactive strategy
- Routine technology
- Strategic planning

CASE ANALYSIS

CASE: STRATEGIC PLANNING AT MULTISTATE HEALTH CORPORATION

As you read this case, think about the relationship among competitive strategy and both the HR and HRD functions at Multistate Health Corporation (MHC). The case was written in 1994 and is real, but the corporation asked that its name not be used. The federal and insurance environment for health care has changed substantially since that time; however, the strategic planning issues faced by MHC remain relevant today. The information provided here reflects the organization in 1993 as it was completing its strategic planning process.

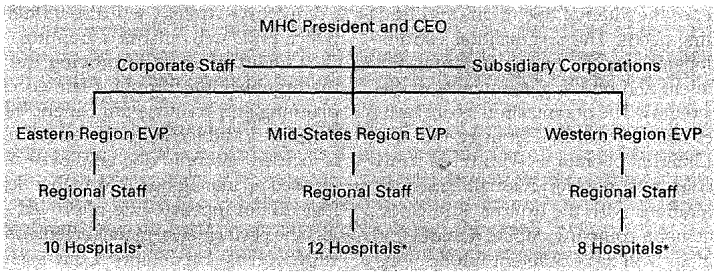
THE ORGANIZATION

MHC is a health care provider owned and operated by a religious order. MHC owns 30 hospitals and four subsidiary corporations employing more than 10,000 people. Its headquarters are in Michigan, with hospitals located in 17 states across the country. The overall organizational structure and the corporate HR structure are depicted in Exhibits 2-1 and 2-2.

COMPETITIVE STRATEGY

In line with its mission, which is rooted in the tenets of the order's religion, MHC focused on providing care to the indigent and less able members

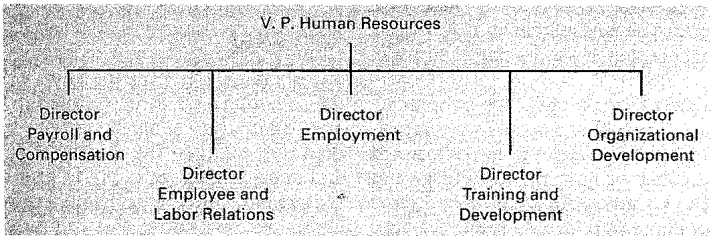
EXHIBIT 2-1 MHC Organization



*Each hospital has a CEO reporting to the regional executive vice president (EVP). Hospital are referred to as divisions within MHC and have a CEO as well as a functional staff (including HR) for conducting divisional operations.

Corporate HR is included as part of corporate staff, as desicribed in Exhibit 2-2.

EXHIBIT 2-2 MHC's HR Organization



of the community. It was reasonably successful until 1989, when the health care industry began to experience considerable change in governmental regulations and insurance procedures. At the time of their strategic planning, hospitals were reimbursed on the basis of a preset, standardized price for treatment rather than the "cost-plus" method used previously. The federal and state governments were putting increasing pressure on health care institutions to reduce costs. In addition, new medical technologies and procedures being developed were expensive to acquire and implement. MHC recently acquired subsidiary corporations to develop or acquire new procedures and technologies. The subsidiaries were to work in partnership with the regions to implement new procedures and technologies.

MHC has lost money every year since 1987. Currently, it is experiencing an oversupply of bed space in most of the communities with MHC hospitals. Projections indicate that the need for inpatient services will decline while the need for outpatient services will increase. Nontraditional health-related services are also projected to increase (e.g., services in which patients and their relatives are trained in self-care or care of relatives). In short, the market is becoming much more competitive while products and services are rapidly changing.

MHC just finished its corporate strategic planning process and planned to develop a two-pronged market strategy to deal with its changing business environment. One major area of focus is technology. The strategic planners departed from the previous strategy, opting to become a leader in the development of new health care technologies and procedures. They felt that the new developments would allow quicker recovery times, thus reducing the hospitals' costs. In addition, the technology could be marketed to other health care providers, generating more revenue. The drawback was that new technologies and procedures were expensive to develop and were often subject to long waiting periods before being approved by the insurers and government agencies.

The second prong of the strategy was directed toward the hospitals and was focused on improving efficiencies in basic health care and outpatient services. This would allow them to continue to provide for the basic health care needs of the less fortunate. The substantial governmental fees, grants, and other revenues tied to this population would provide a profit only if efficiencies could be developed throughout the corporation.

IMPLEMENTATION ISSUES

Carrie Brown, hired six months earlier as corporate vice president of human resources, listened to several days of strategy discussion, without participating much. She now felt that it was time to address the HR implications of these strategies.

"While I agree that these are good strategies," Carrie said, "I don't know if we have the right people in the right places to carry them out. A few of our regional and divisional executives are already doing some of the things you're talking about, but most of them have grown up in the old system and don't know how to go about cost cutting in a way that doesn't diminish the quality of our service. Many of our divisions are in rural areas and haven't kept up with technology. We do have some middle- to upper-level managers who are up to date in cost cutting and technology implementation, but they are scattered throughout the organization."

(continued)

Mitchell Fields, president and chief executive officer (CEO), suggested, "Why don't we just move those people who can implement our strategies into positions where they have the power to make it happen?"

"Unfortunately," Carrie said, "we have no accurate data about which of our people have the capabilities. It would be a mistake to move forward unless we're sure that we have the knowledge and skills on board to be successful. What I've discovered in the short time I've been here is that we have grown too large for our human resource information system (HRIS). We're still doing most of the data collection on paper, and the forms used are different in each of the divisions, so we can't consolidate information across divisions, and even if we could it would take forever to do it by hand. We have different pay scales in different divisions, and you can't get a VP in Boston to take a CEO position in Iowa because he'd have to take a cut in pay. Basically, what I'm saying is that we don't have a coherent HR system in place to give us the information we need to put the right people in the right places.

"Another issue is that our current structure isn't conducive to setting up partnerships between the subsidiary corporations and the regions. The corporations developing the technology are seen as pretty distant from the regions and divisions. While the subsidiary corporations will bear the developmental or acquisition costs, they are going to want to pass those along to the regions and divisions. The divisions will then have to bear the costs of implementing the new technology and working out the bugs. Once all the kinks are worked out, the subsidiaries will be selling the technology to our competitors at lower prices (due to volume) than they charged the divisions. The corporation and subsidiaries are likely to profit from this arrangement, but the divisions are likely to show losses. As you know, our compensation of division executives is based on profitability. They are likely to resist cooperation with the subsidiaries. Our current systems don't let all of our businesses come out winners."

"I understand what you're saying," Mitchell said. "Our competitive strategy is for the big picture and the long term. If these HR issues are going to be a problem, we have to fix them right away. We are going to have to work out some way for both the subsidiaries and the divisions to come out winners in moving new medical technology forward. Assuming we are able to put our HR house in order . . . get the right systems and people in place. . . . Are there any other concerns about adopting our strategies?" Hearing no additional objections, he said, "Okay, then, let's get to work on putting an implementation plan together, and first on the list is our HR system."

HR FOLLOW-UP TO STRATEGIC PLANNING AT MHC

MHC determined that it needed to address the HR implications of the new climate in health care and that some type of planning system was in order, so it hired an outside consulting firm. The consultants agreed that some type of system would likely be appropriate, but they were not ready to stipulate what that system would look like. They conducted some initial diagnostic interviews, lasting one to two hours, with all of the divisional CEOs, the regional executive vice presidents (EVPs), the corporate CEO, and the corporate VPs, including the VP of HR and the VP of OD. The interview format is shown in Exhibit 2-3. The following information was obtained from the interviews.

The current HR activities conducted at the corporate level are as follows:

1. To collect and store résumé-type information for all employees. This information includes demographic data, employment history, and performance evaluations.
2. To select divisional CEOs, regional EVPs, corporate officers, and staff professionals, and to assist at the regional and divisional levels in the selection of management-level employees, primarily through posting the position and through word-of-mouth about who is competent and available.
3. To sponsor occasional management development programs at the corporate level, although no system is in place to determine whether these are perceived as valuable or necessary. Most management development is done externally with tuition reimbursement, and some is done by individual divisions.

The interviewees expressed varying degrees of dissatisfaction with the following:

1. No system for comparing internal candidates for positions. Performance evaluation is decentralized.

I. What is the purpose of this meeting?
To enhance and develop the objectives of the human resource planning system (HRPS).

II. What is HRPS?
HRPS is a business planning system designed to provide quality data to enhance individual and organizational decision making in all aspects of human resource management.

III. Why was I asked to participate in this meeting?
Because you are a key decision maker, we want to ensure that HRPS fits the needs of your organization.

IV. What specific information should I provide?
We want your input regarding the following:

1. Should administrative access to the data in HRPS be local, regional, or only at the corporate level?
2. Who in your organization would use and benefit most from this system?
3. What, if any, problems are there with current information used in human resource management decisions (i.e., recruiting, training, appraising, etc.)? For example, do you lack information as to which people are capable successors for certain jobs, and do you know what recruiting sources produce the best employees?
4. What values of the corporation should be incorporated into HRPS? How might these values be incorporated?
5. As you see it, ideally, what job responsibilities will change in your organization as a result of HRPS?

EXHIBIT 2-3 Agenda and Clarification of Issues for Human Resource Planning System

2. No system for making known the criteria for positions. People do not respond to posted openings because rejection is a block to future promotion. Recommendation from a higher-up is known to be necessary. A related complaint was that many CEOs will not recommend their best people either because the CEOs rely on them heavily or because the bright young people might eventually be competition.
3. No system for evaluating the KSA required of a CEO in one part of the corporation compared with that of another. For example, the CEO in Grand Rapids has different responsibilities compared with a CEO in Detroit, but no one at the corporate level knows what the differences are.
4. No corporate HR philosophy or strategy guides the organization in its HR activities.

Individuals at the corporate, regional, and divisional levels reported slightly different perceptions of the priority of needs for an HRPS. See Exhibit 2-4.

Although monitoring equal employment and affirmative action is in the company's mission statement, it was considered important by only one respondent. The various levels disagreed on what job classifications should be in the HRPS: Corporate and regional personnel preferred to include only executive-level personnel, and divisional personnel wanted to include data down to the first-level supervisor. As an interviewee stated, "The MHC value statement says that we respect the dignity of all individuals. To exclude people below the executive level tells them they are worth less." On the issue of control and administration of the HRPS, corporate and regional executives preferred corporate- or regional-level administration, while divisional executives had a strong preference for direct access. Some expressed concern that corporate administration would reduce divisional autonomy in human resource decision making. The degree of centralization had been a sore point for several years. The divisions previously operated individually as profit centers, but corporate headquarters was discussing the need for a more integrated approach.

After reviewing the consultants' report and meeting with the consultants, the executive committee (representing the three levels of management) arrived at a consensus on the following HRPS objectives:

1. Improve the selection/search process for filling vacant positions.
2. Develop a succession plan.
3. Forecast critical skill/knowledge and ability needs.

EXHIBIT 2-4 Rank Order of Top HRPS Objectives by Organizational Level

Organizational Level	Improve Selection/ Search Process	Develop a Succession Plan	Forecast Critical HR Skills	Develop Critical HR Skills	Create and Utilize Career Development
Corporate	2	4	3	5	1
Regional	1	3	4	5	2
Divisional	1	5	4	3	2

4. Identify critical skill/knowledge and ability deficiencies.
5. Identify equal employment and affirmative action concerns.
6. Create a career development system that reflects the **organizational mission**.

The following HR philosophy was developed and approved by the MHC board of directors:

As an employer committed to the value of human life and the dignity of each individual, we seek to foster justice, understanding, and a unity of purpose created by people and organizations working together to achieve a common goal. Therefore, we commit ourselves to the following beliefs:

1. People are our most important resource.
2. The human resource needs of the organization are best met through the development of employees to their maximum potential.
3. Justice in the workplace is embodied in honest, fair, and equitable employment and personnel practices with priority given to the correction of past social injustices.

Case Questions

1. Describe MHC's strategy in terms of market position. Also, identify the type of external environment MHC is operating in and the degree to which the strategy matches the environment.
2. Identify the type of structure MHC currently uses in its primary businesses. Describe the fit between the structure and the competitive strategy. Describe any structural adjustments MHC should make to maximize the effectiveness of the strategy.
3. Identify any areas where current management KSAs are not aligned with effective implementation of the competitive strategy.
4. Describe how MHC should go about addressing the KSA deficiencies you have identified in the previous question. Your answer should be consistent with the mission and values of MHC.
5. Assume that you are the HRD manager and the competitive strategy was given to you prior to its adoption. Using principles and concepts from the chapter, what recommendations would you give to the strategic planning team?
6. Given the strategy, what tactical activities can the HR unit in general, and HRD specifically, develop to support the strategy (be sure to include the implementation of the HRIS)? Identify sources of support and sources of resistance to these tactical activities and point out any areas in which collaborating with the OD unit would be advisable.

Exercises

1. Conduct an analysis of HRD's environment at the company you work for (if you're going to school and don't work, use the school's environment). What are the opportunities and threats to HRD in that environment? What demands does the environment make on the HRD department?
2. Form groups of three to five people, one of them having been provided with training by their employer within the last two years. Have this person explain the company's mission to the rest of the group. Then have the person describe the type of training that was received. The group's task is to determine the linkage between the training and the mission.
3. Identify two organizations with different environments and core technologies. Describe these differences. Indicate how the HRD strategies of these