

## 1. How Successful is Shouldice Hospital?

Shouldice Hospital is a highly successful business that maintains a focused service delivery system due to the success rate of its surgeries, its low employee turnover, its ability to maintain high quality standards, its ability to keep costs low and to remain profitable, and most especially the positive evaluations of its patients. Its strengths can be attributed to stringent policies of staff training in the Shouldice surgical method; the preservation of a communal atmosphere amongst both the staff and with the patients; the implementation of efficient and cost-effective facility operations; and high demand for operations.

Its less successful aspects include: an inability to serve a considerable unsatisfied demand, as it is operating at near-full-capacity in its present facility; limited marketing; and an inability to prevent proliferation of its surgical techniques.

## 2. What Accounts for Shouldice's Performance?

### a. Unique Operating Techniques

Shouldice has vertically integrated nearly all operational functions in an effort to tightly control its distinctive techniques for performing hernia operations, as well as for pre- and post-operative patient care. The hospital has been remarkably successful in its ability to provide its patients with a quick, quality, low cost surgery in a comfortable environment, and has enjoyed an operations' success rate exceeding 99%, compared with an industry average of approximately 92%.

b. Customer Care

Providing superb customer care is a hallmark of the Shouldice experience. The surgery is designed to be stronger than standard hernia operations but also allows for a faster recovery. Much of the success of the Shouldice hospital revolves around its dedication to a patient's mental attitude, as Dr. Shouldice perceived that a less-stark and more friendly environment reduces anxiety and speeds recovery. The personal care displayed by the entire staff and the hospital's policy of not charging clergy members or the parents of the minor patients are indicative of the hospital's exceptional service.

The design of the entire hospital is based around customer needs and Dr. Shouldice's ideals of early ambulation following surgery. Patients are assigned rooms with someone who may have a similar professional background or who shares similar hobbies. Phones and television sets are located only in communal areas, which helps keep patients out of their beds, walking around and meeting others. Further, the patients are encouraged to enjoy their meals in the common cafeteria in order to interact with other patients and with doctors. To speed the healing process, Dr Shouldice's post-operative technique encourages patients to begin walking immediately following their operations. What's more, the participation of patients in their own recovery cuts Shouldice's costs for things like service to rooms and one-on-one physiotherapy.

With regard to costs, the average cost of obtaining an operation at Shouldice relative to receiving the same procedure at other hospitals can be seen in the table below:

**Total Cost to Patients**

	<b>Shouldice</b>	<b>Other Hospitals</b>
1 - Cost of typical operation (a) (b)	\$ 954	\$ 2,000
2 - Transportation to and from hospital (c) (d)	\$ 200	
3 - Time lost from work while at hospital (e)	4 days	5 days
4 - Time lost for work while recovering (f) (f)	5 days	10 days
5 - Value of time lost to employer - ranging from \$50-\$500 per day (avg = \$275)	\$ 2,475	\$ 4,125
6 - Total before allowance for recurrence	\$ 3,629	\$ 6,125
7 - Probability of recurrence	0.8%	10%
8 - Weighted cost of recurrence	\$ 29	\$ 613
<b>9 - Total cost to patient, employer and insurer</b>	<b>\$ 3,658</b>	<b>\$ 6,738</b>

Given:

- (a) Based on assumptions of a \$450 surgical fee, a four-day stay at \$111 per day, a \$60 fee for the assistant surgeon and no need for general anesthesia.
- (b) See “The Market” section of the case.
- (c) See “The Market” section of the case.
- (d) Assuming the operations were performed near the patient’s home.
- (e) The shortest stay mentioned in “The Patient’s Experience” section.
- (f) Assuming the patient is engaged in a job involving “light” work, as described in “The Patient’s Experience” section of the case.

Assumption:

- (1) All monetary calculations based on Canadian dollars @ 1983 exchange rate  
\$.8CA = \$1.US

c. Target Market

The target market for Shouldice Hospital is primarily healthy persons who require low risk inguinal hernia operations. The advantage of admitting only healthy persons is that the percentage of successful procedures is high, while the duration in the hospital is low, which is important given that the hospital is a non-profit organization and only the clinic generates profits. So, by cutting down on the stay of the patient, customer turnover is higher and costs are substantially reduced. Further, since most patients are ambulatory, linens need not be changed

daily and bed pans are not required, so nurses can better utilize their time conducting orientation programs counseling patients.

#### d. Staff Considerations

The hospital focuses not only on the patients, but also on the staff. The hospital administrator, Alan O'Dell, stated that the surgeons are comprised of those who "want to watch their children grow up..." Accordingly, surgeries are scheduled only during weekdays, the doctors' duties are usually over by 4PM, and they are rarely disturbed during their on-call rotation. Staff are awarded monthly bonuses based on performance and productivity. Dr. O'Dell maintains an 'open door' policy to preserve close staff and management interaction. Another policy is that of job rotation. O'Dell was of the opinion that this kind of rotation, besides removing the monotony from the job, also helps keep the staff prepared to face crisis situations that may arise due to illness or other absence.

#### e. Finances

Although the hospital is a not-for-profit entity, the clinic operates at a margin of just over 44% profit, relative to revenues, as seen in the table below:

##### Hospital

1 - Revenues = 4 days' average stay x \$111/day x patients per year	\$3,041,400	
2 - Cost (from "Operating Costs" in the case)	\$2,800,000	92.06%
3 - Profit	<b>\$ 241,400</b>	<b>7.94%</b>

##### Clinic

4 - Revenues – (\$510 x patients per year) + (\$75 x patients per year x 20% assumed to require a general anesthetic)	\$3,596,250	
5 - Cost (from "Operating Costs" in the case)	\$2,000,000	55.61%
6 - Profit	<b>\$1,596,250</b>	<b>44.39%</b>

##### Totals

Revenues	\$ 6,637,650	
Costs	\$ 4,800,000	72.31%

Profit

<b>\$1,837,650</b>	<b>27.69%</b>
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Given: 6850 patients/year (1982)

The Central Problem - capacity planning

The Shouldice Hospital is operating close to capacity during most of the year, and often has a backlog of patients. Dr. Shouldice cited a desire to seek ways of increasing the hospital's capacity while at the same time maintaining control over the quality of the service delivered and mitigating the future role of government in the operations of the hospital. Adding additional capacity to meet the unmet market need may upset the existing work force and lower service quality; whereas, failing to meet the market demand may invite competition that could eventually cause Shouldice to lose market share and to end up with excess capacity. To increase its output and maintain its quality Shouldice would need to add an additional floor, expand its operations to another facility, or schedule Saturday operations. The former two alternatives involve large capital investments and considerable time. Construction would also cause a disruption to the quality and country club atmosphere of the hospital. As for the latter option, Saturday surgeries would allow the hospital to grow by 20% but controversy arises between the newer and older surgeons. The older surgeons are opposed to Saturday operations and the younger surgeons are either indifferent or in favor of Saturday surgeries. The fear of implementing the Saturday surgeries includes short staffing or over capacitating the hospital, thus denigrating the service standards. \$4million was thought to be sufficient to add another floor, thus increasing the capacity by 50%, but would require additional staffing and would also add more surgeries for the operating room. Expanding to

a new space could also create a service breakdown. "...it would be very difficult to maintain the same kind of working relationships and attitudes," according to Alan O'Dell. The addition may be too taxing on the existing facility or staff. Therefore, both the present facility and the staff have limited flexibility.

Expanding to a new facility poses the slight risk of loss of control over the Shouldice operating techniques and patient care methods. A possible solution would be to consider franchising the model and implementing strict policies and procedures, and oversight of all facets of medical procedures and patient care. Franchise(s) established in the U.S. would also reduce the level of government oversight. The "even swaps" method of evaluating the alternatives is contained in the tables that follow:

## Assumptions:

- |  |              |
|--|--------------|
| (1) Total Annual Costs   | \$ 4,800,000 |
| (2) Current Total Annual Profit  | \$ 1,837,650 |
| (3) Ability to serve more patients (Growth Potential) is weighted double that of all other factors |              |

## Options:

- (1) Add Floor to existing facility in order to increase capacity by 50%
- (2) Add Saturday rotations to the staff schedule in order to increase capacity by 20%
- (3) Open new hospital in the U.S. in order to increase capacity by 100% & reduce CA gov't oversight
- (4) Do nothing

## DEFINITIONS

Objective	Definition
Growth Potential (higher the better - weighted double)	The ability to expand (high, moderate, no ability)
Added Profit (higher the better)	The additional profit (CA dollars)
Impact to Service/Customer Care (lower the better)	The possible degradation of customer care (high, moderate, no effect)
Impact to Process/Quality (lower the better)	The possible degradation of Shouldice method (high, moderate, no effect)
Impact to Staff Satisfaction (lower the better)	Effect to morale of the change (high, moderate, no effect)
Government regulation (lower the better)	Possible regulation in the operations of the hospital (high, moderate, low)

A rankings table shows the attribute-wise rankings of the alternatives and it can be applied to get an overview of the overall performances of the alternatives.

RANKING TABLE

Objective	Add Floor	Sat' Sched	New Hospital	Do Nothing
Growth Potential	2	3	1	4
Added Profit	2	3	1	4
Impact to Service/Customer Care	2	2	4	1
Impact to Process/Quality	1	3	3	1
Impact to Staff Satisfaction	3	4	1	1
Government regulation	4	4	1	4

EVEN SWAPS 1 - Eliminate "dominated" alternative	New Hospital clearly dominates Saturday Schedule in 4 of 5 categories, with 1 tie.			
Objective	Add Floor	Sat' Sched	New Hospital	Do Nothing
Growth Potential	2	3	1	4
Added Profit	2	3	1	4
Impact to Service/Customer Care	2	2	2	1
Impact to Process/Quality	1	3 (tie)	3 (tie)	1
Impact to Staff Satisfaction	3	4	1	1
Government regulation	4	4	1	4

EVEN SWAPS 2 - Eliminate irrelevant attribute	Profit is directly correlated with Growth and is therefore irrelevant		
Objective	Add Floor	New Hospital	Do Nothing
Growth Potential	2	1	4
Added Profit	2	4	4
Impact to Service/Customer Care	2	2	1
Impact to Process/Quality	1	3	1
Impact to Staff Satisfaction	3	1	1
Government regulation	4	1	4

EVEN SWAPS 3 - Eliminate "Practically Dominated" Alternative	Gaining 2 positions in "Growth" for "Do Nothing" requires giving up 2 positions in "Service" & in "Staff Satisfaction" (Growth is weighted double). Now, "Add Floor" is higher in "Service" category than "Do Nothing" and tied in the other 3 categories, so "Add Floor" practically dominates "Do Nothing"		
Objective	Add Floor	New Hospital	Do Nothing
Growth Potential	2	1	→ 4 2
Impact to Service/Customer Care	2	2	→ 1 3
Impact to Process/Quality	1	3	1
Impact to Staff Satisfaction	3	1	→ 1 3
Government regulation	4	1	4

Even Swaps - Shouldice Hospital

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EVEN SWAPS 4 - Eliminate "Practically Dominated" Alternatives

"Add Floor" must reduce "Process/Quality" ranking by 2 in order to gain 1 ranking in "Growth". New Hospital now practically dominates, since 3 categories are ties and "Staff Satisfaction" & "Gov't Reg" rank better than those of "Add Floor".

Objective	Add Floor	New Hospital
Growth Potential	→ 2 1	<b>1</b>
Impact to Service/Customer Care	2	<b>2</b>
Impact to Process/Quality	← 1 3	<b>3</b>
Impact to Staff Satisfaction	3	<b>1</b>
Government regulation	4	<b>1</b>

The preferred option, is to expand operations to another hospital (preferably in the US to avoid much government regulation)