A Strategic Analysis of the Hospital Industry and HCA Incorporated

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Executive Summary

HCA Incorporated is the largest for-profit hospital chain within the United States. HCA has changed their strategic direction as a result of an extensive government investigation and turnover in senior management. External analysis of the hospital industry and HCA can be conducted using Porter's Five Forces Model (1980) followed by analysis using the Remote Analysis Model. HCA's internal strategies can then be analyzed using McKinsey and General Electric's Industry Attractiveness Model and Barney's Resource Based View Model (1991). Analysis using these models reveals that HCA's economies of scale have positioned the corporation to focus upon specific demographically favorable markets. Their strategies directly address current trends facing the industry, including a shortage of qualified personnel, increased government regulation, reduced reimbursement and increased competition for both traditional hospitals and alternative providers of care. HCA's current public image remains its primary weakness.

Introduction

The health care industry of the United States is one of the largest industries in the world. It is estimated by the American Hospital Association (2002) that expenditures for this industry in the year 2000 totaled $ 1.311 trillion dollars, an increase of 8.3% from the previous year. This figure represents 13.1% of the United States Gross Domestic Product. This amount is almost twice the national health dollar expenditures of 1990 and more than five times the corresponding expenditure in 1980.

The United States hospital industry is a fragmented industry. It has a variety of different types of ownership and significantly different revenue sources but few dominant corporations. Of the 5,890 hospitals in the United States, 24.8% (1,461) are government-operated facilities, 62.5% (3,682) are non-government not-for-profit, and only 12.7% (747) are for-profit facilities. Combined, these hospitals account for $ 415.8 billion dollars or 31.7% of the total expenditures for healthcare services in the year 2000 (Emch, 2000).

HCA Background

The largest corporate for-profit hospital chain is HCA, Incorporated, which owns a total of 176 acute care hospitals and 79 outpatient surgery centers in the United States and 8 hospitals in Europe. It has undergone significant change in strategic direction during the past five years as the result of an extensive U.S. Government fraud investigation and a complete change in corporate senior management.

HCA is currently the second largest conglomerate of hospitals within the United States, the only larger group being the hospitals belonging to the United States Department of Veterans Affairs. HCA currently operates a total of 40,112 licensed hospital beds, which represents approximately four-percent of all United States hospital beds. At HCA's height in 1997, the $ 20 billion corporation owned 380 hospitals, 130 outpatient surgery centers and 200 home health agencies, which collectively employed 260,000 people. In 1997 it launched a national marketing campaign to emphasize the Columbia brand name for health care (Columbia, 1998).

In October 1993 Columbia Healthcare Corporation acquired the Hospital Corporation of America. This action created the largest hospital corporation in the United States, with a total of 190 acute care and specialty hospitals. Under the aggressive leadership of CEO Richard Scott, the company pursued a strategy of rapid growth through acquisitions. The corporation would acquire several hospitals within a geographic market and then close some of them, consolidating operations to achieve economies of scale. It also acquired other health provider entities, most notably home health agencies and outpatient clinics, combining them together to form new hospitalbased entities. This allowed for the cost shifting of overhead from the hospitals to these other businesses in which reimbursements by the Medicare program were based upon actual costs incurred, rather than the fixed payment structure that applied to inpatient hospitals. The company also provided incentives to physicians practicing in their hospitals to make referrals and provide care in a way that would maximize hospital profits (Kleinke, 1998). A 1996 study comparing the hospitals owned by Columbia/HCA to their competition concluded that Columbia/HCA "served fewer Medicaid patients, treated more complex cases, offered fewer services, incurred lower salary expenses per discharge, and had fewer occupied beds than local competing hospitals" (McCue, 1996, p. 43).

In March 1997 the U.S. Department of Health and Human Services launched a widespread investigation of Columbia/HCA, alleging Medicare fraud. Charges included inflated billing, exaggerated patient diagnoses to increase reimbursement, illegal business arrangements, and paying kickbacks to physicians for referrals (Charatan, 2001). This caused the company's stock price to decline rapidly, and Scott was removed from the corporation. Thomas Frist Jr., son of HCA's founder, replaced Scott. Frist set two primary objectives for HCA- to negotiate a settlement with the government and subsequently to focus on the corporation's core business of profitable hospital operations. The company divested itself of home care operations, pharmacy benefits management companies, hospital-owned physician practices and 108 hospitals acquired without proper due diligence that did not meet with HCA's long-term objectives. Frist also discontinued the national marketing campaign (Haugh, 2001).

HCA's Mission and Vision statement was redeveloped to explicitly address many of the situations which resulted in the government investigation. It states the corporation's commitment "to deliver high quality, cost effective healthcare in the communities we serve" (HCA Internet Site, 2002).

It then sets out value statements about the worth of each individual, acting with integrity, and treating others with loyalty, respect and dignity. This mission is reflected in HCA's written business strategies, which begins by discussing the importance of the patients and commitment to ethics and compliance. Another key business strategy is for HCA to focus on communities where the corporation will be either the number one or number two health care provider. These facilities are typically located in urban areas characterized by high integrated health care facility networks (HCA, 2002). HCA finds itself in a turbulent position, with dramatic changes during the past five years. A through examination of its

current business environment, business strategies designed for this environment, and review of its own internal business practices is needed to ascertain its current competitive position and future opportunities.

Strategic Planning Literature Review

In order to examine a corporation's specific current business strategies, it is helpful to have an understanding of strategic planning models. The importance of strategic planning was emphasized by some of the earlier management theorists, who focused upon the need for operational planning. Taylor's theories on scientific management emphasized the importance of planning (Wren, 1994). Taylor's task management system saw planning and production as two separate tasks, and he recommended the establishment of a separate group to perform the planning functions. Gantt later expanded upon this work, applying concepts of scheduling and time management to the planning process (Gantt, 1911/1974). Another early theorist to emphasize the importance of long-term planning was Fayol. He saw the business plan as having five and ten year forecasts, and felt that every plan needed to have unity, continuity, and precision (Fayol, 1916/1949). He saw the business plan as a critical element to guide and protect the business in a changing environment. Fayol proposed a systematic approach for the business plan to be developed. It was the foundation established by Taylor, Gantt and Fayol that later theorists further developed.

Later theorists described the need to change from an operational planning perspective to one focused upon strategic planning. Drucker (1954) felt that strategic planning was necessary for senior management to make strategic decisions. Systematic planning was later described by Hofer (1965), who recognized that the structural and economic changes taking place in the corporate business environment made the planning process necessary. He developed a model for the comprehensive business plan process. These theorists emphasized the need for strategic planning and developed the theoretical models for testing the success of this planning.

A key theorist on the subject of strategic planning was Porter, who put forth a number of business analysis models. Among them are his Five Forces Model (1979) which analyzed the external competitive environment, his Generic Business Strategies Model (1980) which provided a template for business analysis of strategic advantages, his Value Chain Analysis Model (1985) which analyzed in detail both the primary and support activities of a firm, his Multi-business Companies Model (1985) which classified diversified companies into market-related, operating and management opportunities, and his Global Strategies Framework (1986) which analyzed businesses based upon international factors for success.

A variety of other strategic planning models are also widely used. The Remote Analysis Model as described by Laczniak & Lusch (1986) is an alternate method of external analysis. This methodology recognizes the industry environment as identified by Porter's Five Forces Model, but also suggests that an analysis be done of the remote environment, comprised of social, technological, ecological, economic and political factors.

Once a thorough understanding of the external environment facing a corporation is developed it is also necessary to perform an internal analysis regarding the specific strategic business units and strategies of the corporation. The Boston Consulting Group (BCG) developed a planning tool to examine the

portfolio of a corporation (Hambrick et al., 1982). The BCG Growth-Share Matrix was designed for managers to identify the specific business strategies for the different businesses in their company portfolio. The analysis is conducted by comparing each entities' market share to the potential growth rate. This model provides a framework for discussion in comparing the strengths of each entity to their relative position in their respective markets.

A related business-planning tool is the Industry Attractiveness Model, which was developed by McKinsey and Company in conjunction with General Electric (Proctor & Hassard, 1990). Similar to the BCG growth-share matrix, this model was designed as a grid that compared a company or strategic business unit's industry attractiveness to its business strength. The industry attractiveness component was defined as a composite analysis of the elements of Porter's Five Forces Model combined with the social and economic elements of the Remote Analysis Model. The business strength component was defined as the composite analysis of the business's internal environment, including such factors as financial strength, personnel, reputation, and uniqueness of its product offering. An advantage to this model is that it incorporated both the internal and external environments for a comprehensive look at the corporation, addressing multiple strategic issue. A key risk associated with this particular model is the complexity of developing the details of the model and the potential subjectivity inherent in the interpretation of each component.

An alternative strategic planning tool for internal analysis is the resource-based view of the firm (RBV) as developed by Barney (1991). Barney's model is based upon the premise that each corporation has a unique set of resources that should be examined collectively for competitive advantage rather than focusing primarily upon the tangible assets. The RBV model defines overall resources as a combination of tangible assets, intangible assets, and organizational capabilities of a firm. Tangible assets are easy to identify, as they would be reported as the physical assets on the firm's balance sheet in the audited financial statements. Intangible assets are harder to quantify, as they include sub-components such as customer loyalty to brand names, a company's reputation, experience of employees, overall morale and other nonvisible components that contribute to a company's competitive advantage. Organizational capabilities refer to the combined synergy of skills and processes created through the transformation of inputs into outputs by the people and assets of the firm. It is this overall process of combining the tangible and intangible assets utilizing the organizational capabilities that define the specific strategy of the firm, which Barney saw as the true definition of a firm's competitive advantage.

Hospital Strategic Planning Literature Review

Strategic planning research within the hospital industry was conducted by Thakur (1985) who set out to quantify the level and type of planning that was being utilized by hospitals. Using a combination of questionnaires and personal interviews, he examined a number of hospitals. The results showed that the planning process was more formal in larger facilities, with 74% of the hospitals having a three to five year plan. Layton (1991) focused on the financial profitability of hospitals where structured operational or strategic planning were being performed. The research indicated that there appeared to be a relationship between profitability and structured strategic planning.

Horak (1997) linked the strategic planning process in healthcare to the work of Deming, emphasizing that the total quality management process and strategic planning process must be done together. Without this linkage the strategic planning process is only an exercise without the proper focus. He includes

many recommendations for the planning process, including the need to identify the needs and expectations of all of the stakeholders involved.

Olsen (1998) addressed the need for planning as a way for the hospital to change from the crisis intervention decision-making model to a true problem-solving model by being proactive. His research indicated that regardless of the type of provider or size of the organization, the advanced planning process was the key to the organization's long-term success and financial viability. The main point of his conclusion was that the planning process needs to be a freeflowing exchange of ideas, without barriers that limit the creativity of the planning team.

Topping (1999) addressed the various trends that had impacted teaching hospitals, including cost containment strategies and economies of scale derived from strategic alliances, mergers and acquisitions. The research focused on the fact that teaching hospitals commit significant resources to the instruction of student, which puts them at a financial disadvantage to other hospitals who do not have to fund these types of programs. A study of strategies of teaching hospitals revealed that in order to survive many of these hospitals would need to limit the amount of clinical research that they conducted and instead should focus on patient care that is cost efficient.

Research by Popovich and Popovich (2000) focused on the need for key decision-maker and leaders throughout the hospital to be involved in the strategic planning process. It is necessary to first identifying exactly who these individuals are, and then determine a method of how to engage them in the process. They conducted a case study of a large mid-western hospital that had used a quantifiable methodology to conduct hospital-wide strategic planning. The results showed that a greater consensus existed among the hospital personnel in support of specific strategic direction. The hospital was able to adopt this strategy with minimum resistance to change as the most influential individuals were included in the strategic planning process.

The Generic Strategies Model and Five Forces Model developed by Porter were used in research of 81 European acute care hospitals (Hlavacka et al., 2001). The study identified the more financially successful hospitals as those that pursued strategies to differentiate themselves from competitors in conjunction with other pro-active strategies, such as cost reductions to maximize reimbursement. Use of the model identified hospitals with key core business or niche specialties that could then be focused upon, and therefore become that market's provider of choice, for that specialty.

External Analysis

The Hospital Industry Using Porter's Five Forces Model

Porter's Five Forces Model is useful in conducting an external analysis of the hospital industry, he model is illustrated as follows:

The purpose of the model is to gain a thorough understanding of a particular industry by analyzing the external environment's through analysis of five identified competitive. From this analysis, a determination can be made of both the competitive situation and profit potential of a particular industry (Porter, 1980). Each of the five elements of this model can be examined in relation to the hospital industry.

Potential Entrants

The first element is the threat of new entrants into the markets. This could be due to a variety of reasons that include a need for capital, a need for brand awareness, a need for economies of scale or the result of government regulations. The hospital industry is constrained by government regulation. States have certificate of need laws that limit the types of services and number of licensed beds that facilities can provide. Therefore, hospital providers cannot expand unless they can demonstrate that there is a need in the community for services that are not being provided by the present facilities. As a result, the only way for hospital systems to increase their size is through mergers and acquisitions of existing hospitals rather than physical expansion of current facilities. Historically, there were few hospital mergers because the Federal Department of Justice viewed this type of business combination as a violation of the Sherman Antitrust Act that restricted competition (Yafchak, 2000). It was not until the Clinton administration's initial recommendations for health reform that the Justice Department took a more favorable approach towards this type of industry consolidation, leading to an increase in mergers between the years 1995 and 1999 (Frech, 2000) This type of consolidation peaked in 1997 with 197 hospital mergers. The number of mergers has been steadily decreasing since then, with 140 in 1998 and 110 in 1999 (Hoppszallern & Hortillo, 2000). In 2001 there were only 83, and most of these mergers involved the sale of only 1 or 2 hospitals in key markets (Hoppszallern, 2002). Analysis of this element shows that this is a difficult industry for new competitors to join.

Suppliers

The second element of the model is the power of suppliers. In any industry suppliers exert significant influence through the availability of raw materials and the subsequent impact on costs. The primary supply issue facing the hospital industry today is a shortage of licensed medical personnel. There is a nationwide shortage of skilled clinical personnel, especially registered nurses, licensed practical nurses and certified nurses' aides. Hospitals must compete against nursing homes and home care organizations for these skilled clinical workers. This problem has resulted in a situation in which signing bonuses and other financial incentives are common. When an adequate number of staff cannot be hired, the hospitals must supplement their staffing with per-diem staff from outside agencies at significantly higher wages. There is also a shortage of executive personnel, with experienced managers being able to command premium salaries for their skills. A recent survey of executive and managerial compensation showed that from January 1999 to January 2000 the average compensation increase was 6.7% as opposed to only 3.5% for the prior twelve-month period (Moore, 2000).

Another critical supply factor impacting the profit margins of hospitals is the rising price of pharmaceuticals. While the increases in price can be passed on to many third party payers, pharmaceuticals are not a covered service of the Medicare program, and the patients are frequently unable to incur this expense (Eddy et al., 2000). Hospitals also have entered into capitation arrangements with health maintenance organizations (HMO's), whereby they agree to provide services for a fixed dollar amount per patient. These long-term capitation agreements were frequently negotiated in anticipation of more modest increases in pharmaceutical prices. This situation has had a negative impact on hospital profit margins, in that hospitals are therefore fully reimbursed for the pharmaceutical prices incurred. Analysis of this element shows that there are currently supply issues impacting this industry.

Buyers

Porter's third element is the power of buyers. This represents the extent of bargaining that the buyers of the product can exert in regards to the industry or business. The consumers of hospital services are usually not the payers of these services. Private pay patients represent only eight percent of the market, and that small percentage usually represents the co-payment portion of charges, with a third party paying the majority of the hospital charges. Since the consumers of the service pay such a small portion of the charges they are less concerned about price and are more focused upon the overall quality of care. The Federal payment systems of Medicare, Medicaid, and Veterans Administration currently pay for approximately 60% of hospital charges, with the remaining 32% being reimbursed by private insurance companies and health maintenance organizations (Yafchak, 2000). Patients are frequently uneducated about their hospital options and usually defer this decision to their personal physician.

While third party payer sources do have concerns about quality, price primarily influences their hospital-related choices. During the 1990's the HMO began to replace traditional insurance plans. HMO's utilized the practice of forcing hospitals within the same geographic area to compete against each other, with the HMO awarding an exclusive contact for services to the lowest bidder. Hospital systems were encouraged to negotiate a single contract for all of their facilities. This notion was based on the opportunity for the hospital system to increase its overall market share, while the HMO could achieve cost savings through negotiating with a single entity as well as through billing efficiencies. Most hospitals believed that they had no choice but to join in these agreements, which the majority of hospital administrators perceived as favorable to the insurer at the expense of hospital profit margins (Bellandi, 1998). Large insurance companies continue to use their clout to force lower prices onto hospitals. One corporation that has accomplished this is Aetna, Kaiser Permanente and Humana, as a result of its current market share of approximately 10% of the United States population (Yafchak, 2000). Analysis of this element shows that buyers exert considerable influence on the reimbursement for this industry.

Substitutes

The fourth element is the availability of substitute products. The availability and pricing of substitute products can have a significant impact on a business strategy (Porter, 1980). The health services offered by hospitals are unique in that there are also few if any substitutes for these services of this nature. However, alternative venues for many health services constitute a growing trend. For example, freestanding outpatient surgery centers are now available in most metropolitan areas as an alternative to having a medical procedure performed in an acute care hospital. Analysis of this element shows that few substitutes exist, but that alternate venues for hospital services are increasing, which could have a long-term effect on the industry.

The final element is the industry rivalry. The number of competitors, degree of product differentiation, cost conditions and overall competitive diversity can have substantial impact on strategies to be adopted. An assumption related to the mergers of hospitals into a combined system is that economies of scale will result. An empirical study on the subject of economies of scale was conducted by Chan et al. (1999). They examined 330 rural facilities, focusing upon key measures such as overall operating profits, cost per admission and revenue per admission, in relationship to the use and size of health consortia through horizontal integration. They found that there was evidence to support the theory that economies of scale through collaborative efforts, particularly in regards to joint purchasing of supplies and pharmaceuticals

as well as the aggregation of financial resources, in that more profitable hospitals in a consortia would be able to provide a short-term financial buffer to other consortia members when regional variations occurred. The also found that the law of diminishing returns also factored into the situation, in that once the health consortia became too large the incremental administrative burden exceeded the potential cost savings.

Continuum of Care

Another component of the hospital industry's competitive environment is the ability to provide a full continuum of health care services. By acquiring other types of health providers, including home care companies, skilled nursing facilities, outpatient surgery centers, rehabilitation facilities and physician group practices, hospitals could market themselves to both patients and health maintenance organizations as offering the full spectrum of health services needed (Yafchak, 2000). This type of arrangement also had significant financial advantages, as some hospital fixed costs could be shifted to the other entities, which were reimbursed by Medicare and Medicaid based upon cost incurred rather than patient diagnosis. This led to a trend in hospitals increasing their ownership of cost-reimbursed outpatient care facilities (Johnson et al., 2000). Another advantage of hospitals vertically integrating, which overlaps into the element of supplier power, is that such integration helps to assure a consistent referral flow from the other entities to the hospital within the same health system. Analysis of this final element of the Five Forces Model shows that this is currently a very competitive industry.

Porter's Five Forces Mode Applied to HCA

With an understanding of the recent trends that have created the current environment in the hospital industry, an analysis of specific hospital corporations can now be conducted. Each of the Five Forces elements reviewed for the industry will now be analyzed in regards to HCA, examining where it is competitively positioned regarding each external element. This model will also be used as a framework for analysis of HCA's internal business strategies related to the same elements.

Potential Entrants

The industry analysis for this model addressed the use of merger and acquisition activities to expand operations. HCA had aggressively used that approach up until the government investigation but has taken the opposite approach since that time, divesting itself of facilities that do not match the corporation's long-term business strategies. Regarding other threat of entry criteria, HCA has significant financial strengths over competitors due to its overall size and revenues. It has committed to an annual capital investment plan of $1.2 billion per year. This plan includes the renovation of existing facilities, including upgrading all emergency rooms, as well as building an average of two new hospitals a year to replace older facilities (HCA, 2002). In the current economic climate few other health conglomerates have the resources for this level of capital development, giving HCA a clear competitive advantage.

Suppliers

The supplier element of the hospital industry analysis identified three critical areas, staff shortages, physician retention problems and rising pharmaceutical costs, all of which HCA has directly addressed. HCA has partnered with the United States Department of Labor, each committing $ 5 million to the

retraining of workers whose industries were impacted by the events of September 11, 2001 (Serb, 2002). These individuals will receive scholarships to be trained as clinical workers as long as they commit to working at HCA facilities for an amount of time equivalent to the duration of their training. Over 4,000 applications have already been received for this program. HCA has also committed to providing competitive compensation packages and establishing its own staffing agencies to provide clinicians with the flexibility of working in multiple HCA locations within a geographic market. An emphasis on scheduling flexibility, benefit packages, training and opportunities for advancement has resulted in a threeyear trend of increased employee satisfaction levels as measured by annual surveys.

Another supplier factor is HC A's committed strategy to developing and enhancing their relationships with physicians. Its goal is to be the premier provider of hospital services in each market they operate in, and the recruitment and retention of physicians to practice at their facilities is a stated business strategy of HCA. It also continues to provide financial incentives to physicians, however the awarding of these are now linked to clinical quality measures rather than financial measures (HCA, 2002). The final supplier area, pharmaceutical costs, have been reduced through corporate group purchasing (HCA, 2002). The combination of programs designed to increase staffing and reduce turnover and purchasing economies of scale give HCA a competitive advantage for the supplier element.

Buyers

HCA has also developed a distinct competitive advantage with the buyer element of the model. Using its influence as the top provider of hospital services in most metropolitan areas in which it operates, HCA has managed to renegotiate favorable rates with most large insurance companies and HMO's (Martinez, 2002). A specific example of this was cited in an interview with CEO Jack Bovender. HCA spent eight months renegotiating more favorable rates with Humana, who insured over 500,000 members in areas where HCA operates (Haddohenry, 2002). HCA also favorably renegotiated its contracts with BlueCross BlueShield of Florida, after threatening to discontinue service to that insurer's clients (Haugh, 2001). In a related strategy, HCA has reorganized its billing operations, creating ten billing centers that consolidate regional billing functions for all HCA facilities. This allows HCA to devote billing specialists for each insurer, knowledgeable in the details of the specific insurance requirements and improving communication through developing long-term relationships with their counterparts at the insurance agencies (Galloro, 2002). These business strategies combine to give HCA a distinct advantage when negotiating with the buyers of their services.

Substitutes

The element of the model regarding substitutes also relates to HCA's business strategy. In terms of the model, the current substitution trend for hospitals is the establishment of outpatient surgery centers. HCA has wholeheartedly embraced this strategy, and has established a total of 79 surgery centers in addition to its hospitals. Nearly all of these centers are located within the same geographic regions as the hospitals, providing a very competitive, lower cost alternative while still being able to take advantage of economies of scale (HCA, 2002). While HCA had diversified itself of it other non-hospital acquisitions, the surgery centers have been perceived as related closely enough to the core hospital business to be retained. This strategy is also defensive in nature, as having an already established facility deters competitors from attempting to establish these operations within the same markets.

Industry Competitors

The final element, the industry rivalry, is less of a factor with HCA. Its business strategy of being the market leader has them competing in metropolitan areas primarily against independent non-profit hospitals. Many of the latter are either church or government owned, and do not have the same financial performance objectives. In the years 1998 and 1999 HCA divested itself of 108 hospitals that were in unfavorable competitive positions, as well as their ancillary health businesses (Haugh, 2001). One area in which HCA has achieved a distinct advantage over its rivals is billing. HCA consolidated its billing operations into ten regional centers which use current technology to achieve timely and accurate billing, which in turn has both increased cash flow and reduced the administrative expense for these services (Galloro, 2002).

Using this method of analysis indicates that HCA has reacted competitively to industry trends. They have pared back their holdings to key facilities that support long-range business strategies. Economies of scale have enabled them to contain costs for administrative areas such as billing, as well as giving the corporation additional leverage in negotiating contracts with key providers. The corporation has also implemented business strategies to enable them to react to the growing trend of a national shortage of licensed clinicians. Being able to have fully-staffed facilities, as competitors experience difficulties finding help, will continue to compliment and reinforce the notion of being a quality health provider. The continued use and growth of independent surgery centers as a complimentary product area to their hospitals should also work to enhance their total value.

Remote Analysis Model Applied to HCA

The Remote Analysis Model provides an external analysis model that views an organization through different elements. The Remote Analysis Model is an alternate method of conducting external analysis to Porter's Five Forces model, in that it isolates and analyzes key elements which comprise the external or remote environment of a particular corporation or industry. The elements of this model are the remote environment, comprised of the social, technological, ecological, economic and political elements (Laczniak & Lusch, 1986). As with the Five Forces Model, an analysis will follow looking at each element in relation to both the industry and HCA's position, as well as specific internal HCA business strategies created to directly address that element.

The social element includes not only current social trends but also beliefs, values and lifestyles of both the employees and customers of the corporation. HCA's corporate business strategies are designed to take advantage of a number of current demographic trends. One example of such a strategy is location, as the majority of HCA hospitals are located in the sunbelt region, an area of the country experiencing high population growth. For example, the most recent annual report cites 18 municipalities where HCA is the dominant hospital entity, all with projected population increases of 8 to 22% compared to the national average of 4.5% (HCA, 2002). Another demographic trend of which HCA is positioned to take advantage is the aging population group known as baby boomers, those born between the years 1946 and 1964. As the number of elderly persons increases, HCA hopes to provide increasing amounts and types of hospital services.

Regarding the beliefs, values and lifestyles component of the social element, observers have recognized that a lack of clear values in senior management of Columbia/HCA was a principal reason behind the

1997 investigation and resulting restructuring (Goldsmith, 1998). A former executive was interviewed about the corporation's "profit-at-all-cost mentality" and how reductions in staff made to lower labor costs and increase profitability led to pharmaceutical distribution errors which "included mis-prescription: nurses in a hurry giving the wrong doses or giving the right medication to the wrong patient." (Multinational Monitor, 1998, p. 17 & 19). In an effort to change these negative perceptions, the present company now states that its primary objective is to "Emphasize a 'patients first' philosophy and a commitment to ethics and compliance" (HCA, 2002. p. 5). Values and people are now a priority in the corporation's business practices, and HCA has implemented a number of internal programs that reinforce the importance of ethical conduct to the employees.

This commitment to patients and quality care is communicated to the external environment, in an ongoing effort to change the existing perception of HCA, as well as the perception of for-profit institutions in general, as being unethical. In light of the recent accounting scandals and the resulting close ethical scrutiny of all publicly held corporations, the importance of acting in an ethical manner cannot be overstated. HCA has tried to distance itself from these accounting scandals, and issued a press release in June, 2002 to reiterate the accuracy of their financial statements. Analysis of the social component shows that HCA is a good position to take advantage of demographic trends, that they have addressed many issues regarding their employees, and that they have initiated efforts to reverse the negative perception held by the public of only being concerned about profit rather than people.

The technological element focuses upon the degree of technological change within a particular industry. The hospital industry finds itself in an environment of continuous technological innovation, with medical technologies designed for enhanced diagnostic capabilities and to perform less invasive procedures. Other technological advances are with information systems designed to streamline hospital operations. The economies of scale derived from having multiple facilities within a geographic market allows HCA to take advantage of the most current medical technology by designating specialty hospitals, which avoid duplication of costs for this equipment at all facilities. Another example of these economies of scale is with the centralization of the regional billing offices. The technology professionals have created a common billing platform that prompts data entry operators for key information, and the program screens the information for errors in an attempt to ensure that claims submitted to payers are accurate. A review of just one of these regional centers estimates that this technology will improve cash flow by $ 3 to $4 million annually and increase revenue by $ 4 to $ 5 million annually through the reduction of appeals (Galloro, 2002). The technology also allows HCA to negotiate managed care contracts from a stronger position, by providing more detailed information about clinical costs associated with specific patient diagnosis groups. HCA has an advantage, in that most competitors would not be able to expend the $ 100 million capital investment that this system required. Analysis of this element shows that HCA is capitalizing upon technology to gain a competitive advantage.

The ecological element concerns the responsibility of firms to operate in a manner that is not harmful to the ecology of the planet. For the hospital industry as a whole as well as for HCA this is not a critical area, as issues such as the disposal of hospital wastes are Federally regulated. Since all hospitals must comply to these same national standards there is no significant competitive advantage to any specific facility or change. The analysis of this element shows that HCA would have some leverage in negotiating a favorable waste disposal price due to their economies of scale.

The economic element focuses upon the economy that an industry is in, including such factors as inflation, interest rates, the availability of credit and general sources of revenue available to make a firm economically viable. The hospital industry has seen a recent trend towards reduced compensation from the majority of payer sources. As a result, hospitals have undergone a variety of cost containment measures, including the discontinuation of service of unprofitable departments. In the case of multi-hospital systems, unprofitable hospitals have either been closed or converted into other types of health facilities. This is an extremely unpopular strategy to undertake, as it impacts the local communities with both the losses of jobs as well as safety concerns of the neighborhood hospital not being easily accessed in the event of an emergency. HCA has taken the opposite approach towards emergency departments, emphasizing access to emergency care as a key contribution to each market, and making large capital improvements to all emergency facilities. While many acute care specialty departments have been consolidated to individual HCA facilities within each metropolitan area they have made it a priority to keep emergency departments at every facility (HCA, 2002).

As to whether cost containment strategies of consolidation actually work, a study explored the relationship between length-of-stay and hospital cost containment strategies (Carey, 2000). This study examined financial indicators for approximately forty percent of all United States hospitals over a five-year period. The conclusions reached were that the actual cost savings derived from shortened length-of-stays have been greatly overestimated, especially when evaluated against quality of care and the high costs incurred when needing to readmit a patient for complications that developed after being discharged prematurely from the hospital facility.

HCA has a stated business strategy of improving their operations through cost management programs, which include the previously discussed economies of scale as well as other factors such as group purchasing for supplies and pharmaceuticals. Another economic competitive advantage is through reduced labor cost through using shared staff between facilities rather than relying upon outside staffing agencies to meet minimum staffing levels (HCA, 2002). Other trends regarding economic issues pertain to staffing, and would be the same as those discussed as the supply element in the Five Forces Model. Analysis of this element shows that HCA has economic strengths in regards to competitors.

The political element refers to the legal and regulatory environment in which firms operate. The hospital industry is highly regulated, through both state licensing requirements and federal requirements. Hospitals must also adhere to rules and regulations as dictated by both their insurers and accrediting organizations. Compliance with all requirements is an expensive and time consuming task, and the majority of hospitals have senior executives dedicated exclusively to these tasks. Another main political element is that of the certificate-of-need requirements for expansion, as outlined during the analysis of new entrants discussed in the Five Forces Model.

For HCA, the political element takes on the additional dynamic resulting from the fiveyear long Medicare fraud investigation initiated in 1997. In 1999 Federal investigations resulted in Columbia/HCA executives being found guilty of fraud and conspiracy (Harrison, 1999). In May 2000, the United States Justice Department issued a $ 745 million fine against HCA as a final settlement for the criminal investigation (Mokhiber, 2000). A final settlement of $ 250 million was made to the Department of Health and Human Services in March 2002 to resolve all outstanding Medicare cost report issues from 1993 to July 2001 (HCA, 2002). In addition, HCA negotiated a Corporate Integrity Agreement with the United States government to ensure continued compliance. Having these issues

resolved will put HCA in a better competitive position than existed for the previous five years, however the corporation can expect to continue to receive arduous scrutiny of their business practices. Analysis of this element shows that HCA has made considerable strives to enhance their political position, but that they will continue to be closely watched.

Using this method of analysis indicates that HCA has positioned itself to take advantage of demographic trends within their chosen markets. Their economies of scale will allow them to surpass competitors in that they can take advantage of technological resources in a more costeffective manner. The corporation's primary weakness in regards to competitors is its tarnished image and intense government scrutiny as a result of past abuses. While HCA has begun to attempt to reverse these negative perceptions, this will take difficult and time consuming process, especially in light of the fact that many of negatives will always be associated with the corporation's for-profit status.

Internal Analysis

HCA's portfolio Using the Industry Attractiveness Model

The Industry Attractiveness Model, by McKinsey and Company and General Electric, also known as the GE Portfolio Planning Model or Multi-factor Portfolio Matrix, was designed to compare a company's industry attractiveness to its business strength (Proctor & Hassard, 1990). The industry attractiveness component is a composite of the Five Forces Model elements and the social and economic elements of the Remote Analysis Model. The external analysis of the hospital industry showed that this market is highly competitive, heavily regulated, with high barriers to entry, key supplier issues and considerable power on the part of buyers for the services. The market is fragmented and oversupplied, with more hospital beds available than are currently needed by patients. The overall assessment of the attractiveness of this particular industry to new investors would be one of low attractiveness in comparison to other industries for the vertical matrix of the grid.

The business strength component is a composite of the business's internal environment, including the elements of financial strength, personnel, reputation, and uniqueness of its product offering. A number of software programs are commercially available for a company to weigh the different factors and derive where they fall for this component. HCA's financial strength clearly puts them in a superior competitive position. With 2001 revenue of approximately $18 billion and net income of $ 886 million, HCA is well above industry averages for profitability (HCA, 2002). HCA's personnel would also be seen as a strong component. HCA's offering of competitive wages and profit sharing would also help to motive personnel. The business strategy of being one of the top health providers in each market would facilities the personnel component, as their facilities remain attractive employment locations to practitioners in those markets. HCA's uniqueness of product offering and reputation are both tied directly to their current business strategy of emphasizing the quality of their services compared to competitors. The current marketing campaign focuses upon each local hospital and how the hospital benefits the community with the best possible care. This is a dramatic departure from the 1997 campaign, which sought to establish a national image for the corporation, a strategy that backfired with the publicity surrounding the federal fraud investigation. The corporation officially changed its name in 2000, to distance itself from the negative associations with the Columbia image, and has made efforts to improve its image through supporting local disaster readiness programs as well as a $ 2 million donation to the national September 11th Fund (HCA, 2002). Collectively, these factors would combine for a medium to

good position on the horizontal matrix of the grid. The interpretation of the grid and recommended business strategy depends upon exactly where the corporation falls in relation to the two barriers. With its low business attractiveness and medium to high business strength HCA would have the recommended strategy of profit producer, which would be equivalent to the cash cow grid on the Boston Consulting Group matrix (Hambrick et al., 1982). The recommended strategies from this position are to either grow the business or to make minimum reinvestments to maximize profits. This generic approach, however, is too simplistic in a highly competitive market such as the hospital industry, where HCA's competitors are seeking to draw away market share. This matrix, however, would be helpful to use for analysis of HCA's outpatient surgery centers, which show higher industry attractiveness and suggest reinvestment into these business units to maximize profit potential. One final drawback to using this analysis model is the subjectivity of interpretation.

Using this method of analysis indicates that HCA is in a favorable position for profitability within a very competitive and unattractive industry. HCA's present internal business strategies have positioned them to remain competitive within this industry. Their retention and promotion of outpatient surgery centers as a potential growth area, while allowing for the sharing of key resources between these business entities, works favorably to HCA's longterm potential. The weakness of this particular model is its simplicity and subjectivity, which are not necessarily designed to address an industry as complex and competitive as hospitals.

HCA using the Resource Based View Model

Barney's RBV Model (1991) defines the overall resources as the combination of a firm's tangible assets, intangible assets, and organizational capabilities. HCA's tangible assets are listed on their balance sheet and total $ 17.7 billion. This includes $ 4.1 billion in current assets, primarily accounts receivable, $ 8.9 billion in net property and equipment, and other assets which principally consist of investments (HCA, 2002). The location of most of the assets, in urban markets in the southern United States, works favorably to HCA's advantage in relation to United States population trends.

The intangible assets are harder to quantify as they include sub-components such as customer loyalty to brand names, a company's reputation, the specialized knowledge and experience of employees, overall morale and other non-visible components. For HCA, the previous five years have had an overall negative impact on their brand name and company reputation, which the company is only now beginning to reverse. Under Frist's leadership, HCA has been emphasizing the social responsibility to the local communities in which they operate. This is counter to the norm of for-profit hospitals, where research has shown that there is generally a reduced commitment to both the local community and to social responsibility (Becker, 2002). The 2001 settlement agreement between the government and HCA calls for eight-years of tight scrutiny of both billing practices and financial relationships with physicians. Dr. Frist stated that the settlement will "allow us to move forward, maintaining our focus on providing quality patient care" (Charatan, 2001, p. 10). A recognized measure of social responsibility that for HCA runs counter to this claim of patient care above profitability is the number of Medicaid patients admitted to a facility. Typically, Medicaid accounts for between 15 and 20% of hospital industry revenues. HCA has historically accounted for only 8%, which has most recently been reduced to 7% (HCA, 2002).

Other intangible assets pertain to the experience and knowledge of employees as well as company morale. (HCA, 2002). A key objective of the company is the continued recruitment and retention of quality physicians, with favorable reputations in the communities in which they operate. The summary

of the intangible components shows a combination of positive assets pertaining to personnel countered by negative assets pertaining to image and reputation, which the corporation is making efforts to improve.

The organizational capabilities refer to the combined synergy of skills and processes created through the transformation of inputs into outputs by the people and assets of the firm. This overall process of combining the tangible and intangible assets through the organizational capabilities defines the specific strategy of the firm. Barney (1991) sees this unique deployment of the firm's resources as the reason for a firm's competitive advantage. He sees a successful firm as one whose organizational capabilities are both valuable and rare in regard to their competition, and which the competition cannot easily imitate or substitute. HCA currently has several business strategies in place, described in the three prior model analyses, to favorably maximize this synergy for positive results.

Using this method of analysis indicates that HCA is in a strong position, with tangible assets superior to most competitors, with its strongest intangible asset being the knowledge and experience of its personnel. HCA's organizational capabilities are positioned to maximize the synergy between its tangible and intangible resources for a positive outcome. As also reflected in the other analysis model, the corporation's primary weakness is the intangible assets pertaining to its unfavorable image, which HCA's CEO has publicly attempted to counteract.

Analysis and Recommendations

Critical Analysis

Each of the four strategic planning models used to examine HCA has its own inherent strengths and weaknesses. Reliance upon a single model to reach conclusions and make longterm strategy recommendations would therefore be with considerable risk, as each successive model has revealed additional insight into the corporations overall business strategies and competitive position within the industry. A composite of the four models gives a more balanced perspective, from which conclusions can be drawn. Use of more than one business model was a recommendation of Porter (1980).

The external analysis of the hospital industry has shown it to be a fragmented industry, with considerable diversity in regards to types of ownership. The industry has more facilities than are currently required with occupancy levels currently below 50% (Salit, 2002). A number of trends have negatively impacted this industry, including reduced reimbursement, staff shortages, rising costs of key supply elements including pharmaceuticals, and the growing availability of substitutes to traditional inpatient hospital care. This is also an industry with high capital requirements to enter, as well as intense regulation and government scrutiny. This industry also requires providers to constantly invest in expensive new technology.

This analysis was consistent with other research, as financial projections by the American Hospital Association (2002) for the next eight years reflect continued increases in revenue, but only modest increases in net earnings. Three separate independent studies have been recently conducted regarding profitability for the hospital industry. The President and C.E.O. of the Federation of American Health Systems summarized that "All three studies come to essentially the same conclusion: Hospital margins are bad and are expected to reach historic lows this year" (Gardner, 2000, p. 8).

HCA, Incorporated has implemented specific business strategies designed to directly address the identified elements of the external environment. They have reorganized into a core group of key facilities in markets with favorable demographic projections to support long-range profitability. Their economies of scale have enabled them to leverage more advantageous reimbursement contracts from payers while simultaneously containing costs for key areas such as billing and the hiring of clinical workers. Currently their primary weakness remains their overall reputation as a for-profit business that was found guilty of fraud. While HCA has attempted to distance itself from these past actions, improvement of its image with an emphasis on quality patient care will take time for the public to accept.

The internal analysis models show HCA to be favorably positioned, due largely to its considerable financial strength and economies of scale. While the corporation finds itself within a very competitive and generally unattractive industry, their internal business strategies should enable them to be competitive. This is especially true with their ancillary subsidiaries of outpatient surgery centers, a potential growth provider type within the health industry.

Recommendations

Key recommendations for HCA can be made based upon the composite analysis using the four strategic planning models.

Specific portfolio recommendations are as follows:

1. Limit future hospital acquisitions. HCA has made considerable strides to refocus upon its hospital operation in select markets. Future hospital acquisitions should be carefully researched and entered into only after thorough due diligence and analysis.

2. Remain focused on the core business. HCA has divested itself of ancillary businesses, and should not be tempted to reenter these markets. Strategic alliances can be developed for patient continuum of care without exposing HCA to the financial risk involved with ownership.

3. These strategies take into consideration the industry attractiveness of both health provider areas that HCA is presently involved in. They build upon proven strategies, while taking into consideration future profit potential.

HCA has presently undertaken a number of internal business strategies, which the analysis shows to have been successful. These should be either continued or even expanded upon to maintain competitive advantage, and include the following:

1. Continue to recruit and retain personnel. There is a growing national crisis caused by the shortage of clinical personnel, which could have long range consequences effecting the quality of patient care at understaffed facilities.

2. Consolidate administrative functions using technology. HCA has successfully consolidated their billing functions into regional centers. Other administrative functions including financial and clinical

analysis should be continued so that HCA will find itself in a favorable position to negotiate contracts and maximize reimbursement.

3. Finally, the analysis of the issues has identified areas where new strategies should be developed in order to improve HCA's overall corporate image as well as the need to create a positive perception of the firm within each local community. The primary recommendation would be for HCA to conduct further research into how to best meet the needs of the local community in order to create a positive perception of the services that they provide.

Summary of Management Discussion and Review

The analysis and case study of HCA presents a specific example using one hospital corporation. This example shows how strategic analysis models can be used to examine other businesses. The analysis has revealed that this one corporation has key competitive advantages within its industry. What it also shows is the major weaknesses of the corporation. The type of analysis used could be conduced for other hospital corporations, for other types of health care corporations, or for businesses in other industries. This particular analysis utilized four different strategic analysis models, two of them focused upon the internal environment and the other two with an external focus. This combined use of internal and external models has provided for a balanced examination of a corporation.

This study began with an external analysis for the industry as a whole. An external analysis would also be the best place to begin an analysis of a corporation in an industry. It is necessary to have a gauge in order to measure the company's strategic plans in relation to the external environment that it operates within. The external analysis of the hospital industry showed that it had high barriers to entry, with supply issues pertaining to both availability of personnel and costs of materials. The industry faced buyers with significant power over reimbursement, an increasing trend towards alternatives to traditional services and an extremely competitive overall environment. Once these factors had been identified it was possible to then examine how HCA's strategic plan interacted with these elements. This methodology would be equally applicable for examining other corporations.

One of the major advantages to using multiple models for external analysis is that it identifies the corporations strategic positing within an industry, exploring various facets that the use of a single model would have overlooked.

Similarly, the use of a single internal analysis model could overlook critical elements that would be helpful and necessary in ascertaining the strengths and weaknesses of the corporation.

In conclusion, in today's increasingly competitive global economy it is important for managers and entrepreneurs to take an objective view of the strategic plans of their corporations. An objective view should be done using a combination of different strategic planning models in order for the analysis to be accurate and comprehensive. The models presented in this paper are just some of the strategic planning models that are available for managers to use. Managers should also explore which other models might be most appropriate for their particular industry.

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