

CHAPTER 4

SITUATIONAL ANALYSIS

What's the use of running if you are not on the right road?

—German proverb

LEARNING OBJECTIVES

1. Distinguish between internal and external analyses.
2. Develop a sample strengths, weaknesses, opportunities, and threats (SWOT) analysis.
3. Define distinctive competencies.
4. Understand how a political, economic, social, technological, environmental, legal (PESTEL) chart can be used to categorize information about the external environment.
5. Develop a force field analysis and a gap analysis.

Until the 1900s, the primary mode of personal transportation in the United States involved a horse. A New England company manufactured whips that were used by those who drove buggies and prided itself on being “the best buggy whip manufacturer in America.” When Henry Ford’s Model T was made in volume, the whip company maintained its focus on buggy whips with the goal of remaining the best in the industry. Meanwhile, one of its competitors began to diversify its products to include leather seats for the new automobiles. Unfortunately for the first company, the market for buggy whips got smaller and smaller, forcing the buggy whip manufacturer out of business. During the same time, the market for automobile leather grew, as did the profits of the innovating company.

This story underscores the importance of periodically conducting a situational analysis. We have already noted that change is a certainty, and the best way to prepare for change is to see it coming. As Winston Churchill, prime minister of the United Kingdom, once said, “To improve is to change; to be perfect is to change often.” Companies need to know why and how to change, and an environmental analysis provides data to guide necessary changes.



EXTERNAL AND INTERNAL ANALYSES

A healthcare organization, even one that is extremely successful, will fail in time if it continues to operate as it has done in the past. The reason we can be confident in this statement is because the environment in which healthcare organizations operate is continuously changing. In addition to the external environment, changes occurring inside the organization can also significantly affect its ability to meet its mission. Consider a very common surgical procedure, total knee arthroplasty (aka, total knee replacement).

When total knee replacements were first performed in the late 1960s, a typical treatment plan included an overnight stay in the hospital the night before surgery, surgery the following day, and up to a week in the hospital postsurgery. Since 1965, because most patients having joint replacement surgeries are over the age of 65, the procedure is covered by Medicare. For patients with 4 to 5 days of inpatient hospitalization under Medicare cost-based (fee-for-service) reimbursement, both the hospital and orthopedic surgeon could see significant financial gain. But those treatment plans were challenged by the implementation of Medicare's Inpatient Prospective Payment System (IPPS), commonly referred to as the Diagnosis-Related Group (DRG) system.

DRGs, first implemented in 1983, are used to calculate hospital inpatient Medicare reimbursement based on the average amount of resources that are needed to take care of a patient with a particular admitting diagnosis, adjusted for differences in labor costs. From the DRG calculation, a hospital knew how much it would be reimbursed for the admission and the average length of stay (ALOS) for patients with that condition. For a Medicare inpatient to be profitable, hospitals needed a physician to discharge the patient within the ALOS and/or the DRG funding stream. Treatment plans, and associated ALOS, for total knee replacement patients dropped. The Centers for Medicare and Medicaid Services (CMS) has since implemented a bundled payment model and removed total knee arthroplasty from the CMS inpatient-only list—meaning that the procedure is now covered in a hospital outpatient setting.

ALOS for total knee replacement dropped from 4.06 days in 2002 to 2.97 days in 2013 (Molloy, Martin, Moschetti, & Jevsevar, 2017). Imagine what would happen if a Medicare patient underwent total knee replacement surgery at a hospital where the surgeon prescribed a 4- to 5-day inpatient treatment plan. Failure to recognize and react to the regulatory and technology changes related to total knee replacements—changes in the external environment—would have severe financial consequences for a hospital.

The same hospital recognizes and adjusts to the DRGs for total knee replacement; however, it fails to recognize that the orthopedic surgeons with admitting privileges are approaching retirement age—a change in the internal environment. Failing to act and recruit new physicians who can perform total knee replacements in the hospital will eventually result in a decreased number of those procedures being performed in the hospital, and decreases in associated reimbursements.

SWOT ANALYSIS

The environment in which the healthcare organization operates—both internal and external—must be carefully monitored and evaluated as part of the planning process. One model for business review is the SWOT analysis. **SWOT** stands for **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats (see Figure 4.1), and in an ideal circumstance the organization is in balance with the environment over time.

Strengths and weaknesses are elements of the internal environment and indicate what the organization does well and where it struggles. **Strengths** are current characteristics of the organization that allow for outstanding performance. For example, a multispecialty practice has a staff of outstanding physicians; an ambulatory surgical center has state-of-the-art medical equipment; an oncology practice subscribes to scientifically and evidence-based practice; and a long-term care facility has high-end living facilities.

Weaknesses are organizational characteristics that increase costs, decrease quality, or have some other negative impact on operations. For example, a health insurance company does not have adequate endocrinologist coverage in the market; a primary care practice has two nursing vacancies and is unable to fill them; and a pharmacy lacks processes to prevent duplication of effort. Weaknesses should be analyzed to determine root causes (the underlying reason for the weakness), and to ensure that one weakness is not driving another. It is important to honestly assess strengths and weaknesses because an organization has the potential to control and change these internal factors.

Opportunities and threats are elements of the external environment, and an organization may have little or no control over their impact. **Opportunities** include new business initiatives that are available to an organization. Examples include an increase in the number of childbearing age women in a market where an OB/GYN practice is located; an opportunity to collaborate with different healthcare partners; and the introduction by the American Academy

FIGURE 4.1 SWOT Analysis Chart

	Potentially helpful	Potentially harmful
Internal	Strengths (Internal)	Weaknesses (Internal)
External	Opportunities (External)	Threats (External)

of Pediatrics of new clinical protocols that could be adopted by a pediatric practice. **Threats** are environmental forces that have the potential to harm the organization; for example, political or economic instability, decreases to a state Medicaid fee schedule, and an increase in the uninsured population in a market. It is important for an organization to keep its finger on the pulse of the environment because missed opportunities and unforeseen changes can have devastating consequences.

Internal Assessment

The first step of the SWOT analysis process is to gather and assess key internal data. The **internal assessment** (aka, **strategic audit**) focuses on an objective assessment of present operations to identify what the organization does well and where it needs to improve. Utilization of major services and programs, financial performance, and key indicators for the areas of facilities, equipment, and staff are typical components of the internal assessment. Strengths increase the likelihood of an organization to reach its goals, and weaknesses decrease that likelihood. The overarching goal is to maximize strengths and mitigate weaknesses.

Identifying strengths and weakness can be done systematically by analyzing the major sectors of the organization's operations. First, the organization's management structure/system should be evaluated to recognize:

- Characteristics of the organizational culture (e.g., patient/customer-driven versus financial performance-driven social values)
- Attributes of the management team (e.g., skills, experience, ages, values)
- Program performance (e.g., support, effectiveness, evaluation)
- Effectiveness of human resource management (e.g., open positions, pending retirements, supply and demand of licensed professionals)

Second, operational resources should be assessed, including:

- Capacity (e.g., number of licensed/staffed beds, potential for future expansion of existing and/or new services)
- Personnel competencies (skillset of current personnel)
- Cost structure (cost-efficiency, profitability)
- Technological capability (status of current equipment, ability to acquire)

Third, the organization's financial resources should be considered. There is a saying that is popular in the nonprofit world: "no money, no mission," meaning that an organization cannot fulfill its purpose unless it has the financial resources to operate. This principle applies to both nonprofit and for-profit organizations since both need financial resources to survive. Financial requirements to assess include but are not limited to:

- Short-term operating needs
- Long-term capital expansion needs
- Ability to access capital markets
- Expenses

- Donations
- Revenue cycle
- Cash flow
- Breakeven on new projects
- Debt-to-equity ratios
- Investments

Fourth, marketing capacity should be identified. The ability of an organization to get appropriate messaging to its target audience, driving utilization of services and associated revenue, is both a science and an art. This is one area where a "make or buy" decision is made—make the capacity in-house by hiring qualified marketing staff or buy the expertise via outside consultants.

Determining whether an activity should be considered a strength or a weakness can be accomplished using several benchmarking methods:

1. The activity can be assessed to determine how well it meets its operational goals. The outcomes of the activity can be compared to the activity's performance over time (trend analysis) and/or to other operational activities within the organization.
2. The activity can be compared to activities of peer organizations within the industry.
3. How well the activity is meeting expectations of funding sponsors is an important indicator of success and can be used to determine strength or weakness.
4. Using patient/customer feedback to determine whether the activity meets their needs.

Things that the organization does particularly well are known as **distinctive competencies**—superstrengths—that can be leveraged to gain a competitive edge in the marketplace. Identifying distinctive competencies and positioning the organization to use them to advantage is a critical part of the internal assessment process.

It is difficult but imperative that assessments of strengths and weaknesses are completed objectively so that a true picture of the organizational position emerges. While it is fairly easy to identify strengths, getting team members to recognize weaknesses and limitations can be challenging. Organizational politics may dictate that someone outside of the organization, such as a consultant, is necessary to gain a candid evaluation. The importance of an objective assessment cannot be overstated, as the identified strengths and weaknesses drive the ability of the organization to set realistic objectives.

Strengths and weaknesses by organizational sector can be presented using a table, as in Table 4.1. This presentation allows strategy implications for each strength and weakness to be reviewed quickly.

External Assessment

The **external environmental analysis** should evaluate the environmental conditions in which the organization currently operates and those in which it will

TABLE 4.1 Example of Strengths and Weaknesses by Organizational Sector

Management Structure/System	Strategy Implications
1. Strengths <ul style="list-style-type: none">• Skilled management team 2. Weaknesses <ul style="list-style-type: none">• Pharmacist shortage	1. Capacity to manage changing environment 2. Impact on service lines
Operational Resources	Strategy Implications
1. Strengths <ul style="list-style-type: none">• Existing licensed beds 2. Weaknesses <ul style="list-style-type: none">• Cost-effective operations	1. Expansion opportunity 2. Competitive advantage in securing bundled contracts
Financial Resources	Strategy Implications
1. Strengths <ul style="list-style-type: none">• Good cash position 2. Weaknesses <ul style="list-style-type: none">• High debt/equity ratio	1. Consider new or expanded service offerings 2. Must fund capital expansion through internal sources
Marketing Capacity	Strategy Implications
1. Strengths <ul style="list-style-type: none">• Excellent public perception 2. Weaknesses <ul style="list-style-type: none">• No in-house designer	1. New service could gain halo benefit in community 2. Outside consultant required for marketing design

likely operate in the future. This process serves to identify opportunities from which the organization might benefit, and threats that the organization should seek to mitigate or minimize. Environmental factors for analysis include, but are not limited to:

1. *Economic trends*, such as employment rates, poverty rates, increase/decrease in household income, inflation, and cost of capital
2. *Demographic trends*, such as aging population, number of women of childbearing age, urban/rural growth, and educational level
3. *Changes in services offered*, including public versus private providers, local versus national ownership, and how well the needs of the community are being met
4. *Trends in competition* from other healthcare providers that will affect patient and funding markets
5. *Trends in supply of healthcare professionals*, such as shortages, the likelihood of sign-on bonuses, and changes in training requirements
6. *Changes in patient/client needs and social values*, including what members of the community feel is important and how well the organization is meeting those needs

7. *Reimbursement and regulatory factors*, such as entry/exit of payers in the market, changes to Medicaid fee schedules, and implementation of new regulations by the CMS

Opportunities and threats related to the environment are analyzed to determine if any action (strategy) should be developed to deal with them.

Data Sources

There are a variety of public healthcare information databases that can be accessed to provide demographic and other inputs into the external assessment. Examples include:

- Agency for Healthcare Research and Quality (AHRQ)
 - The AHRQ (www.ahrq.gov) is the health services research arm of the U.S. Department of Health and Human Services. The website provides links to research data, reports, tools, and funding mechanisms.
- Centers for Medicare and Medicaid Services (CMS)
 - The CMS (www.cms.gov) is a federal agency whose primary responsibility is to provide health insurance for qualified U.S. citizens aged 65 and older. The CMS also oversees the federal side of the Medicaid program. The CMS maintains extensive data on annual Medicare and Medicaid expenditures, the Children's Health Insurance Program (CHIP), and national health expenditures.
- County Health Rankings & Roadmaps
 - County Health Rankings & Roadmaps (www.countyhealthrankings.org) is a collaboration between the Robert Wood Johnson Foundation and the University of Wisconsin Population Health Institute. The rankings measure vital health factors on a county level.
- FedStats
 - FedStats (<https://nces.ed.gov/partners/fedstat.asp>) is a source for statistical information produced by more than 100 agencies of the federal government.
- GuideStar
 - GuideStar (www.guidestar.org) maintains data on nonprofit organizations, including mission, programs, and finances.
- Hospital Compare
 - Hospital Compare (www.healthdata.gov/dataset/hospital-compare) is a source of data through the Department of Health and Human Services, with a goal of increasing data accessibility to improve health outcomes.
- National Center for Health Statistics (NCHS)
 - The NCHS (www.cdc.gov/nchs) is the principal U.S. statistics agency and compiles statistical information collected primarily

through survey instruments for the purpose of guiding health policy and improving population health.

- NationMaster
 - NationMaster (www.nationmaster.com/index.php) is a massive central data source to geographically compare different nations.
- Nursing Home Compare
 - Nursing Home Compare (www.medicare.gov/NHCompare/home.asp) is a tool managed by the CMS to evaluate nursing homes at local, state, and national levels.
- StateMaster
 - StateMaster (www.statemaster.com/index.php) provides data on different states and allows comparisons across states.
- U.S. Census Bureau
 - The U.S. Census Bureau (www.census.gov) provides information from the American Community Survey (ACS), which collects population and housing data on an annual basis. The Census Bureau also collects population census data every 10 years, economic census data, and other data types through surveys.

PESTEL Chart

Some healthcare organizations find it beneficial to organize information about the external environment into categories presented in a **PESTEL Chart**, which can be used to complement a SWOT analysis. PESTEL is an acronym for factors that impact organizations:

- **Political**—governmental policies, governmental resource allocations, armed conflict, lobbying/campaigning activities by interest groups, changes in power/influence, and expectations for future changes
- **Economic**—the economy (local, national, regional, global), economic status of communities/populations, infrastructure, expected direction of economic changes
- **Social**—cultural trends, demographics, population analytics, and social determinants of health
- **Technological**—how a population uses technology, new innovation and technology, potential for innovation and change
- **Environmental**—global/national/regional/local environmental issues (e.g., air quality, climate change, water availability), environmental regulations, impact of weather, geographical location of services/patients
- **Legal**—current legislation, ethical issues, pending/future legislation, standards/oversight

Representatives from major stakeholder groups consider conditions in one of the areas, reviewing relevant data compiled by the strategic planning team. During a brainstorming session, the group identifies activities in the area

considered that are either currently impacting the organization or will potentially impact the organization in the future. The activities are not addressed, nor are solutions developed, at this point; however, each is determined to be within the control of the organization or not. After each area is considered, a PESTEL Chart can be completed. An example PESTEL Chart for a local public health department is presented in Table 4.2.

Because factors within each of the six areas can vary across geographical markets (i.e., from county to county), a separate PESTEL Chart should be constructed for each operational area considered under the strategic plan.

The Role of Assumptions

When conducting an external analysis, major assumptions should be made concerning factors in which the organization has little or no control. By not

TABLE 4.2 PESTEL Chart for a Local Public Health Department			
Political	Economic	Social	Technological
Local/state /regional regulations	State budget shortfalls	Percentage of uninsured population	Public health data collection systems
Federal regulations	Reductions in federal grants	Faith-based activities	Capacity for public health data analytics
Relationships with local elected officials	Internal financial security	Access to medical home	Ability to share data with stakeholders
	Public and private insurance billing capacity	Growth in Hispanic population	Access to real-time data
		High school graduation rates	

Legal	Environmental
Data-sharing agreements	Community health needs assessments
Disease-monitoring requirements	Implementation of health in all policies
ACA changes	New construction

Within control of Health Department

Within influence of Health Department

Outside control of Health Department

ACA, Affordable Care Act; ACS, American Community Survey.

making assumptions, the organization is assuming that the environment will remain the same—an assumption that we have noted is not likely to hold.

A nongovernmental organization (NGO) operating in South Africa was exploring mechanisms for a local community to generate resources toward self-sufficiency. The NGO noted the rich, fertile soil and deduced that there was an opportunity to partner with a tomato plant grower in Italy who had exceptional success growing large tomatoes. The NGO imported the plants to South Africa, hired local workers to farm the crops, and was rewarded with an abundant crop of tomatoes four to five times the normal size. As the tomatoes were near ripening, NGO officials reported the success of the project to their board. A few days after the board report, a herd of hippopotamuses invaded the gardens and consumed all of the produce, destroying agricultural equipment and supplies. One local farmer confided to the NGO administrator, “That’s why we don’t plant tomatoes.”

Assumptions document the external situational trends that are projected to significantly impact operations. Examples of major assumptions include:

- Growth and aging in population will lead to increased demand for health services.
- Competition in the market will intensify.
- Pharmaceutical and technological advances will drive services to lower intensity delivery settings.
- The likelihood that physicians will offer ancillary services through offices will increase.
- As employers shift a greater percentage of the cost of providing health insurance benefits to employees, price sensitivity will increase.
- Labor shortages in nurses and pharmacists will occur.
- Significant governmental involvement in financing and regulation will occur.

Force Field Analysis

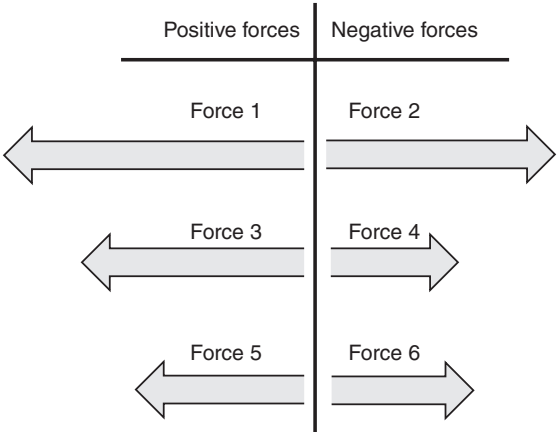
Increasing strengths, decreasing weaknesses, taking advantage of opportunities, and mitigating/minimizing threats require an organization to understand the forces driving these internal and external factors. A **force field analysis** (Lewin, 1951) is a method of examining the forces driving or hindering change, which recognizes that success is dependent on the number of forces driving change (positive) outweighing the number of forces hindering change (negative).

The first step is to brainstorm potential positive and negative forces, including an assessment of the strength of those forces, and capture those in a force field diagram (see Figure 4.2). The length of the arrow represents the strength of the force, which allows for a discussion of how to increase the forces that are positive for the desired change and to decrease the forces that are negative for the desired change.

The force field analysis is a useful tool for teams. Once the team can identify and understand forces that compel the organization, it is able to develop strategies to encourage or enhance those forces. Similarly, once the team can

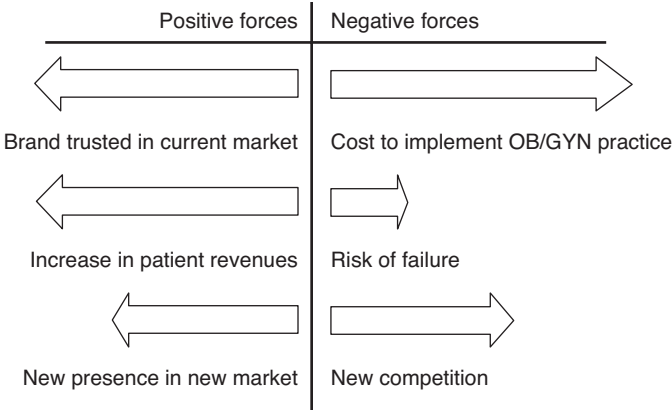
identify and understand forces that are holding back the organization, it can develop strategies to eliminate or mitigate these forces.

FIGURE 4.2 Force Field Diagram



FORCE FIELD ANALYSIS EXAMPLE: MARKET EXPANSION

General Hospital’s (fictitious name) strategic plan includes expanding services into Green County (fictitious) in a move to increase market share in the region. The hospital enjoys strong brand awareness and has a dominant position in its current market of five counties. The strategic plan implementation team completes the following Force Field Analysis for expanding a new Obstetrics and Gynecology (OB/ GYN) practice in Green County:



The staff believed that positive forces of brand image, potential for increased patient revenue, and having a new presence in a desirable market outweighed the forces of cost, risk of failure, and new competition. In light of the strategic planning SWOT analysis and the force field analysis, staff recommended establishing a new OB/GYN practice in Green County.

Gap Analysis

Another tool that is useful for teams is a **gap analysis**, which provides a format to compare best practices with existing processes. This comparison is then used, in conjunction with identified barriers to implementation, as a driver to move the organization to where it needs to be in terms of performance. Gap analysis can help an organization by informing the needs assessment process and helping to focus its goals. The steps in conducting gap analysis are:

- 1. Identify what is currently happening in the organization.
- 2. Define the best practice (aka, gold standard) or desired practice for the process/project.
- 3. Clarify the gap or discrepancy between current reality and desired state.
- 4. Determine objectives for the organization based on the identified gaps.

Implementing a gap analysis requires gathering data related to the process/project to be studied. Examples of data to consider include: outcomes from literature review, customer data (e.g., hospital admissions), governmental policies, and clinical care guidelines. A simple table can be constructed for each process/project to assist in decision making (Table 4.3).

TABLE 4.3 Gap Analysis Table

Current Practice	Desired Practice	Resources Required	Barriers	Strategies

A gap analysis for General Hospital’s OB/GYN potential expansion into Green County might include the following:

Current Practice	Desired Practice	Resources Required	Barriers	Strategies
2% OB/GYN market share from Green County	8% OB/GYN market share from Green County	Clinic facility Providers and staff Equipment	Cost Competition	Lease facility 3-day per week presence

Once a gap analysis is completed, strategic options or alternatives should be developed and assumptions should be tested. **Scenario analysis** is a method in which multiple potential future states (or outcomes) are forecast. It is not constrained by events of the past, which may not capture the impact of changes in the environment; rather it uses both trends (the known) and uncertainties (the unknown) to predict a range of possible future scenarios. Each alternative future scenario includes a pathway that is required to reach that future state, which allows managers to explore the impact of change and to prepare for the future. Scenarios are generally formulated in terms of “best case,” “worst case,” and “most likely case” outcomes to account for the probability of future states occurring. The value of scenario analysis is that it encourages managers to see beyond biases that drive assumptions that may or may not hold true in the future.

While scenario analysis examines different situations in which a plan may be implemented, **sensitivity analysis** (aka, “What-If” analysis) considers how performance is affected by changes in an assumption of the strategic plan. Sensitivity analysis occurs within a defined scenario and can be used to determine the optimum input for a given outcome. Managers will often apply sensitivity analysis to the best case identified in scenario analysis.

A hospital, in its review of disaster plans, will consider several planning scenarios. For example, if there is a likelihood that a tornado could impact the service area, the hospital will need to estimate the number of casualties—both morbidity and mortality—related to the disaster. This information can be estimated through consultation with local health department and emergency management offices. Once the number of casualties is estimated, the hospital identifies all resources that would be required to treat the casualties and maintain operations. Resources include, for example, staffed hospital beds, operating rooms, ventilators, generators, food/water/medical supplies, transportation, and personnel.

It is also important to identify external resources and operational capacity to assist. For example, in a disaster a tertiary care hospital would work with regional community hospitals to coordinate transfer of less-critical patients, including those already in the hospital, to those facilities to free up capacity in the tertiary care hospital to receive critical patients. Once the required resources are identified, the hospital can then identify the gaps in the resources required and the resources currently available. This gap will need to be closed in order for the hospital to effectively manage the disaster.

Hospitals develop **contingency plans** for non-normal events such as disasters that affect hospital operations. The need for a contingency plan, often referred to as “Plan B,” emerges from risk analyses of critical business functions, determination of level of risk, and prioritization of potential risk scenarios. A contingency plan will identify a specific trigger (e.g., disaster event) that causes normal operations to be interrupted and the contingency plan activated. Actions to be taken by time period, resource requirements, and impact on operational areas are addressed in the plan, so that the plan can be implemented immediately when needed. While contingency plans are written to respond to crises, their primary goal is to return the organization to normal operations as quickly as possible.

Analysis Paralysis

The environmental assessment is a critical component of the strategic planning process, and all efforts should be made to analyze data that will inform necessary decisions for the organization. However, there are near unlimited data points and variables that could be considered in such analysis. It is imperative that organizations avoid **analysis paralysis**—a situation where analysis does not have an end point and decisions are never made. So, how do you avoid analysis paralysis and still consider the relevant internal and external factors? The key is to prioritize the data investigated and the decisions made, keeping in mind the larger purpose for conducting the analysis. Recognize that there is a cost–benefit relationship in this process, with costs (e.g., personnel, money, time) being traded for benefit (e.g., well-informed decisions). Perfection is something few, if any, organizations can (or should) afford.

CASE STUDY MEMORIAL HOSPITAL, INC.

Memorial Hospital conducts an annual review of its strategic planning activities and renews its strategic plan every 3 years. While the Department of Planning and Marketing is primarily responsible for developing the strategic plan, employees and stakeholders are heavily involved in the process.

The internal assessment consists of surveys and focus groups of key stakeholders (including employees), service utilization trend data, and financial statement analysis, to name a few. Data collected and analyzed for the external assessment include data from publicly available databases to determine economic trends, demographic trends, changes in services offered, trends in competition, supply/demand of healthcare professionals, patient/client needs and social values, and reimbursement and regulatory factors.

Significant areas identified through the internal and external analysis were vetted through a process that included review by management, the board of directors, and other stakeholders. The purpose of this process was to categorize areas according to the magnitude of potential impact on the organization.

Sample outcomes from the external evaluation include the following:

GOVERNMENT

Opportunities

- 1. Strong relationship exists with city councils and health departments. Recent natural disaster and hospital partnerships enhanced these relationships. Opportunity for collaboration on grants and support in the community is present for hospital projects.

Threats

- 1. Decreased governmental reimbursement (Medicare and Medicaid).

(continued)

CASE STUDY MEMORIAL HOSPITAL, INC. (*continued*)**ECONOMY****Opportunities**

1. Numbers of privately insured citizens are increasing with opportunity for increased revenues.

Threats

1. Potential closure of paper mill in secondary market would lead to an increase in uninsured patients from that region.

TECHNOLOGY**Opportunities**

1. Infrastructure in rural communities allows for tele-health opportunities.

Threats

1. Ambulatory Surgery Center has plans to acquire the latest robotic surgery equipment.

SOCIAL TRENDS**Opportunities**

1. Population is increasing as well as increased household income in much of service area with opportunity to increase service revenues.

Threats

1. There is the potential closure of paper mill in secondary market.

PATIENTS/CLIENTS**Opportunities**

1. The increased population of women of childbearing age affords opportunity for women's and children's services revenue.

Threats

1. Potential closure of paper mill in secondary market would lead to an increase in uninsured patients from that region.

REIMBURSEMENT SOURCES/SPONSORSHIP**Opportunities**

1. New private insurance company offering health insurance plans in market affords opportunity to increase privately insured patients and revenues.

Threats

1. Decreased governmental reimbursements for Medicare- and Medicaid-covered services are possible.

(continued)

CASE STUDY MEMORIAL HOSPITAL, INC. (*continued*)

COMPETING HEALTHCARE ORGANIZATIONS

Opportunities

1. Partnership opportunities could exist for contract work through VA hospital.

Threats

1. A private hospital may target services to childbearing women in affluent communities.

Sample outcomes from the internal evaluation include the following:

Strengths

1. Knowledge, skills, and experience of current CEO (hired 4 years ago) from career with large integrated delivery system
2. Dominant market share in primary and secondary service areas
3. Full range of inpatient and outpatient services
4. Brand recognition as healthcare provider of choice in markets

Weaknesses

1. Stressed relationship with many members of the medical staff
2. High ALOS and average patient expenses
3. Excessive test ordering by some members of the medical staff
4. Lack of ownership of a health insurance plan

Sample assumptions include the following:

1. Involvement by federal government in healthcare delivery will continue to increase. Modifications of Medicare and Medicaid payments will be made within the next 5 years.
2. Philanthropic donations will decrease due to changes in tax laws.
3. Employers will take an increasingly aggressive position in trying to control the cost of healthcare coverage for their employees.
4. Technological advances will increase at a rapid pace, and more inpatient services will be pushed to the outpatient market.
5. Risk will shift from insurers to providers through population health initiatives.
6. Quality of services will lead to expansion of services.
7. The cost of long-term care services will be further scrutinized as demand for services continues to increase.

The following situational analysis and assumptions worksheet will aid you in completing a SWOT analysis.

SITUATIONAL ANALYSIS AND ASSUMPTIONS WORKSHEET

Step 1. Internal Operations Analysis: Using the following question guides and your own information, list key strengths and weaknesses for each of the following sectors of your healthcare organization’s operations.

Management and Planning Systems

Use these questions to help you prepare a list of strengths and weaknesses for this portion of the healthcare organization’s operations.

Do you have a planning system?

How does it work?

Is the organizational structure of your healthcare organization allowing effective use of resources?

Is control centralized or decentralized?

Are performance measures and information system controls in evidence?
What are they?

What staffing needs do you have?

Is there a motivation problem?

Is your current strategy defined? Is it working?

How efficient are operations?

What is your synopsis of the current management situation?

Now list your strengths and weaknesses for this section of your healthcare organization’s operations.

Strengths

Weaknesses

Financial Resources

Use these questions to help you prepare your strengths and weaknesses list for this portion of your healthcare organization’s operation.

What is your current financial situation?

Do you have regular financial statements prepared?

What tools would be beneficial in analysis?

Do you have pro forma statements for revenue centers such as rehabilitative care, hospice care, and so on?

Do you have a cash budget?

Do you have a capital budget?

Has a ratio analysis been prepared?

Do you understand the time value of money?

Do you understand and use break-even analysis?

Have you analyzed current financial policies?

Do you have cash policies?

How are accounts receivable analyzed?

How are accounts payable analyzed?

Do you control inventory levels?

Do you have a debt retirement plan?

Give a synopsis of your current financial situation.

Accounting Analysis:

Depreciation procedures?

Tax considerations?

Decentralized/centralized operations?

Responsibility accounting?

Tools beneficial in analysis:

Do you have budgets (short- and long-range) established?

Do you perform variance analysis comparing actual against planned performance?

What costing methods are used?

Do you do contribution margin analysis?

Are there adequate controls, especially of cash, for each of your healthcare organization's programs?

What is your synopsis of the current accounting situation?

Now list your strengths and weaknesses for this section of your healthcare organization's operations.

Strengths

Weaknesses

Marketing Resources

Use these questions to help you prepare your strengths and weaknesses list for this portion of your healthcare organization's operation.

Have you established marketing policies?

Have you established what you will and will not do in marketing your services?

Have you identified your patients/clients?

Have you identified your funding/reimbursement sponsors?

What are your competitors' services and products, level of demand, and relative market positions?

What are your distribution systems and location of facilities and how effective are they?

Is your services' price/fee structure current and appropriate?

What promotional (advertising, sales promotion, and personal selling) activities are you using?

What is your synopsis of the current marketing situation?

Now list your strengths and weaknesses for this section of your healthcare organization’s operations.

Strengths

Weaknesses

Operations or Services Resources

Use these questions to help you prepare a list of strengths and weaknesses for this section of the organization’s operations.

What are your operations’ capacities?

In what shape are your facilities?

What is the age and serviceability of your equipment?

How automated are your operations?

What are your transportation capabilities?

Are safety programs adequate?

How effective is your inventory control?

Do you use quality control systems?

Now list your strengths and weaknesses for this section of your healthcare organization's operations.

Strengths

Weaknesses

Next, evaluate the services of your professional staff:

Range of services offered?

Number of services rendered and patients served by service category?

Number and estimated years to retirement of professional staff by services category?

Have you listed and analyzed all major internal factors with significant impact on your organization's operations?

Step 2. External Environmental Analysis: From industry surveys and your own sources of information, take the organization's pulse. You are looking for trends—what is going on now and how this relates to past trends that have influenced your healthcare organization's performance. From this analysis, list key opportunities and threats for each of the following environmental sectors.

Government

Opportunities

1. _____
2. _____
3. _____

Threats

1. _____
2. _____
3. _____

Economy

Opportunities

1. _____
2. _____
3. _____

Threats

1. _____
2. _____
3. _____

Technology

Opportunities

1. _____
2. _____
3. _____

Threats

1. _____
2. _____
3. _____

Social Trends

Opportunities

1. _____

2. _____
3. _____

Threats

1. _____
2. _____
3. _____

Patients/Clients

Opportunities

1. _____
2. _____
3. _____

Threats

1. _____
2. _____
3. _____

Reimbursement Sources/Sponsorship

Opportunities

1. _____
2. _____
3. _____

Threats

1. _____
2. _____
3. _____

Competing Healthcare Organizations

Opportunities

1. _____
2. _____
3. _____

Threats

1. _____

2.

3.

Next, evaluate your external analysis:

Have you listed several international/national trends that affect your healthcare organization?

Have you listed several local trends that affect your healthcare organization?

Have you identified trends unique to your healthcare organization (e.g., availability of certain healthcare professionals)?

Have you listed several of your most important competitors?

Which are growing?

Which are declining?

What are the successful ones doing?

Step 3. Development of Assumptions: List the major assumptions on which your plan is based.

- 1.

- 2.

- 3.

- 4.

- 5.

GLOSSARY OF TERMS

Analysis paralysis—a situation where analysis does not have an end point and decisions are never made

Contingency plan—developed for non-normal events such as disasters

Distinctive competencies—in a SWOT analysis, superstrengths that can be leveraged to gain a competitive edge in the marketplace

External environmental analysis—an objective evaluation of the environmental conditions in which the organization currently operates and those in which it will likely operate in the future

Force field analysis—a method of examining the forces driving or hindering change, which recognizes that success is dependent on the number of forces driving change (positive) outweighing the number of forces hindering change (negative)

Gap analysis—an assessment that provides a format to compare best practices with existing practices, with the goal of improving performance

Internal assessment (aka, strategic audit)—an objective analysis of current operations to identify what the organization does well and where it needs to improve

Opportunities—in a SWOT analysis, new business initiatives that are available to an organization

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PESTEL Chart—a method of organizing information about the external environment into categories: political, economic, social, technological, environmental, and legal

Scenario analysis—a method in which multiple potential future states (or outcomes) are forecast

Sensitivity analysis (aka, “What-If” analysis)—a method that considers how performance is affected by changes in assumptions made during the strategic planning process

Strengths—in a SWOT analysis, current characteristics of the organization that allow for outstanding performance

SWOT analysis—an assessment of the internal (strengths and weaknesses) and external (opportunities and threats) environment

Threats—in a SWOT analysis, environmental forces that have the potential to harm the organization

Weaknesses—in a SWOT analysis, organizational characteristics that increase costs, decrease quality, or have some other negative impact on operations

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