

# Strategic Fit in the Healthcare IDS

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## INTRODUCTION

Interorganizational networks are defined as “clusters of organizations that make decisions jointly and integrate their efforts to produce a product or service” (Alter & Hage, 1993, p.2) and “advanced organizational structures perceived to improve efficiency, flexibility, and innovativeness and described as decoupled units developed because of rapid growth or knowledge and technology” (Schumaker, 2002). The healthcare integrated delivery system (IDS) is a distinct example of an interorganizational network. Defined as networks of healthcare organizations linked for the goals of clinical integration and an effective patient care continuum (Deluca & Enmark, 2002; Kilbridge, 1998; Young & McCarthy, 1999; Zucherman, Kaluzny, & Ricketts, 1995), IDSs may assume various organizational forms; namely, strategic alliances, contracted networks, or joint ventures, and may be comprised of multiple forms within a single network (Page, 2003). Also of interest is the distinction of the IDS as a lateral network of stakeholders, all directly serving the patient. This study uses the healthcare IDS to test a model of strategic fit and to examine differences in the nature and strength of the strategic fit to performance relationship across two distinct levels of IDS development.

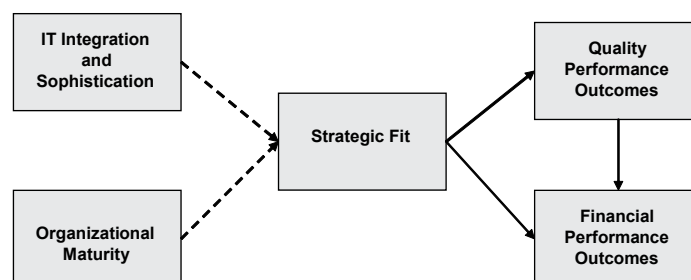
The conceptual model (Figure 1) is tested using data from HIMSS Analytics and the American Hospital Directory for 130 US IDSs. The IDSs are categorized into two levels of development, High Integration Aligned (HIA) and Low Integration Aligned (LIA), based on the alignment of IT integration/sophistication and organizational maturity. The relationship between strategic fit and IDS financial and quality performance is tested with comparisons made between the two groups.

## BACKGROUND

### Strategic Fit

Henderson and Venkatraman (1993), in the strategic alignment model, defined strategic fit as a process of adaptation in which organizational changes must be supported by complimentary IT resources and integration. Similarly, Chan and Huff (1993) defined strategic fit as “the fit between business strategy and IS strategy” (p. 345). We adapt these definitions to define strategic fit as the point of equilibrium at which the level of interorganizational network structure and maturity is properly aligned with a complementary level of IT integration and sophistication.

Figure 1. Conceptual model of strategic fit for the interorganizational network



Venkatraman (1994) developed the IT-Enabled Business Transformation Framework as an extension to the strategic alignment model, positing that IT is no longer simply an operational support resource, but rather a strategic tool with which to transform the firm's organizational structure and processes. He further proposed that IT's strategic role emerges more readily as firms establish strategic alliances and partnerships, as is the case with interorganizational networks. In advanced stages of organizational development, the need for and benefits from strategic fit should increase as interorganizational networks expand into more complex structures (Venkatraman, 1994). Yet little empirical evidence exists to support these suggestions. Much research around IT value and strategic fit has been conducted at the firm level (Bergeron, Raymond, & Rivard, 2001; Chan, Huff, Barclay, & Copeland, 1997), but research at the interorganizational network level is rare (Straub, Rai, & Klein, 2004).

Some researchers have examined the differences in firm performance between organizations at various levels of strategic fit. Zajac, Kraatz, and Bresser (2000) demonstrated significant positive links between strategic fit and ROA in savings and loan organizations that achieved advanced levels of strategic fit. These authors empirically supported the argument that organizations responding in a timely manner to needed strategy changes and achieving fit at this new level of development will realize greater benefits than those that do not.

Similarly, Bergeron, et al. (2001) found that small enterprises with a high level of strategic fit realized improved financial performance. These authors examined strategic fit through different lenses—profile deviation, moderation, matching, and other perspectives—to measure the performance impacts of fit. The results suggested that those organizations that pursue a highly strategic organizational and IT strategy tend to outperform organizations that fail to reach these higher levels. Thus, these past studies support the idea of a difference in the strategic fit to performance relationship, depending upon the achieved level of IT integration and organizational structure. More specifically, these studies suggest that performance improvements should be more apparent among highly integrated mature organizations that have achieved strategic fit.

## **Quality Outcomes**

Quality outcomes are intangible, quality-related measures of organizational service and performance (Devaraj & Kohli, 2000; Li & Collier, 2000) and are of concern to IDSs due to the need for continual patient care quality improvement (Snyder & Paulson, 2002). Research suggests that patient-centered measures such as mortality rate, patient satisfaction, and average length of hospital stay (ALOS) are appropriate quality performance outcomes for the IDS (Devaraj & Kohli, 2000; Dowling, 1997; Smith & Swinehart, 2001); thus, ALOS is adopted for this study.

Initial formation and growth of IDSs led to reduced ALOS. For instance, Kim (2000) examined the impact of IDS formation on ALOS in the 1990s and found that ALOS was shorter for IDSs that had achieved a high degree of functional process integration across network participants. Those IDSs that had shortened ALOS had done so through the streamlining of patient care with expanded services and reductions in the time associated with administrative tasks. To the contrary, more recent studies indicate that ALOS reductions may have slowed or stalled (Page, 2003), suggesting that IDS formation alone is insufficient to ensure long-term quality improvements.

Regarding IT's role in healthcare performance improvements, Li and Collier (2000) investigated the impact of IT on performance through a survey of hospital administrators. The results indicated that IT had a significant positive impact on hospital quality and financial performance through IT's perceived ability to enhance accuracy, timeliness, and patient care effectiveness. Research suggests that increasing IT resource complexity and sophistication results in increasing pressure to pursue further business transformation for improved coordination and integration. Thus, as IDSs mature, IT's role seems to evolve from business process support to enabler of business transformation (Schumaker, 2002). Similarly, as IDSs expand, increasing differentiation of services often results, thereby forcing these networks to re-evaluate and improve both organizational and IT integration to maintain a streamlined patient care continuum (Schumaker, 2002).

Researchers suggest that strategic fit has a more significant impact on financial and quality performance among interorganizational networks with high IT integration and organizational maturity than among

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