The Effect of Strategic Marketing Planning Practices on Performance: A Study of Australian Private Hospitals

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ABSTRACT

Although many marketing text books and a number of studies claim that strategic marketing planning can help firms improve their organizational performance, little or no study particularly in Australia has examined the effect of strategic marketing planning practices on private hospitals. This paper aims to present the results of a study that addressed whether strategic marketing planning practices is related to private hospitals organizational performance.

INTRODUCTION

Although various studies have examined the relationship between strategy and performance in the manufacturing industry (Crysler 1998; Luhby 1999; Rajaratnam & Chonko 1995; Sampson & Showalter 1999), and the services industry (Cleverley & Harvey 1992; Crysler 1998; Eastaugh 1992; Lackmann 2003; Luhby 1999; McKee, Varadarajan & Vassar 1986; Short, Palmer & Ketchen Jr 2002; Smith, Piland & Funk 1992), only very few studies have been done in the health industry (Cleverley & Harvey 1992; Eastaugh 1992; McKee, Varadarajan & Vassar 1986; Short, Palmer & Ketchen Jr 2002; Smith, Piland & Funk 1992) and little or no study has examined the effect of strategic marketing planning on the performance of private hospitals in Australia.

Most of the studies relating to strategy and performance in the health care industry are predominately done within the United States context (Cleverley & Harvey 1992; Eastaugh 1992; Short, Palmer & Ketchen Jr 2002; Smith, Piland & Funk 1992).

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Given that the Australian health care industry is considerably different to that of the United States, this study was designed to examine whether the performance of private hospitals in Australia is influenced by their strategic marketing planning practices.

METHODOLOGY

Hospitals in this study are defined as private hospitals if they are (1) privately owned and operated (2) catering for patients who are treated by a doctor of their own choice and (3) patients are charged fees for accommodation and other services provided by the hospital and relevant medical and paramedical practitioners which according to AusInfo (1999), includes private free standing day hospital facilities.

Regarding the sample population for this study the Australian Medical Association (AMA) was approached for a list of Australian private hospitals. However, the AMA was unable to provide a list but suggested the use of the Australian Private Hospitals Association (APHA) website that contained a list of private hospitals in Australia. The information on the membership list from the APHA website claimed that the list covered 72% of all private hospitals within Australia (Association 2004). Other private hospitals not listed on the website were obtained from state and territory websites and were added to the APHA list thus resulting in a total of 388 private hospitals in Australia.

The survey instrument for this study was sent to all 388 private hospitals via mail delivery. A reply paid envelope was included with each of the questionnaires that were sent out. The questionnaire was pre-tested prior to sending them to the private hospitals. Of these 388 private hospitals invited to participate in this study, 96 hospitals returned the questionnaire. However 24 of these questionnaires were rejected due to a substantial amount of missing items. A further 5 questionnaires were "returned to sender" as a result of changed addresses or business closure. Therefore a total of 383 private hospitals were invited to participate in the study. As a result of the questionnaires that were rejected due to missing items and returned to sender a total of 72 usable questionnaires were returned, yielding a response rate of 18.8 per cent. Although a response rate of 18.8 per cent could be considered low, it was however deemed satisfactory for this study because it was 18.8 per cent of the total population of private hospitals in Australia.

In order to determine whether respondent characteristics differed from those of 'non-respondents', a sample of 25 private hospitals were contacted by telephone to obtain the organizational characteristics of their hospitals and compare them with respondents characteristics. A chi-square analysis of the data indicated that the organizational characteristics of 'non-respondents' concerning type of hospital, number of employees, ownership nature and time in operation did not differ significantly (at 0.10 level of significance) from those organizational characteristics of respondents.

Given the sensitive nature and level of knowledge required to complete the questionnaire to a satisfactory level, it was deemed that the Chief Executive Officer (CEO) of each hospital was the most appropriate person to complete the questionnaire. However, in organizations where the position of CEO was non-existent, the Executive Director, General Manager or Director of Nursing completed the questionnaire.

The majority (81.9 per cent) of respondents that completed the questionnaire were either Chief Executive Officers, Executive Directors, General Managers or Directors of Nursing in their organizations. Given that a large majority of the respondents used in this study were in senior management positions they should have very reasonable knowledge of the strategic marketing planning practices and performance levels of their organizations. Most (83.3 per cent) of respondents had university qualifications or higher. Just slightly over a half (52.7 per cent) of the respondents employed less than 100 employees and the remainder (47.3 per cent) had 100 or more employees. About a third (30.6%) of the private hospitals employed 200 or more employees.

To determine the level of strategic marketing planning practices of these organizations, evidence was sought regarding the extent to which the following strategic marketing planning activities were carried out in their organizations:

- gathering information on factors outside the business, such as patients, competitors, suppliers, political and legal considerations, technology, economics, etc;

- gathering information on the organizations internal environment and activities (such as its facilities, employees, past performance, finance, locations etc);
- summarising the organization's major external environmental opportunities and threats, and internal strengths and weaknesses;
- setting objectives that the organization wants to achieve (e.g. profit, market share, services, promotion or distribution);
- developing general policies concerning who the organization will sell its services to;
- developing general policies concerning how the services will be perceived by patients;
- developing a broad plan of action in the area of service development;
- developing a broad plan of action in the area of pricing;
- developing a broad plan of action regarding the general policies for distributing services within and outside the hospital;
- developing a broad plan of action in the area of promotion;
- developing an action plan that answers: What will be done? Who will do it? When will it be done and how much will it cost?;
- developing methods for reviewing and monitoring the plan; and
- having a written mission statement.

Each of the 13 variables was measured on a five-point scale (where 1 = small extent, and 5 = great extent). To meet each requirement an organization must carry out the planning activity to a great extent. A score of 'one' was awarded if an organization carried out the activity to a great extent and a score of 'zero' was awarded if an organization did not carry out the activity to a great extent. Therefore, if an organization carries out all of the 13 strategic marketing activities the organization will have the maximum score of 13, while an organization that does not carry out any of the 13 strategic marketing activities will receive a total score of zero. Since the median score was 7, organizations with scores lower than the median value were classified as 'low level strategic planning organizations', and the rest with the median score or above the median score were classified as 'high level strategic planning organizations'. This resulted in 50 organizations being classified as high level

strategic marketing planners, and 22 organizations classified as low level marketing planners.

RESEARCH FINDINGS

The analysis of comparing private hospitals with low level versus high level of strategic marketing planning practices resulted into a numbers of differences in the organizations business performance. Significant differences were found between high level planners and low level planners regarding their profitability status (see table 1). The majority (78.0 per cent) of high level planners indicated that their organization is making a profit, compared to 59.1 per cent of low level planners who made such a claim (see table 1).

Table 1: Profitability Status

	Low Level Planners Organizations who are making a profit N=22		**High Level Planners** Organizations who are making a profit N =50		**Chi-square test of sig. Level**
	N	**%**	**N**	**%**	
Our organization is not making a profit	9	40.9	11	22.0	0.088
Our organization is making a profit	13	59.1	39	78.0	

Regarding the growth experienced by organizations in the past two years, there is a significant difference between high level planners and low level planners (see table 2). The majority (82.0 per cent) of high level planners indicated that their organization is experiencing growth, while only half (54.5 per cent) of low level planners are experiencing growth (see table 2).

Table 2: Growth of the organization in the past 2 years

	Low Level Planners Organizations who are experiencing growth N=22		**High Level Planners** Organizations who are experiencing growth N =50		**Chi-square test of sig. Level**
	N	**%**	**N**	**%**	
Our organization is not experiencing growth	10	45.5	9	18.0	0.018
Our organization is growing	12	54.5	41	82.0	

There are significant differences between private hospitals who are high level marketing planners versus private hospitals who are low level marketing planners in terms of their satisfaction with the following areas of performance (see table 3):

- Return on sales;
- Return on equity;
- Profitability;
- Full-time employees per number of occupied beds (FTE/BED);
- Patient care revenue/patient day;
- Strategic planning effectiveness;
- Organizational survival;
- Service orientation;
- Operations;
- Revenue per patient day: net revenue;
- Total work hours per patient day;
- Labour rate;
- General supplies per patient day (excluding pharmacy);
- General supplies per admission;
- Creditor's days; and
- Days in inventory.

For example, the majority (60.0 per cent) of high level planners are very satisfied with their performance in terms of full-time employees per number of occupied beds (FTE/BED), while only 36.4 per cent of low level planners are very satisfied with their performance in terms of full-time employees per number of occupied beds (FTE/BED). Exactly half (50.0 per cent) of the low level planners are very satisfied with their performance in the area of service orientation, compared to the majority (80.0 per cent) of high level planners who are also very satisfied with their performance in the area of service orientation.

However, there are no significant differences between the two groups of planners and their satisfaction with the following performance indicators (see table 3):
Return on assets; Return on investments; Growth on revenue; Earnings per share; Market share; Cost efficiency; Productivity; Case-mix adjusted admissions (CMAAD); CMAAD/FTE; Profit per patient day; Cost per patient day; Operating margin; fulfilment of stakeholder needs; Clinical quality; Average occupancy; Patients per day; Average length of stay; Patient days; Inpatient days; Admissions;

Pharmacy costs per patient day; Nursing mix ratio - % RN of total clinical hours; and Nursing mix ratio - % Non RN total clinical hours.

Table 3: Respondents satisfaction with organizational performance

	Low Level Planners Organizations who are very satisfied with their performance (i.e a score of 4 or 5) N=22		**High Level Planners** Organizations who are very satisfied with their performance (i.e a score of 4 or 5) N =50		**Chi-square test of sig. Level**
	N	**%**	**N**	**%**	
Return on assets	4	18.2	18	36.0	N.S.
Return on investments	4	18.2	17	34.0	N.S.
Return on sales	3	13.6	20	40.0	0.027
Return on equity	3	13.6	17	34.0	0.076
Growth on revenue	6	27.3	23	46.0	N.S.
Earnings per share	5	22.7	12	24.0	N.S.
Profitability	4	18.2	19	38.0	0.097
Market share	7	31.8	16	32.0	N.S.
Cost efficiency	6	27.3	23	46.0	N.S.
Productivity	9	40.9	29	58.0	N.S.
Full-time employees per number of occupied beds (FTE/BED)	8	36.4	30	60.0	0.064
Case-mix adjusted admissions (CMAAD)	5	22.7	17	34.0	N.S.
CMAAD/FTE	3	13.6	13	26.0	N.S.
Profit per patient day	4	18.2	12	24.0	N.S.
Cost per patient day	3	13.6	13	26.0	N.S.
Operating margin	3	13.6	14	28.0	N.S.
Patient care revenue/patient day	2	9.1	17	34.0	0.027
Strategic planning effectiveness	8	36.4	30	60.0	0.064
Organizational survival	8	36.4	35	70.0	0.007
Fulfilment of stakeholder needs	8	36.4	28	56.0	N.S.
Service orientation	11	50.0	40	80.0	0.010
Clinical quality	17	77.3	46	92.0	N.S.
Average occupancy	9	40.9	22	44.0	N.S.
Patients per day	9	40.9	23	46.0	N.S.
Average length of stay	10	45.5	27	54.0	N.S.
Patient days	8	36.4	20	40.0	N.S.
Inpatient days	8	36.4	20	40.0	N.S.
Admissions	10	45.5	21	42.0	N.S.
Operations	4	18.2	19	38.0	0.097
Revenue per patient day: net revenue	4	18.2	19	38.0	0.097
Total work hours per patient day	5	22.7	25	50.0	0.031
Labour rate	3	13.6	20	40.0	0.027
General supplies per patient day (excluding pharmacy)	2	9.1	19	38.0	0.013
Pharmacy costs per patient day	4	18.2	12	24.0	N.S.

Table 3 (continued): Respondents satisfaction with organizational performance

	Low Level Planners Organizations who are very satisfied with their performance (i.e a score of 4 or 5) N=22		**High Level Planners** Organizations who are very satisfied with their performance (i.e a score of 4 or 5) N =50		**Chi-square test of sig. Level**
	N	**%**	**N**	**%**	
General supplies per admission	2	9.1	15	30.0	0.054
Creditor's days	5	22.7	29	58.0	0.006
Nursing mix ratio - % RN of total clinical hours	10	45.5	27	54.0	N.S.
Nursing mix ratio - % Non RN total clinical hours	9	40.9	28	56.0	N.S.
Days in inventory	2	9.1	25	50.0	0.001

N.S. = No significant difference at 0.10 level.

SUMMARY AND CONCLUSION

This study examined the strategic marketing planning practices of Australian private hospitals and the effect of these practices on business performance. Overall, high level marketing planners were more satisfied with their performance on a variety of performance measures than those of low level marketing planners. High level marketing planners in this study also outperformed low level marketing planners regarding profitability and growth in the past 2 years. These findings are supported by strategy and performance literature that has found that strategic marketing planning influences an organization's performance (Armstrong 1991; Chang et al. 2003; Cleverley & Harvey 1992; Das 2001; Eastaugh 1992; Johnson & Scholes 2002; Miller & Roth 1994; Morgon, McGuinness & Thorpe 2000; Short, Palmer & Ketchen Jr 2002; Smith, Piland & Funk 1992; Swamidass & Newell 1987; Watkins 2003).

However because of the small number of respondents used in this study, a larger number of private hospitals could be used in future to test the validity of the findings of this study. Although this study has created a data base which will facilitate further meaningful and valuable research into private hospital's strategic marketing planning practices one possible extension of this study would be to examine why private hospitals that were classified as high level planners, were interested in a high level of planning as compared to those that were classified as low level planners.

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