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# COMMUNITY HOSPITAL HEALTHCARE SYSTEM: A STRATEGIC MANAGEMENT CASE STUDY

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## CASE DESCRIPTION

*The primary subject matter of this case concerns strategic management of community hospitals in the United States. This case has a difficulty level of five; appropriate for first year graduate level students. This case is designed to be taught in four class hours and is expected to require twenty-four hours of outside preparation for students. For the graduate student, it should be a half semester long group project with a presentation and report at the end of the semester.*

## CASE SYNOPSIS

*This case study analyzes the turbulent social, legal and technological issues that are affecting today's suburban community hospitals in United States. The soaring health care costs, increasing number of uninsured or underinsured patients, reduced payments by government agencies, and increasing number of physician owned ambulatory care centers are squeezing the lifeline of community hospitals whose traditional mission has been primary care. Furthermore, with the enactment of Patient Protection and Affordable Care Act in March 2010, community hospitals are facing new challenges whose full impact is unknown. This case study would help students learn about Strategy Formulation including Vision and Mission Statements, internal and external analysis, and generating, evaluating & selecting appropriate strategies for a healthcare organization.*

## INSTRUCTOR'S NOTES

### Questions

**Task 1: Prepare a revised Vision and Mission Statements for Community Hospital.**

The vision statement seems appropriate, while the Mission Statement can be revised to read "To provide the best healthcare for our patients and make available resources for healthy living for our communities through the use of innovative medical technologies by the efficient operations of our facilities by employing

and empowering well compensated renowned physicians, nurses and other healthcare professionals."

**Task 2: Prepare the External Factors Evaluation (EFE) Matrix for Community Hospital.**

EFE Matrix			
Key External Factors	Weight	Rating	Weighted Score
Opportunities			
1. Median Age, population and per capita income of Monmouth County is expected to increase.	0.05	3	0.15
2. Passage of Healthcare Act by Federal Government.	0.10	2	0.20
3. Continued pressure by health insurance companies to decrease costs.	0.05	2	0.10
4. High medical malpractice costs for physicians.	0.10	2	0.20
5. Advancement in portable personal electronic equipment such as iPads and Tablets.	0.05	2	0.10
6. Societal trend towards healthy living.	0.10	4	0.40
7. Hospital consolidation and closures on rise.	0.05	4	0.20
Threats			
1. Physician owned surgery centers on rise.	0.10	3	0.30
2. Insurance Companies, government and corporations' health care reimbursements decreasing.	0.05	3	0.15
3. Medical malpractice lawsuits remain constant at a high rate.	0.05	2	0.10
4. The rate of U.S. medical graduates expected to be less than needed.	0.05	2	0.10
5. Non-paying patients likely to rise or remain the same.	0.05	2	0.10
6. Increased rate of unknown viruses and infections.	0.10	2	0.20
7. Rising cost of medicine and medical equipment.	0.10	2	0.20
TOTAL	1		2.50

**Task 3: Prepare the Competitive Profile (CP) Matrix for Community Hospital.**

CP Matrix							
Critical Success Factors	Weight	CMC		SUMC		UH	
		Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score
Net of Patient Service revenue and expenses	0.15	4	0.60	3	0.45	2	0.30
Management/Board of Trustees	0.20	3	0.60	3	0.60	2	0.40
Specialty Care	0.10	2	0.20	3	0.30	4	0.40
Quality of Patient Care	0.20	2	0.40	4	0.80	3	0.60
Community Relations	0.07	2	0.14	2	0.14	2	0.14
Medicaid/Medicare Receivables	0.08	3	0.24	3	0.24	4	0.32
Emergency Services	0.20	4	0.80	3	0.60	3	0.60
Total	1.00		2.98		3.13		2.76

**Task 4: Prepare the Internal Factor Evaluation (IFE) Matrix for Community Hospital.**

IFE Matrix			
Key Internal Factors	Weight	Rating	Weighted Score
Strengths			
1. High Total Margin Ratio.	0.10	4	0.40
2. Diversified portfolio--retirement and adult living centers.	0.05	3	0.15
3. Residency in Family Medicine.	0.05	3	0.15
4. Stable Management.	0.10	4	0.40
5. New Fitness and Wellness Center.	0.05	4	0.20
6. Good mix of Medicare and insured patients.	0.05	3	0.15
7. High Utilization Ratio.	0.05	4	0.20
Weaknesses			
1. Increase in bad debt/charity care expense.	0.05	2	0.10
2. Increase in number of patients going to physician owned surgery centers.	0.15	1	0.15
3. Lack of well-known specialty care area.	0.15	1	0.15
4. Average quality of Patient Care.	0.05	2	0.10
5. Not part of a health care system.	0.15	2	0.30
TOTAL	1		2.45

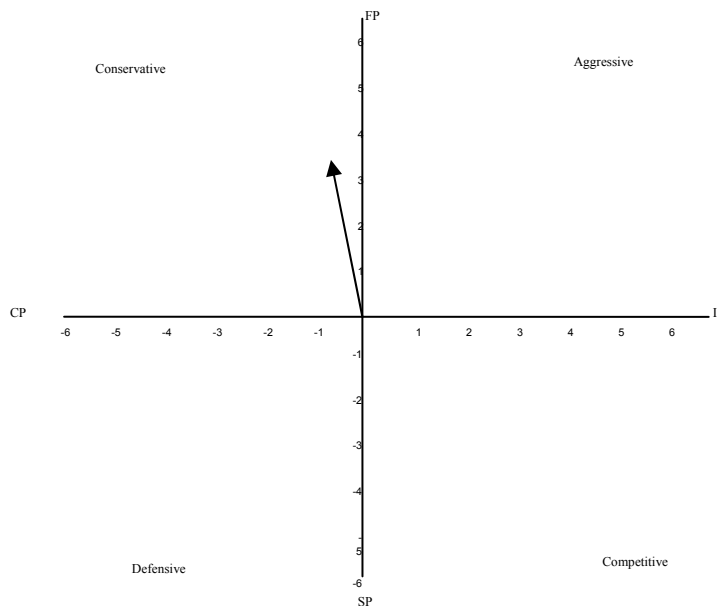
### Task 5: Prepare SWOT Strategies for Community Hospital.

SWOT Strategies		
	Strengths	Weaknesses
	High Total Margin Ratio. Diversified portfolio--retirement and adult living centers. Residency in Family Medicine. Stable Management. New Fitness and Wellness Center. Good mix of Medicare and insured patients. High Utilization Ratio.	Increase in bad debt/charity care expense. Increase in number of patients going to physician owned surgery centers. Lack of well-known specialty care area. Average quality of Patient Care. Not part of health care system.
Opportunities	S-O Strategies	W-O Strategies
Median Age, population and per capita income of Monmouth County expected to increase. Passage of Healthcare Act by Federal Government. Continued pressure by health insurance companies to decrease costs. High medical malpractice costs for physicians. Advancement in portable personal electronic equipment such as iPads and Tablets. Societal trend towards healthy living. Hospital consolidation and closures on rise.	Invest in new medical equipments to treat diseases faster and with better reliability (S1, S3, S4, S7, O2, O3, O4, O5) Establish alliance with a similar hospital which has expertise in a specialty area (S1, S4, O2, O7)	Hire employees with quality care and statistics expertise (W4, O3, O4, O5,)

SWOT Strategies		
Threats	S-T Strategies	W-T Strategies
Physician owned surgery centers on rise. Insurance companies, government and corporations' health care reimbursements decreasing. Medical malpractice lawsuits remain constant at a high rate. The rate of U.S. medical graduates expected to be less than needed. Non-paying patients likely to rise or remain the same. Increased rate of unknown viruses and infections. Rising cost of medicine and medical equipment.	Provide office space at reduced rates to Physician groups (T1, S1, S3, S7) Star other residency programs (T4, T6, S3)	Form alliances with corporations for research and insurance companies (W1, T2, T3, T7)

**Task 6: Prepare Strategic Position and Evaluation (SPACE) Matrix for Community Hospital.**

**SPACE Matrix**



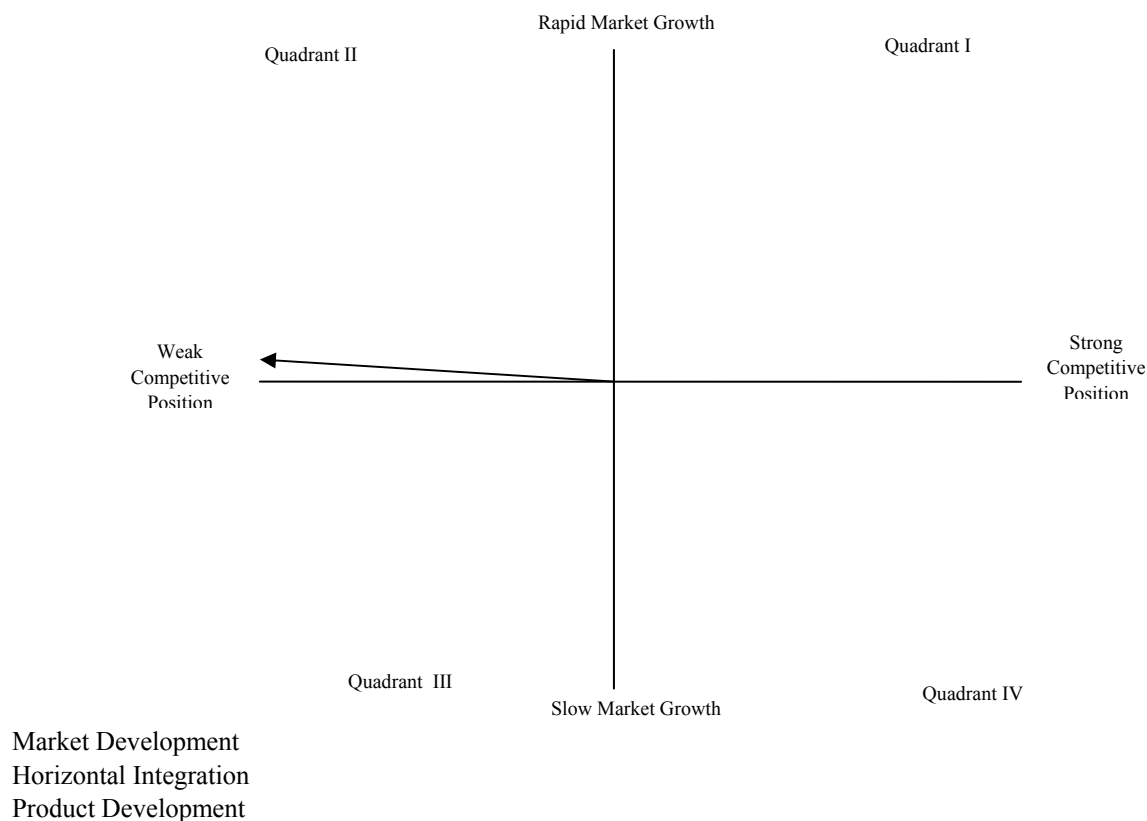
Y-axis:  $SP + FP = -3.0 + 5.2 = 2.2$ , X-axis:  $CP + IP = -4.2 + 3.6 = -0.6$ .

<u>Financial Position (FP)</u>		<u>Stability Position (EP)</u>	
Debt/Equity Ratio	4	Unemployment	-5
Current Ratio	7	Technological Changes	-2
Total Margin Ratio	3	Price Elasticity of Demand	-2
Net Patient Revenue	5	Competitive Pressure	-4
Days cash on hand	7	Barriers to Entry	-2
Financial Position (FP) Average	5.2	Stability Position (EP) Average	-3.0
<u>Competitive Position (CP)</u>		<u>Industry Position (IP)</u>	
Quality of Service	-4	Growth Potential	3
Total Income	-3	Financial Stability	5
Emergency Visits	-4	Ease of Market Entry	3
Surgeries	-6	Resource Utilization	4
Family Medicine Visits	-4	Profit Potential	3
Competitive Position (CP) Average	-4.2	Industry Position (IP) Average	3.6

Community Hospital should pursue Conservative strategies

### Task 7: Prepare Grand Strategy Matrix for Community Hospital.

#### Grand Strategy Matrix



**Task 8: Prepare Internal-External Matrix for Community Hospital.****Internal-External Matrix**

The IFE Total Weighted Score (2.45)

The EFE Total Weighted Score (2.5)	Strong 3.0 to 4.0	Average 2.0 to 2.99	Weak 1.0 to 1.99	
	High 3.0 to 3.99	I	II	III
	Medium 2.0 to 2.99	IV	IV Community Hospital	VI
	Low 1.0 to 1.99	VII	VIII	IX

Hold and Maintain: Market Penetration, Product Development

**Task 9: Prepare Quantitative Strategic Planning (QSP) Matrix for Community Hospital.**

QSP Matrix						
Strategic Alternatives						
		Become part of a Health System		Open a Specialty Care Center		
Key Weight	Factors	Attractiveness Score	Total Attractiveness Score	Attractiveness Score	Total Attractiveness Score	
Strengths						
	High Total Margin Ratio.	0.10	2	0.20	4	0.40
	Diversified in portfolio--retirement and adult living centers.	0.05	3	0.15	4	0.20
	Residency in Family Medicine.	0.05	---	---	---	---
	Stable Management.	0.10	2	0.20	4	0.40
	New Fitness and Wellness Center	0.05	---	---	---	---
	Good mix of Medicare and insured patients.	0.05	2	0.10	3	0.15
	High Utilization Ratio.	0.05	1	0.05	4	0.20
Weaknesses						
	Increase in bad debt/charity care expense.	0.05	2	0.10	3	0.15
	Increase in number of patients going to physician owned surgery centers.	0.15	---	---	---	---
	Lack of well-known specialty care area.	0.15	---	---	---	---
	Average quality of Patient Care.	0.05	2	0.10	3	0.15
	Not part of health care system.	0.15	4	0.60	3	0.45
	SUBTOTAL	1.00		1.50		2.1
Opportunities						
	1. Median Age, population and per capita income of Monmouth County expected to	0.05	---		---	

QSP Matrix						
Strategic Alternatives						
		Become part of a Health System		Open a Specialty Care Center		
Key Weight	Factors	Attractiveness Score	Total Attractiveness Score	Attractiveness Score	Total Attractiveness Score	
increase.						
	2. Passage of Healthcare Act by Federal Government.	0.10	2	0.20	3	0.30
	3. Continued pressure by health insurance companies to decrease costs.	0.05	---	---	---	---
	4. High medical malpractice costs for physicians.	0.10	---	---	---	---
	5. Advancement in portable personal electronic equipment such as iPads and Tablets.	0.05	2	0.10	3	0.15
	6. Societal trend towards health living.	0.10	---	---	---	---
	7. Hospital consolidation and closures on rise.	0.05	4	0.20	2	0.10
Threats						
	1. Physician owned surgery centers on rise.	0.10	3	0.30	4	0.40
	2. Insurance Companies, government and corporations' health care reimbursements decreasing.	0.05	3	0.15	2	0.10
	3. Medical malpractice lawsuits remain constant at a high rate.	0.05	---	---	---	---
	4. The rate of U.S. medical graduates expected to be less than needed.	0.05	---	---	---	---
	5. Non-paying patients likely to rise or remain the same.	0.05	---	---	---	---
	6. Increased rate of unknown viruses and infections.	0.10	---	---	---	---
	7. Rising cost of medicine and medical equipment.	0.10	4	0.40	2	0.20
	SUBTOTAL	1.00		1.35		1.25
	SUM TOTAL ATTRACTIVENESS SCORE			2.85		3.35

The QSP matrix indicates that of the two choices, opening a specialty care center is more attractive for Community Hospital

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