

# Be case study

Business



The criticisms were so deeply felt that the Monroe-Owen Medical Society (the local physicians' organization) had called for the resignation or firing of Koori and all the BE vice-presidents. The board was in a difficult position. Even if it was right in its decision to start a C.

V. unit, the opposition to the decision probably eroded hospital president Sour's effectiveness as a hospital administrator. In addition, the physician's practice (Schumacher and CICS) that was to provide the physician to offer the Scavengers was having doubts that the idea would Nor.

At the conclusion of the case, the BE board faced three options: (1) it could go head and implement the program despite wide community opposition, (2) the board could drop the Scavengers plan, or (3) it could put the program on hold and Investigate the pros and cons further. The case fits well with Chapter 1 (section on stakeholders), Chapter 2 (External Analysis), Chapter 3 (Internal Analysis), Chapter 4 Business-Level Strategy), and 12 (Strategic Leadership).

Summary of Key Strategic Issues 1 .

Effect of opposition of key stakeholder groups in strategy implementation. (Chapter 1) 2. Importance of performing a thorough evaluation of opportunities and threats in the external environment. Did BE perform an adequate external analysis? Did its consultants? Do opportunities really exist for Scavengers in the region? (Chapter 2) 3.

Importance of internal analysis. Does BE have adequate resources required to take advantage of the Scavengers opportunities? Is BE stretching its resources too thin in its quest for a strategy change? (Chapter 3) 4.

Is the new strategy (expansion of differentiation and scope) appropriate for the resources, opportunities, and competition facing BE? 5. Did the BE leadership unnecessarily alienate its key stakeholders? What were the pros and cons of the way the strategic planning process was conducted by the board? (Chapter 12) Suggested Approaches to the Case Analysis Although most students will not be familiar with this particular hospital or have much experience in hospital management from their strategic management course, Case Study ay mishandles mignonette Hospital's Open-Heart Unit Case Notes Prepared by Charles M.

Bales, Virginia Commonwealth University the case is written in a lively and interesting way and is a g illustration to strategic management and leadership especially as it involves key stakeholders.

The case is fairly short and can be completed in a 75-minute class. The instructor can emphasize that strategic management is relevant to nonprofit as well as for-profit firms. The lessons learned from this case are relevant to business organizations. He case can be analyzed by answering the discussion questions provided, or the instructor might want to focus more narrowly on the pros and cons of the strategic planning process by the board and why it resulted in such opposition. This teaching note is written primarily to provide suggestions for how the instructor can apply the Hit, Ireland, and Hosking's text material as a means for valuating the case.

The key tools/concepts that will be applied in this note are as follows:

Stakeholder analysis The general environmental analysis Resources, capabilities, and core competencies Four criteria for competitive advantage

Business-level strategy Strategic leadership STAKEHOLDER ANALYSIS

Discussion Question 1: Who were the key stakeholders of BE and what was their main objection to the C. V. surgery decision? Students should be encouraged to apply the discussion of stakeholders in Chapter 1 to the BE case.

The stakeholder groups discussed in the chapter are: capital market stakeholders (shareholders and major suppliers of capital such as banks) product market stakeholders (customers, suppliers, host communities, unions) organizational stakeholders (employees, managers, non-managers) The main stakeholder groups to be involved in this case are the product market and organizational stakeholders. The product market stakeholders are the host communities (primary physicians in Bloomington and nearby areas that referred patients to BE), Indiana University (IU), and the Cook Group (suppliers of catheters).

The organizational stakeholders are the physicians (specialists who offered services to BE) and the top managers on the board of BE. Since the case does not always make the distinction between primary care physicians in the Bloomington area and specialists at the hospital, I will group these together and refer to them simply as “physicians.” This group represented users of BE’s services (through referrals) as well as those who provided the services themselves (specialists at the hospital). The objections of the physicians were: 1. The cost and use of resources of the Scavengers.

<https://assignbuster.com/be-case-study/>

One physician commented that needed procedures, such as gall bladder surgery, would not get done because of open-heart surgery. Other concerns were that Scavengers would use up too much of the capital budget. Some local general practitioners (GAP) commented that the hospital's debt had risen from \$0 in 1980 to \$60 million in 1995. Others were concerned about the financial liability that the C. V. unit would place on the hospital overall.

In summary, the concern from local physicians was that by adding a C. V. unit, EH might not meet its referral requirements. 2.

Flawed decision making by the board/ consultant that resulted in estimates for the expansion rising to almost double the original estimate. This criticism was related to the first in that it raised the issue of the high cost of the venture.

In addition, the Gaps said that the board decision process did not include them. The instructor might ask the students, If the Gaps were involved, would it have been easier to get these Gaps to buy into the decision even if the cost remained high? Or, would the Gaps have been able to warn the board of the unrealistic estimates?

The overall question is, What is the benefit of including this stakeholder group in the decision process? 3. A third objection was that the C. V. unit could save only two lives per year, not the 10 to 12 suggested in the estimates.

This objection refers to the cost/benefit question raised earlier. 4. A fourth objection was that enough procedures would be performed so that the

programs debt share would be serviced by the program itself. This objection raises the question of whether the board adequately evaluated the number of possible C. V.

procedures needed per year.

If the physicians that refer patients on a regular basis think the estimate of referrals is inflated, then that questions the research on which the decision was based. EH should be concerned about these objections as they come from a constituent group that will be referring patients for the C. V. procedure.

The fact that they were not interviewed as part of the research leading up to the decision appears to be a major flaw in the process used by the board. Another objection by the community (including physicians) was that BE had chosen to partner with SST.

Vincent Hospital in Indianapolis rather than the Indiana University Medical Center. This community group felt that many Bloomington physicians received their degrees from IU and that BE owed some loyalty to Indiana University. Others wanted closer ties with the university and felt that the SST.

Vincent decision detracted from that. In addition, IU officials were concerned that the expansion would cause health care costs to rise. BE had recently announced an 11% rate increase to pay for the expansion.

Since the university was self-insured, it would have to bear these costs for its employees who used BE. As a result, II threatened to open its own primary care unit in Bloomington.

Among the organizational stakeholder group, only the top BE administrators are mentioned in the case. These stakeholders agree with the expansion decision, but their credibility, and possibly their Jobs, are now at risk because of the massive objection. The full impact of that objection was seen in the discussion in the case of the March massacre. The stakeholder analysis brings together the key stakeholders of BE.

If the strong objections are coming from stakeholder groups that are essential for successful implementation of the expansion program (which I think they are), then BE is in a precarious position.

At this point, the instructor can ask the class, Which of the three options at the end of the case does the stakeholder analysis suggest is best? The answer is option 3? put the program on hold and investigate the pros and cons further. EXTERNAL ANALYSIS General Environment Analysis Discussion Question 2: What are the key elements in the general environment of the hospital industry?

What are the key opportunities and threats? rhea instructor should have students review Table 2. 1 and determine which segments are sources of opportunities and threats. The economic and political/legal segments of the general environment are applicable to this case. Economic Opportunities The BE consultants argued that the addition of the C. V.

unit would increase resources and increase other surgeries. BE can better serve the needs of the community and bring in more resources. The C. V. unit had the potential to attract more specialists. As a regional hospital, BE could attract more patients from neighboring areas.

Economic Threats Schumacher and CICS, the supplier of the C. V. surgeon in Bloomington (and the backup surgeon), was becoming concerned about the extent of community objection to the C. V. unit. Competition rather than collaboration with nearby hospitals would be a result of adding the C.

V. unit. BE would complete fewer procedures than were estimated. In addition, there would be competition from hospitals in Indianapolis for the same procedure. Lack of confidence in the leadership of BE by key stakeholder Monroe-Owen Medical Society groups: The Cook Group (major supplier of catheters) Prices were falling for C.

V. procedures (e. G. , a hospital in Atlanta was advertising tort a procedure). This compared to an average price in 1 nationally and around \$35, 000 in Indiana for the same procedure. Political/Legal Threats As a result of then-president Clinton's goal of health care reform, the idea of managed care was a threat to BE.

Under this plan, employers would bargain with health care providers for lower-cost health plans. The Medicare Centers of Excellence Program required a minimum number of procedures in order to receive ending. For C. V. surgeries, that number was about 200 per year, close to what BE expected to perform.



But, if BE performed fewer, it would not receive that funding. Summary: It appears that there is an overriding threat that could seriously affect the revenues that BE could hope to derive from the C. V. procedures. The availability of lower-price procedures (more than half of the Indiana average) plus the possibility that firms could negotiate lower prices poses a serious threat to BE.

In addition, demand for the C.

V. procedure was in question and the BE estimates were thought to be inflated. Finally, patients had the option of going to hospitals in Indianapolis. These all point to the possibility that the cost of the program will not be justified by the demand and the breakable point will be later than estimated. INTERNAL ANALYSIS Discussion Question 3: What are Bloomington Hospital's tangible and intangible resources? Which are more important as a source of competitive advantage? Why? rhea instructor should emphasize application of Chapter g's material.

The idea should be to teach the value of systematic analysis rather than a right answer.

To answer this question, students should go to Tables 3. And 3. 2 in Chapter 3 and value the resources of BE. A suggested analysis follows. Tangible Resources Financial Resources.

Presently strong, but could weaken as debt levels rise as a result of the expansion program. In addition, the breakable point could be later than expected. Based on some of the concerns raised by the physicians, the

<https://assignbuster.com/be-case-study/>

number of C. V. surgeries (and hence revenues) might not be as much as estimated. Organizational Resources.

The case does not give much information on the organization resources of BE. It seems to be operating quite well as a secondary care facility. Physical Resources. Good. As a secondary care facility, BE appears to have good resources.

Its strategic plan intends to move it closer too tertiary care facility.

Technological Resources. The case does not explicitly discuss technology, but it appears that the technological resources are appropriate for a secondary care facility. Intangible Resources Human Resources. Mixed.

The medical staff is well-trained.

Many of the musicians received their undergraduate and medical degrees trot Indiana University. The strategic planning process used by the hospital management guarding the C. V. decision) was weak as it generated extensive disagreements within the Bloomington community. The top management of the hospital could be considered weak in that the community had lost confidence in it and the local medical society was demanding the resignation of the president and senior vice- presidents.

The strategic planning decisions regarding the other expansions seemed to be good and did not generate disapproval among the physicians and community. Innovation Resources. No information was given in the case to Judge the quality of innovation resources. The strategic planning effort could be viewed as a means of developing innovations. Reputation Resources.

Good. PH's reputation in the community was good, and many local physicians referred their patients there. Intangible resources are ultimately better for long-run competitiveness as they are more difficult to duplicate. PH's physical resources and its medical staff resources are quite strong. Its top management resources are weak.

Discussion Question 4: What are Bloomington Hospital's capabilities and core competencies?

Capabilities are defined in the text as "... The firm's capacity to deploy resources that have been purposely integrated to achieve a desired end state. " The text also notes that the foundation of the firm's capabilities lies in the unique skills and knowledge of its employees. In the case of BE, its capabilities rest in the knowledge and skills of its medical staff and its ability to use those capabilities to deliver its secondary care services.

Core competencies are defined in the text as resources and capabilities that serve as competitive advantages over its rivals.

PH's competitive advantage is its physical resources and medical staff (at the secondary care level). The instructor should encourage the students to discuss the effect of the current disagreement, especially the dissatisfaction of the physicians, on the capabilities and core competencies of BE. If BE continues with the C. V. decision, it may adversely affect its capability and competitive advantage at the secondary level.

A number of physicians complained that having a C. V. unit would adversely affect their ability to offer quality medical care in their specialties.

Discussion Question 5: Does Bloomington Hospital have a sustainable competitive advantage? Or answer this question, students should apply the four criteria for competitive advantage (valuable, rare, costly to imitate, and non-substitutable). The instructor should require a clear conclusion about each criteria (yes or no) so that the analysis can be interpreted using Table 3.

4. A suggested analysis follows. Valuable Capabilities (help the firm neutralize threats or exploit opportunities): Yes/ It BE remains touches in secondary care, it appears that it NAS the capabilities to neutralize threats or exploit opportunities.

It does not, however, have the capabilities to exploit the tertiary care opportunities. To meet the tertiary care opportunities, abilities must be brought in from outside the hospital.

In addition, pursuing these opportunities is likely to result in the degrading of current capabilities. Rare (not possessed by others): No. The case does not address this issue, but it does appear that PH's competencies are possessed by other hospitals. It does not provide kind of medical care that is not available elsewhere. Costly to Imitate: Yes.

There would be high costs associated with duplicating the medical equipment and the knowledge and experience of the medical staff. Mono-substitutable (no strategic equivalent): No, there are strategic equivalents for cost, if not all, of PH's medical services. Once students complete this analysis, they could then interpret it using Table 3. 5. rhea interpretation of the analysis is closest to competitive parity with a performance implication of <https://assignbuster.com/be-case-study/>

average returns. SOOT ANALYSIS AND GENERAL PROBLEM STATEMENT reha following SOOT analysis evaluates the hospital itself, the decisions by the board, and the environment in which the hospital competes.

A number of the items listed as weaknesses are based on criticisms of PH's decision by its key stakeholder groups. Rush " strengths" should be viewed as strengths articulated by supporters of the road decision, and " weaknesses" as weaknesses cited by critics of the decision. The instructor can encourage students to debate the credibility of the opposing positions. It seems, however, that regardless of which group is correct, PH's main Meanness is that it has alienated its main stakeholder groups.

Even if the C.

V. unit decision is the best one, implementing that decision will now be in Jeopardy. Strengths Good secondary care facilities Reputation Good relationship (up to the point of decision) with Bloomington community including Indiana University Willingness to engage in strategic planning and evolve a vision for the future Some good decisions seemed to result from the strategic plan, such as the addition of an obstetrics unit, a pediatrics and neonatal unit, expansion of the emergency unit, and addition of medical-surgical floor space.

Insaneness Failure to anticipate reaction of key stakeholders (BE seemed to accept consultants recommendations too readily) Implementation to strategic vision to Bloomington as regional hospital (alienated key stakeholders) Cost of C. V. surgery not Justified by need (physicians thought the C.

<https://assignbuster.com/be-case-study/>

V. unit could save a few lives per year, not the 10 to 12 seed to justify the decision) Scavengers could draw resources (space, operating room staff from other units Scavengers would use up large portion of capital (debt had risen from \$0 in 1980 to \$60 million in 1995) The decision process by the board : about the C. V. unit) was thought of as flawed (the cost estimates climbed to about double the original estimate) Demand of Scavengers could support only one physician BE not well-positioned in a network to provide C. V. surgery Competitive nature of C. V. surgery proposal rather than cooperative (network) approach Opportunities BE could better serve the needs of the community and bring in more resources. rhea C. V. unit had the potential to attract more specialists.

As a regional hospital, BE could attract more patients from neighboring areas.

Threats Lack of confidence in the leadership of BE by key stakeholder groups: Owen Medical Society Monroe- Indiana University might open its own primary care unit (in response to PH's 11% rate increase) Possibility of losing competitive advantage in secondary care because of physician opposition and degrading of current services GENERAL PROBLEM STATEMENT he Bloomington Hospital board faced three options: 1 . It could go ahead and implement the program despite wide community opposition. 2. The board could drop the Scavengers plan. 3.

The board could put the program on hold and investigate the pros and cons STRATEGY FORMULATION Discussion Question 6: Discuss the Bloomington Hospital business-level strategy. Is this strategy appropriate to offset the <https://assignbuster.com/be-case-study/>

forces in the industry? Do you recommend any changes? Students should refer to the discussion of Michael Porter's framework in Chapter 4, especially Figure 4. 1. Encourage students to think about the strategy that is closest to the types in the framework.

Using the trademark on page 114 to Chapter 4, the BE strategy is closest to touches differentiation.

The strategy is focused because the hospital is a secondary care facility that does not offer as many services as a large metropolitan tertiary care facility. The strategy is differentiation because of the quality of services. The case notes that keeping and enhancing its status as a secondary care facility required BE to offer certain kinds of specialized medicine. This strategy appears appropriate to offset the forces from other secondary care hospitals. The case notes that BE did not compete with Columbus Regional Hospital for secondary care or with other specialized hospitals in the area.

But, given its capabilities, BE could not compete with the larger tertiary care hospitals in Indianapolis or with other specialized hospitals in the area.

Some Gaps in the case said that people who needed Scavengers would be sent to Indianapolis. In addition, other hospitals (such as one in Atlanta) were offering the C. V. procedure for a lower price than the mid-\$30, 000 range for Indiana. IMPLEMENTATION Strategic Leadership Discussion Question 7: What is your evaluation of the top management leadership at Bloomington Hospital? rhea purpose of this question is to have students apply the discussion of actions of effective leaders in Chapter 12, in particular, Figure 12.

<https://assignbuster.com/be-case-study/>

4. The instructor should ask students to note all the activities in Figure 12. 4 that were used by the BE board.

Chapter 12 discusses the following strategic leadership actions: 1.

Determining the strategic direction 2.

Effectively managing the firm's resource portfolio 3. Sustaining an effective organizational culture 4. Emphasizing ethical practices 5. Establishing balanced organizational controls Actions 1 and 2 are the most relevant to the BE case. The board was in the process of determining its future strategic direction when it began exploring the C. V.

program in 1990. For this, the board should be commended. In addition, BE held a number of forums for physicians on the strategic plan. What it did not do is to include the concerns of the physicians (and the broader community) in its decision.

PH's position was that few, if any, physicians attended the forums. Board member Vivaldi responded to the physician's comments, " They did have a say, we just didn't do what they said.

" Apparently the board misread the depth of resistance to this decision based on the number of physicians who attended the forum. Now, after the meeting with the Monroe-Owen Medical Society, the true depth of opposition has become clear with the society demanding the resignation of the board president and vice-presidents. It appears that the leadership failure here is that the board has made a decision that is widely opposed by those whose skills and knowledge are central to the core competence of the hospital.



The second leadership action (managing the resource portfolio) is also a Meanness. Aspects of this resource portfolio discussed in the text (exploiting and maintaining core competencies and developing human and social capital) have been armed by the way in which the decision was made. The core competence of BE rests in its medical staff.

This medical staff is at odds with the hospital administration. The human and social capital (at both the hospital and community) has been damaged by the C. V. decision process. In summary, while the strategic planning decision was an appropriate leadership action, the level of disagreement generated by the outcome now threatens the credibility of future decisions by the board.

In addition, there are a number of allegations about the quality of the decisions by the board. These are enumerated in the SOOT table with the main ones reproduced as follows. 1 . Cost of C. V.

surgery not Justified by need (physicians thought the C. V. unit could save few lives per year, not the 10 to 12 used to Justify the decision) 2.

Scavengers could draw resources (space, operating room staff from other units 3. C.

V. surgery would use up large portion of capital (debt had risen from \$0 in 1980 to \$60 million in 1995) 4. The decision process by the board (about the C. V. unit) was thought of as flawed the cost estimates climbed to about double the original estimate) 5.