

**BUILDING A CULTURE OF INNOVATION  
IN A HEALTH CARE ORGANIZATION (B):  
INSTRUCTOR'S NOTE**

**Case Abstract**

Columbus Regional Hospital (CRH), a not-for profit organization located in Columbus, Indiana, evolved from a traditional local hospital to an award-winning regional community healthcare provider by embracing the concept of innovation and its systematic implementation. The “A” case includes a detailed account of the innovation journey undertaken by CRH and the impact of the devastating flood in 2008. On the other hand, this second (“B”) case deals with *WellConnect*, an innovative healthcare venture that CRH considered for investment in 2013. This new healthcare concept was aimed at providing differentiated healthcare services in downtown Columbus, away from CRH’s main satellite campus. Students, thus, have the opportunity to step into CRH’s President & CEO, Jim Bickel’s shoes to decide the feasibility of investing \$1.5 million in *WellConnect* based on a thorough assessment and synthesis of multi-year data provided in the case, including community demographic, income and poverty data, competitor information, and CRH’s select financial statistics. This case tested in several undergraduate and graduate courses was received well. A unique aspect of this case is that it can be used in online as well as traditional face-to-face classes.

**Optimal Courses and Intended Levels**

This teaching case was written for undergraduate and graduate courses in Entrepreneurship, Social Entrepreneurship, and Healthcare Strategy & Management.

Topics Covered: Non-profit Entrepreneurship; Healthcare Management; New Venture feasibility assessment.

Class-room Testing: This case was tested in the following courses:

--6 undergraduate and 1 graduate section of Strategic Management, of which 3 sections were offered in traditional on-campus (face-to-face) courses and 4 sections in hybrid/online format with synchronous case discussions.

--1 section of undergraduate Social Entrepreneurship course (in hybrid/online format with synchronous case discussions).

In all 8 courses, students participated with enthusiasm, and a large number of students indicated that the case was a refreshing change from the overwhelmingly hi-tech company cases discussed throughout the program. They said that they had enjoyed reading about a healthcare company, and their innovation journey included in the “A” case and making the *WellConnect* investment decision in the “B” case.

**Learning Objectives**

After studying and discussing this case, students should be able to:

- A. *Analyze* the competitive position of Columbus Regional Hospital (CRH);
- B. *Assess* CRH's strengths, weaknesses, opportunities, and threats; and
- C. *Evaluate* the feasibility of CRH's new venture in *WellConnect*.

### **Research Methodology**

1. **Data Sources:** Data for the case study was collected through secondary sources, including CRH's website and company documents, such as press releases and annual reports. A former Columbus resident's views of CRH included in the case were obtained from personal interviews conducted by one of the authors.
2. **Extent of Disguise:** None for CRH executives, but the name of the former Columbus, Indiana resident has been disguised to protect anonymity.
3. **Relationship with Host Organization/ Protagonist:** The authors have no relationship with the host organization or the protagonist.

### **Links to Theoretical and Applied Frameworks**

Wheelen, T., Hunger, D. J., Hoffman, A.N., & Bamford, B.E. (2015). "*Strategic Management & Business Policy: Globalization, Innovation and Sustainability*" (14<sup>th</sup> edition), Pearson Publishing.

Porter, M.E., "The Five Competitive Forces that Shape Strategy," *Harvard Business Review*, January 2008, pp. 26-40.

### **Sample Discussion Questions & Teaching Plan for approximately 90 minutes:**

The teaching plan outlined below is for one class period of 90 minutes. However, instructors wishing to adopt this case can customize the suggested plan by extending or limiting the

initial and final discussions, and also by asking students to answer some questions prior to the in-class case discussion.

**Sample Discussion Questions:**

1. Applying Porter's Industry Analysis (5-Forces) model, assess CRH's competitive position and profit potential. (20 minutes)
2. Conduct a SWOT analysis by evaluating CRH's strengths, weaknesses, opportunities, and threats. (20 minutes)
3. What are the advantages and disadvantages of investing in *WellConnect*? Should CRH invest in *WellConnect*? Why or why not? (45-50 minutes)

Q1. Applying Porter's Industry Analysis (5-Forces) model, assess CRH's competitive position and profit potential. (20 minutes)

Answer: Michael Porter's Industry analysis model presented below shows the five forces that shape competition in an industry. They are rivalry among existing competition, threat of new entrants, bargaining power of suppliers, bargaining power of buyers, and threat of substitutes. A brief discussion is provided so that students may understand the nature of competition that CRH faced in the industry.

1. Rivalry: The case includes names of six key competitors with brief information provided on them. The largest of the six was Franciscan St. Francis Health, followed by CRH, Schneck Medical Center and Johnson Memorial Center, respectively. The remaining two were small in size. The presence of six hospitals within approximately a 30-mile radius indicates high competition. As in any urban city, it is expected that there would be other small private medicate clinics offering medical services in the community. This indicates a moderate to high level of rivalry, thus reducing the profit potential for CRH to **average**.

2. Threat of New Entrants: The threat of new entrants is directly related to the height of entry and exit barriers in the industry which, in turn, depend upon the capital intensity, regulations, and advertising intensity, among others. Based on the high capital requirements, high levels of advertising intensity, and high degree of regulations in the industry, the threat of new entrants that may compete directly with CRH is low. This force, therefore, is favorable to CRH as long as a new player with high access to capital does not enter the industry, indicating a **high** profit potential for CRH.
3. Bargaining Power of Suppliers: The suppliers to CRH range from small to large global companies. For example, suppliers of medical devices and equipment as well as supporting technologies may include global giants like GE. Suppliers of such medical equipment and devices are very few in number. Additionally, they constitute a significant portion of the costs incurred by CRH. Finally, quality is quintessential for supplies. Thus, CRH has a significant loss of bargaining power resulting in lower profit potential. On the other hand, CRH may also have smaller suppliers of other supplies such as linens and gloves who may have less bargaining power over CRH due to factors such as their size and number of suppliers in the market. In conclusion, CRH has average bargaining power over its suppliers leading to **average** profit potential.
4. Bargaining Power of Buyers: In this force, bargaining power is mainly affected by the number, size, and importance of quality. The number of patients in the area, the type of medical services needed, and the importance of quality in providing medical services all are in favor of CRH. Its reputation of providing high quality medical services favor CRH's ability to charge higher prices, thus leading to high profit potential. However, affordability is an important factor to consider. Customers (i.e., patients) who can afford medical care because they have medical insurance coverage and/or have disposable incomes to pay the co-pays do not bargain. On the other hand, CRH loses its bargaining

power and profit potential while negotiating prices when entering into contracts with employers and government agencies when providing medical services.

5. Threat of Substitutes: According to Porter, the threat of substitutes in any industry is high. However, in the healthcare industry in the U.S., there are no significant substitutes to medical care. The more critical the care needed the lower the threat of substitutes. So, with respect to providing critical care, such as surgeries and emergency care, CRH encounters low threat of substitutes, commands high bargaining power leading to **high** profit potential. On the other hand, in preventive and non-critical care, CRH can expect a high threat of substitutes which place a ceiling on the prices it can charge, thus, **lowering** its profit potential.

Wheelen et al., (2015) present other stakeholders as a sixth force affecting competition in the industry (page 108). Stakeholders such as Governments, creditors, special interest groups and shareholders can significantly dilute the bargaining power of incumbents, thus reducing the profit potential. In CRH's case, profit potential is reduced to **average** with respect to these stakeholders like Governments.

In summary, CRH is not operating in a “five-star industry” with high profit potential.

Based on our brief analysis, it appears that it has high profit potential vis-a-vis only one force, and average profit potential with respect to the remaining forces.

Q2. Conduct a SWOT analysis by evaluating CRH's strengths, weaknesses, opportunities, and threats. (20 minutes)

**Answer:** Sample answers from a SWOT analysis of CRH should, at minimum, include the following.

**Strengths:**

- Long and successful history in the region.
- Strong reputation in the communities it served.
- Well established relationships with donors and increasing support from the donor community.
- Strong and unique innovation culture that proved to be highly effective in reducing significant cost savings, employee empowerment, and national recognition for its innovation ecosystems.
- Steady growth in patients served per Case Table 1 in the case; inpatients increased from 8,519 in 2010 to 9359 in 2012; outpatients increased from 192,812 in 2010 to 195,096 in 2012; and patients in the emergency department rose from 40,443 in 2010 to 41,675 in 2012.
- Average charge per inpatient visit lowest in comparison to the national, regional, or State averages in all three years, as shown in Case Table 1.
- High commitment to community service, as shown by the significant (\$12.27 million in 2010 and \$15.357million in 2012) charitable care spending in Case Table 1.
- High community impact as demonstrated by increasing employment created at CRH. Case Table 1 shows that the number of employees CRH had on its payroll rose from 1563 in 2010 to 1650 in 2012.
- As shown in Case Table 1, operational revenues rose faster than expenses indicating cost efficiencies. For example, operational costs in 2010 were 98.8% of CRH's revenues, but only 97% in 2012.

**Weaknesses:**

- Operational costs are too high as shown from data in Case Table 1. A decline of 1.8% in operational costs is negligible and alarming given the high investments in innovation programs.

--Growth in Charity care between 2010 and 2012 shown in Case Table 1 outpaced growth in operating revenues during that period. In other words, funds spent on Charity care grew 25% from 2010 to 2012 whereas operational revenues grew only 14% during these years.

--CRH's feasibility assessment of the WellConnect proposal in 2013 may be a sign of a reactive strategy to the St. Francis early 2013 proposal.

### **Opportunities:**

--Demographic data shown in Case Table 3 shows the following.

- The population between the ages of 25-64 are approximately 50% of the total population which indicates a strong customer base to serve. Additionally, this population segment also indicates a good pool for employment purposes.
- The fact that the population under the age of 20 years of age was 20% of the total population also indicates that CRH may have a strong pool of the population coming into the workforce in the near future.
- The household income distribution data indicates that approximately 60% of the population in the CRH service areas earned less than 50k a year whereas 40% earned over 100k a year. This indicates that CRH has the potential to develop innovative healthcare programs without being overburdened with patients who cannot pay.

### **Threats:**

--Demographic trends in Case Table 3 shows a projected population growth of only 2.85% from 2013 to 2018 in the areas served by CRH as compared to a national average of 3.32%.

--The above weak growth in the context of the weak revenue growth experienced from 2010 to 2013 discussed under "weaknesses" above is a threat to consider for CRH.

--The recent growth plans of Franciscan St. Francis Health to locate an outreach facility within 10 miles of CRH's main facilities is a major competitive threat that CRH cannot ignore.

--Excessive competition in combination with low average charge per inpatient served (shown in Case Table 1) can put a squeeze on the already tight operating margins discussed under "weaknesses."

Q4. What are the advantages and disadvantages of investing in *WellConnect*? Should CRH invest in *WellConnect*? Why or why not? (45-50 minutes)

Before beginning the discussion of this question, take a vote and record the number of students who vote in favor of investing in *WellConnect* and how many against it.

Answer:

#### **Advantages associated with *WellConnect***

##### **Purpose, Leadership and Management**

--Fits with CRH's mission and vision of being a community healthcare provider.

--Project championed by the Board with a broader vision.

--Strong leadership with proven track record of success for planning and implementing new projects.

--As a mission-driven non-profit organization, CRH needs to continue to be aggressive to fulfill its vision of being the best in the country. So, *WellConnect* is a natural extension of CRH's existing facilities.

##### **Technology Infrastructure & Innovation**

The proposed *WellConnect* center is a good example of service and process innovation in CRH's delivery of healthcare services. The proposal was to offer a place to connect the community with a healthcare provider. In this center, CRH intended to offer different kinds



of services -- some preventive services, such as cooking and wellness classes. Other services, like free consultation for medical bills could be considered service innovations. Some services were to be offered on a walk-in basis (not common in doctor's offices), and some services provided for free could be considered innovations in process.

--CRH had the technology infrastructure and experience needed for *WellConnect*.

--CRH had the infrastructure and skills to train new hires needed to staff *WellConnect*, which are minimal.

--*WellConnect* would be a new and innovative project that extends CRH's commitment to an innovation-centered strategy serving the community's needs.

#### Financial Backup

-- Increasing meaningful partnerships with organizations.

--Considerable money raised by CRH Foundation every year.

----Large donor base with a total of 323 donors who had funded innovation projects since 2005.

--Even though CRH is a non-profit organization and is not subjected to the pressure of earning profits, it has a strong and increasing profit performance (i.e., operating revenues minus operating costs) between 2010 and 2012 (see Case Table 1).

#### Results-oriented/ high-performance innovation culture at CRH:

--The significant positive financial impact from innovation projects amounting to millions of dollars each year; \$2.8 million in 2011 and \$3.2 million in 2012 is proof of CRH's ability to execute innovation projects efficiently and effectively.

--CRH had proven cost efficiencies that were passed on to its customers. See the lower average charges per inpatient visit at CRH, which were significantly lower than the local, state, and national averages (see Case Table 1).

#### Public Relations:

--According to the case, CRH had a strong reputation for providing quality medical services in the community. So *WellConnect* offers a good opportunity for CRH to expand its services in a new location and attract new customers, as well as increase its visibility by being in the news again.

#### Customer Needs Assessment & Value Added

--Approximately 60% of the population in the communities served by CRH earned \$50,000 or less annually and about 55% of the CRH service communities were 35 or older (see Case Table 3).

--According to the consultants hired by CRH, about 41% of the surveyed customers obtained wellness information from their family doctor whereas 22% used the Internet to obtain such information. Having a center like *WellConnect*, especially in the vicinity, would draw customers seeking such information on a walk-in basis. *WellConnect* could direct them to available services (free and for-pay) available. This would be of great value to customers because of the convenience, both in location and time saved. Given that CRH's hospital provided services at competitive rates that were below the local and national averages (see Case Table 1), it is very likely that CRH would continue to provide services at *WellConnect* at below average rates thereby creating more value for customers.

--Customer needs assessment undertaken by outside consultants in 2012 and 2013, indicated the existence of a need for *WellConnect* services (see Case Table 6).

--Approximately 41% of CRH-service area population sought healthcare information from their family doctors indicating a high potential for referrals for *WellConnect* services. The remaining 59% demonstrates an opportunity to grow for *WellConnect* services (see Case Table 6).

--The proposed *WellConnect Center* located close to Cummins (which had 5000 employees) and the presence of rental apartments near the proposed downtown location is yet another opportunity for connecting with those consumers who may need urgent medical care on a walk-in basis, or who would like the convenience of taking an exercise, relaxation, or cooking class during lunch break, or who need a referral to a doctor or medical facility. The close proximity and the free classes are value added aspects of the service, which are consistent with CRH's mission and core values.

#### Competition:

--CRH, thus far, appears to be positioned well. According to Case Table 2, its nearest competitor, Schneck Medical Center, located approximately 22 miles away from CRH, was two-thirds the size of CRH in the number of acute beds and patient revenue, but was less than half CRH's size in terms of annual discharges. This suggests that CRH has the opportunity to continue to be a leader in this field if it chooses to open the *WellConnect* center downtown.

--With a disposition to be a leader rather than a follower in the region and an ambitious vision "to be the best in the country", CRH cannot ignore the presence of St. Francis Health in the community. In addition to having a hospital, which is larger than CRH, St. Francis Health had filed a formal application with the City Council requesting tax abatement to open a new facility that will be very close (about 10 minutes away) to CRH. Therefore, it would serve

CRH well to deal with this incursion in a proactive rather than reactive mode, thus lending strong support to investing in *WellConnect*.

### **Disdvantages of *WellConnect***

--The *WellConnect* Project requires a significant capital investment of \$1.5 million.

--It requires an additional recurring operational expense of \$25,000 per month, which may or may not be covered by revenues generated. Thus, CRH must have reserves to cover the projected operational budget of \$300,000 per year until *WellConnect* breaks even.

--The success of *WellConnect* is in the hands of customers, a major uncertainty for CRH. Additionally, CRH may have to incur expenses to advertise aggressively and promote the new project to attract customers to *WellConnect*.

--Should *WellConnect* be unsuccessful, CRH is left with a facility and four additional hires on its payroll.

--The location of the proposed *WellConnect Center* was close to Cummins headquarters with 5,000 employees and other customers residing in the downtown area with higher incomes and medical coverage. While this population can afford to pay for the classes and provide the funds to subsidize the free services that CRH planned to offer to those who could not afford to pay nor had medical coverage, the big risks are (a) whether Cummins employees and the downtown residents would actually use *WellConnect*, and (b) if the proposed location, would attract the low-income population and their families who are in great need of preventive health care services.

--The following trends are noteworthy from analyzing information contained in the Tables included in the case.

- Table 1: (Red flags, i.e., potential risks)

- Charity Care grew 25% between 2010 and 2012 while operating revenues grew only by 2% during this period.
- While CRH is the lowest/best cost provider based on its inpatient charges, the CRH inpatient charges rose 9% from 2010 to 2012 on par with rate increases nationwide, but the Five-State-region charges rose only 6% during this period. This does not bode well for an innovation-driven organization that has invested millions of dollars, time, and other resources to providing better and more cost-effective care.

- Table 3:

- The demographic characteristics in the CRH community indicate an estimated population growth of 2.85%, but the average household income in 2013 was only \$51,770 (about \$18,000 lower than the national average).

- Table 4:

- In Bartholomew County where CRH was located, the highest poverty rates in 2013 were among the 25-34 age group, followed by the 6-11 age group, and 35-44 age group, respectively.
- Across all age groups, poverty was higher among females as opposed to males.

- Table 5:

- Risk factors among the Indiana residents was quite high. In 2013, Indiana ranked among the top 21 states with high risk factors in its population, except for binge drinking.
- About 21% of the population surveyed between the ages of 18-64 had no healthcare coverage.

- Table 6:

- It was projected that prevalence of Obesity and Driving deaths from alcohol in the three counties served by CRH would be higher than other risk factors. Usually, these two risk factors lead to higher use of emergency services than preventive outpatient services.
- Table 7:
  - The conclusions from the PRC needs assessment overwhelmingly point to healthcare needs in the community that are provided by the existing CRH facilities with the exception of preventive counseling services that pertain to “Nutrition, Physical Activity & Weight Status” as well as “Tobacco Use.”

Thus, information presented above hold significant implications to the WellConnect investment decision. This implies that CRH can expect a greater need for providing regular and emergency care services to the disadvantaged low-income earners with no healthcare coverage. Students against investing in *WellConnect* cite the realities in the lives of the socio-economically disadvantaged populations. They include no healthcare, large families with single wage-earners working multiple jobs to make both ends meet, poverty, malnourishment, dependence on local transportation as opposed to owning a functional vehicle. They pose the question: Will *WellConnect* located in downtown (not close from the poor residential neighborhoods), be able to attract and serve these low-income population groups?

Recommendation to Bickel and the Board: Given the overwhelming advantages relative to the disadvantages associated with *WellConnect*, expect an overwhelming majority of the students to suggest that Chairman and CEO Bickel recommend investing in *WellConnect* to the Board. They are also swayed by the fact that CRH is a non-profit organization.

Only a small number of “A” students who had analyzed all the information presented in the case would vote against CRH investing in *WellConnect*. Expect them to vehemently oppose investing \$1.5 million in *WellConnect*. Surprisingly, from our classroom testing experience 90% of the dissenting students were female. Their decision was supported by a careful analysis of CRH’s financials as well as the demographic profile of the local population CRH served. They believed that CRH was no longer run as a traditional non-profit, but as an economically sustainable entrepreneurial organization in order to maintain its leadership position in the region. The fact that CRH operated in this non-traditional market mode where due diligence prevailed was also indicated in the case.

## **Epilogue**

Based on the recommendations made by Jim Bickel, CRH’s Board approved the project. *WellConnect* formally opened its doors to the public in December 2013 in downtown Columbus. CRH rented the needed space and invested approximately \$1.5 million needed for facilities renovation, furniture, and start-up costs to provide on a walk-in basis healthcare and preventive services to its customers in the region. While customers had to pay for some services, others were offered *gratis*. However, it failed to attract users from Cummins as Cummins launched its own on-site wellness facilities for its employees. According to information posted on CRH’s website, *WellConnect* was moved to a new location at PromptMed, a CRH urgent care walk-in clinic accepting unscheduled patients during all hours of operation. According to the website, PromptMed was staffed with three doctors and one nurse practitioner. It was “equipped with X-ray, laboratory services and licensed providers to treat cuts, burns, sprains, fractures and to perform minor procedures such as splinting and suturing.”

