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Healthcare Strategy & Management

HCMG 2130-001
Fall 2024

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Class Time / Location

Time: Monday / Wednesday 12:00-1:30 p.m.
Location: Colonial Penn Center Auditorium, 3641 Locust Walk
Office Hours: Fridays by Zoom appointment (contact Tina Horowitz at horowitt@wharton.upenn.edu to schedule)

Teaching Assistants Medha Sharma (mesharma@wharton.upenn.edu)
Daniel Varrichio (dgv@wharton.upenn.edu)
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Overview of Course

This course examines how firms pursue and (occasionally) achieve competitive advantage in the midst of government oversight, unpredictable legislative and regulatory shifts, massive technological change, counter-measures taken by competitors, and a host of economic, social, and political challenges. The achievement of competitive advantage rests not only on the pursuit of well-crafted strategies but also on the successful execution of those strategies. That is why the course is entitled "strategy & management." Strategic vision without managerial implementation is mere hallucination.

A central theme of the course is that the choice and application of strategy to pursue is not always straightforward. Sometimes firms choose a strategy for the wrong reasons and/or based on faulty assumptions. That partially explains why firms only occasionally achieve any competitive advantage; success is rarely guaranteed. Thus, firms need to deliberate strategy selection with "reflective skepticism": critically evaluate the promises of the chosen strategy and ask whether or not there is any evidence to support them in the current case. In other words,

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- ***"Is what I just learned/read really true?"***
- ***"Can I prove it?"***

This will be our mantra throughout the course. I have it tattooed on my chest.

Oftentimes this requires the strategist to analyze, evaluate, and synthesize a considerable amount of information - - both favorable and unfavorable (pro and con) - - to reach a conclusion. This includes information that may not be in the case. You need to ask, "what does the case not tell me that I need to know?" You should also ask yourself, "are there any headwinds that would derail the strategy?" The task is thus to doubt and question the proposed strategy rather than just blindly accept its validity and utility. Don't believe it just because an expert says your firm should do it. This includes articles and supposed research on the strategy. Always ask, "is what I just learned really true?" As you will see in the course, this also applies to the content of published "cases". Such cases are <u>NOT</u> "the truth, the whole truth, and nothing but the truth". So, the course will help you develop your skills in critical thinking and reflective skepticism. Part of critical thinking is seeing an issue from both sides: that is, arguments both pro and con. That is why the case analyses prompt you to think about **tailwinds** and **headwinds** regarding any strategic initiative.

At the same time, this course focuses on strategy and management in the <u>healthcare</u> industry. As you will soon discover, this industry is unlike any other (in many ways). Much of what you may have learned about corporate strategy in the management department and about micro economic theory does not necessarily apply to, work in, or work the same way in the healthcare industry. For example, the government represents a near majority of spending overall, customers rarely directly pay for services, quality is difficult to observe, information is not commonly held across market participants, and value is often best provided by a coordinated set of economic actors that face different incentives. This necessitates an early consideration of the complex workings of the healthcare industry and its differences compared to other industries.

In 2021, the U.S. healthcare "industry" accounted for 18.3% of GDP. This economic activity involves a diverse set of sectors with a mix of public, nonprofit, and for- profit buyers and sellers. These <u>healthcare sectors</u> include: hospitals, physicians, integrateddelivery networks (IDNs) that combine hospitals with physicians, pharmacies, insurers, pharmacy benefit managers, employers, pharmaceutical firms, medical device firms, biotechnology firms, etc. Many firms in the health industry are non-profit organizations whose explicit goal to maximize social value while competing directly with for-profit firms. Firms operating in the U.S. healthcare industry face challenges and environments that at times require sector-specific strategies. Thus, the strategy that works in one sector may notwork in another. These features (and many others) make developing and maintaining profit maximizing strategies quite difficult.

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The course will examine six revolutionary strategies that have been pursued in the healthcare industry starting in the 1960s and still pursued today. These strategies include:

- Focus/specialize on one niche to serve
- Horizontal integration into chains (M&A)
- Vertical integration into upstream/downstream markets
- Diversification into quasi-related businesses
- Strategic alliances with a variety of firms
- Disruption / disintermediation

Each of these strategies involves some effort to re-draw the "boundaries of the firm" - - i.e., what activities lie inside the firm's purview, and what activities are left to the market outside.

The aim of the course is to prepare you for a host of employment opportunities in consulting, managerial, strategic, and investment areas across healthcare sectors. Emails from students who have taken this course in the past testify to this (will prove it to you).

Course Requirements

Four (4) One-page Analyses. This course is an exercise in critical thinking. That involves analyzing an argument, locating and assessing the evidence in support of (or against) that argument, and then formulating an opinion regarding the veracity of that argument - - as well as clearly communicating your opinion. You will be given short readings (1.5 pages long) whose argument you need to assess. Students will individually prepare a one-page analysis on four different readings. The analyses are due BEFORE class begins on that date (i.e., before 12 PM EST on due date). No analyses submitted after the class begins will be accepted. Analyses should follow this format: prose, maximum one page in length for your argument (additional page for references or exhibits is acceptable) with 1" margins and a minimum 1.5 spacing, 11-point font minimum. I will NOT read anything that does not comply with this formatting. A second page with references (only) is acceptable. Due dates for these four papers are 9/4 (2nd day of class!), 9/23, 10/14, and 11/11.

Two (2) Case Analyses. Students will individually prepare a 2-page analysis of two different cases (marked with a ** in the syllabus). The cases are found on Study.Net. The questions to be addressed are found in the syllabus, along with the weight (emphasis) associated with each question. Case writeups need to conform to the following specifications: two pages maximum (an additional page containing footnotes/ references is OK, but is not necessary), 11-point font minimum, one-inch margins, and a minimum 1.5 spacing. Case analyses are due BEFORE class begins on that date (i.e., before 12 PM EST on due date). No case writeups submitted after the class begins will be accepted.

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You may pick any two of these cases (starred ** in syllabus)

	HC Sector	Due Date
• MedCath	PPMC/PE	9/18
• ThedaCare System Strategy	Hospital	9/30
• Allina Medical Group	Physician/IDN	10/28
• Humana Inc.	Insurer	10/30
• Medtronic	Medical Device	11/18
• Pitney Bowes – Employer Health Strategy	Employer	12/2

As mentioned above, the case may not give you all the information you need to assess the strategy; moreover, whatever information the case provides may not be 100% accurate. So your analysis of the case should NOT stop with the case and readings for that date. You are strongly encouraged to dig deeper, do your own research (on the company and/or the sector), and critically address the case questions in the syllabus.

Final take-home exam. There will be a final, online examination during exam week covering topicsand concepts from the course lectures, course readings, discussions, and case analyses. Exam format will be true/false and multiple choice.

Class Participation. Your participation will be graded on quality, not volume. You should provide insights, observations, inferences, or conclusions that not only express your viewpoint, but *also* defend your analysis. Your comment should be relevant to the topic at hand, and should advance the discussion. A simple opinion or viewpoint is not very valuable without any justification. I value comments that respond to, elaborate on, lend support to, contradict, or correct a comment by one of your classmates. Counter-productive comments include opinions without a justifying argument, pure repetition of previous point, and rambling, vacuous or disparaging comments. In order to assist in preparation for discussion, for each session I have listed some discussion questions in the syllabus for that day.

Discussion constitutes a large portion of our class time; you will have ample opportunity to participate. **I will cold call in class,** both to give you an incentive to prepare for class, and to make sure the class discussion does not rest on just a handful of students. At the start of each class, I will randomly select four to five students to initiate class discussion. Topics include "class discussion" issues in the syllabus for that date. Each student will thus be put "on the spot" at least twice during the semester. Participation includes my assessment of your performance during these cold calls. **If you are not present in class the day you are selected for discussion, your assessment will reflect this.**

Participation also includes attendance. Learning to articulate your arguments and to evaluate and respond to the arguments of others is an important part of what you will learn in this class. If you miss class, you will miss this, and there isn't a way to "make it up." In

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addition, your participation in class is a key component of the learning for all students, and therefore missing class creates a negative externality. Similarly, entering the class late is disruptive and creates a negative externality for your classmates. As a result, you should make every effort not to miss or be late to class. **If you miss class more than twice, it will begin to lower your class participation grade. Excessive absences will affect your final grade.** Attendance will be assessed using electronic class sign-in.

Class attendance forms part of your class participation grade. When you arrive in class, you will need to "check in" **by sending a screenshot of your location** to Tina Horowitz at horowitt@wharton.upenn.edu. You will have 30 minutes to do so from the start of class before you are marked absent. Remote check-in is unethical and, if detected, will result in referral to the Wharton committee. Please notify Tina if you are unable to attend class because of a medical or family emergency (supply documentation).

A seating chart will be used and observed throughout the course. Your seat on Day #2 (September 4th) is your seat for the semester.

Grading

Grades will be based on a mixture of four one-page analyses (10% each, 40% total), two case analyses (10% each, 20% total), the final exam (20%), and classroom attendance/ participation (20%).

Required Readings

Many of the reading assignments for the course will be taken from two books, both available from the Penn Bookstore:

- Lawton R. Burns, *The U.S. Healthcare Ecosystem* (McGraw-Hill, 2021)
- Robert Grant, *Contemporary Strategy Analysis* (Eleventh Edition, 2022)

You might wonder why I assign an introductory textbook, when the course prerequisite is HCMG 101? There are three reasons. First, some introductory texts used in HCMG 101 are focused on healthcare policy, not strategy and management. Second, other introductory texts used in HCMG 101 are purportedly focused on administration but are rather skimpy on how the healthcare ecosystem really works. Third, the class discussions, case analyses, and team projects require you to have a deep understanding of the "physiology" of the healthcare ecosystem.

The remainder of the readings will be found in three different places on *Canvas*. You can access *Canvas* directly through the following link: https://canvas.upenn.edu. You will need your Wharton ID and password to log in. The bolded text in each of the bullet points below corresponds to a tab on the course navigation. So, you should go to "Files" to access slide

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decks, notes, assignment instructions, syllabi, and other instructor-provided resources:

- **Files:** Slide decks, notes, assignment instructions, syllabi, and other instructor-provided resources (readings marked **F**)
- **Course Materials @ Penn Libraries:** Newspaper and journal articles, book chapters, and videos placed on electronic course reserves and provided through PennLibraries. (readings marked **L**). The textbook is also available online for no charge. https://accessmedicine-mhmedical-com.proxy.library.upenn.edu/book.aspx?bookid=3027#254559772
- **Study.Net Materials:** Copyright-protected case studies and book chapters. (readings marked **S**)

For those who want more in-depth coverage, you might also read *Big Med* (University of Chicago Press, 2021) by Dranove and Burns.

Conduct of the Course

The course combines overview lectures on strategy and management by the professor, case discussions, and (most typically) question-and-answer between the professor and the class on applied topics in healthcare. This is the Socratic method. Because the aim of the course is develop your own critical and analytical thinking, you should spend much of your time preparing for and engaging in class discussion. These include not only the assigned cases but also examples of firms that are currently engaging in the strategies discussed during the course. That means that it is important to consult news publications to find out what is going on and why.

We expose you to a variety of healthcare sectors using a range of cases. Each student will submit a written analysis of two of these cases. Regardless of whether you are submitting a written analysis, however, you NEED to read the case and come to class prepared to address the case discussion questions found in the syllabus. All cases will be on the final exam.

Preparing for a case discussion means more than just reading the case. Each case assignment will include several preparation questions (listed in syllabus). I suggest reviewing the questions before reading the case. Cases tend not to have a single, tidy solution. However, there are always better and worse answers, and valid and invalid inferences. Here are some tips about cases that you need to be aware of:

- Cases *never* contain all the information you would like to have to make a decision—in this way, they are very much like real life. You may find it frustrating to be pushed

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to make a decision or take a stand when you are not sure whether it is the right one; this is the nature of real-world business decision-making.

- Cases often present conflicting information. They will require you to make judgment calls. This kind of ambiguity is also a feature of real-world business decisions, particularly in a field such as health which almost uniquely combines the uncertainty of the business and policy world. Such ambiguity should prompt you to search for more information to clarify what is going on.
- Cases are often published with the approval of the profiled firm. This can potentially lead to a "whitewashed" version that fails to disclose unflattering information about the firm and/or its CEO.
- Finally, cases may contain statements that are inherently false but assumed to be true by people in the case making these statements. Here is where you really need to develop your critical thinking (i.e., ask yourself, "Is what I just learned really true?").

There is no explicit preparation task to do as you read the conceptual readings from the textbook or articles, but it is a good idea always to be asking yourself, "Do I believe this argument? Where else does it apply? When would this approach not be useful?"

If for some reason you are not prepared for class, I expect you to let me know before class. I know that you are juggling work, other classes and other commitments; you don't need to give me an explanation. However, if you haven't told me otherwise, then you have implicitly committed to be ready to contribute to the class if I should call on you. Doing this repeatedly could harm your class participation grade, however.

The aim of this course is to make you more rigorous, critical, precise, and thorough in your analysis of strategy issues in the healthcare sector. In short, the aim is to change the way you think about problems that firms face in this industry. The only way to do this is to practice it steadily throughout the quarter. You can't learn it by "cramming" it all just before the exam.You can't really learn anything, and you certainly can't get better at it, by just watching from the sidelines. Practically, here are some important steps to doing this.

1. **Come to class prepared.** There is no substitute to this. If you haven't read and thought about the material, you won't get very much out of what is going on.

2. **Engage in class discussion.** Class time is not entertainment, and you shouldn't expect to just sit back and listen. Engaging means both listening critically to what other people are saying, evaluating whether you think their arguments are right, and speaking up when you think they are not and/or you have something to contribute.

3. **Summarize and synthesize**. After every class session, write yourself a one-page summary of what was covered in class: what did we talk about, and what lessons were you supposed to take away. Note that the purpose of this is to do it *yourself*. Forcing yourself to

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summarize and synthesize this way is how you internalize and obtain ownership of the material. If you join a study group that splits this up and each does a day, you've missed the point; it's not about *having* the one page write-up, it's about *creating* it.

4. **Practice**. The only way to get good at thinking in a new way is to practice it. When you meet a strategy issue somewhere else (healthcare firms in the news), use the tools and frameworks of the course to understand it. Try to figure out what is going on and what might be interesting about them. Apply class frameworks to understand them better.

5. **Consider studying with a group**. Some people find it helpful to study and discuss things with a group, some don't. You are looking for a group that discusses carefully and thoroughly, but doesn't descend into protracted arguments. Once you've discussed as much as you productively can, drop it and pick up the discussion in class rather than beating it to death.

Use of Generative AI not permitted in writing assignments
You are not allowed to use generative AI (e.g, tools like ChatGPT) for your work in this class. Using such tools in this course will be considered a violation of Penn's Code of Academic Integrity and I will report suspected use to the Center for Community Standards and Accountability. Please contact me if you have questions about this policy.

ALSO NOTE: Students are not permitted to consult any of the teaching assistants in preparing their case analyses and one-page analyses. The teaching assistants are here to grade your case analyses, not to help you prepare them.

NOTE: this syllabus serves as **"our contract"** for the course. Your enrollment indicates you have accepted the terms of this contract.

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Sequence of Topics and Readings

PART I **<u>INTRODUCTION TO STRATEGY</u>**

AUG 28 **INTRODUCTION TO COURSE**
IMPORTANCE OF CRITICAL THINKING
DETECTING B.S. in STRATEGY & MANAGEMENT

Readings:

- Burns & Pauly. *Detecting BS in Healthcare* (2018) (L) https://ldi.upenn.edu/wp-content/uploads/2021/06/LDI-Detecting-BS-in-Healthcare_7.pdf
- Burns & Pauly. *Detecting BS in Healthcare 2.0* (2019) (L) https://ldi.upenn.edu/our-work/research-updates/detecting-bs-in-health-care-2-0/
- Burns. *The U.S. Healthcare Ecosystem*: Chapter 2.

Class discussion: What is "critical thinking"? Why is this so important?

SEP 2 **LABOR DAY [NO CLASS]**

SEP 4 **OLDER VIEWS OF STRATEGY AND MANAGERIAL EXECUTION**

Readings:

- Grant. *Contemporary Strategy Analysis*, Chapter 1: "Concept of Strategy"
- Mintzberg. "The Fall and Rise of Strategic Planning." *Harvard Business Review* (Jan-Feb, 1994) (S)
- Beer. "How to Have an Honest Conversation About Your Business Strategy" *Harvard Business Review* (Feb 2004) (S)

Class Discussion: What is "strategy" according to Grant? Why is it that most strategic plans programs do not succeed, according to both Mintzberg and Beer? What's wrong with how companies plan and implement strategy? What are the critical elements of execution?

<u>One-page analysis #1 due</u>
<u>Seat assignment</u>

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SEP 9 **INDUSTRY ANALYSIS: MICHAEL PORTER'S "5 FORCES"**

Readings:

- Grant. *Contemporary Strategy Analysis*, Chapter 3 : "Industry Analysis" (L)
- Burns. "Competitive Strategy." In Daniel Albert (Ed.), *A Physician's Guide to Healthcare Management*. (Malden, MA: Blackwell Science, 2002): 46-56 (L).

Class Discussion: According to Grant, what are Porter's "Five Forces" all about? Which of Porter's "Five Forces" seems most central in his framework? What are the strengths and shortcomings of his framework? What is missing from it?

SEP 11 **COMPETING ON RESOURCES & CAPABILITIES**
COMPETING VALUE CHAINS

Readings:

- Grant. *Contemporary Strategy Analysis*, Chapter 5: "Analyzing Resources and Capabilities"
- Dyer. "How Chrysler Created an American Keiretsu," *Harvard Business Review* (July-August, 1996) (S)

Class Discussion: What is the resource-based view (RBV) of the firm? What do resources & capabilities look like in healthcare firms? What is the difference between Porter's value chain (p. 117 in Grant) and the value chain keiretsu described by Dyer? Can you think of any healthcare companies that compete like Dyer's keiretsu?

SEP 16 **SOURCES OF COMPETITIVE ADVANTAGE**
GENERIC STRATEGIES BASED ON COST & DIFFERENTIATION
FOCUS/NICHE STRATEGY

Readings:

- Grant. *Contemporary Strategy Analysis*, Chapter 7: "Sources and Dimensionsof Competitive Advantage"
- Burns. *The U.S. Healthcare Ecosystem*: Chapter 25.

Class Discussion: What are the major sources of competitive advantage? Do any of these apply to healthcare and, if so, to which healthcare sectors? What are Porter's "generic strategies"? What are the major sources of cost advantage and how do they relate to material we have already covered in class?

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SEP 18 **FOCUS/NICHE STRATEGY - continued**

Readings:
- **HBS CASE**: Medcath Corporation (S)**

Class Discussion: What market segment has MedCath chosen to focus on? From Porter's Five Forces view, is this an attractive market or not? How would you evaluate Medcath's focused strategy? What was good about it? Why did it not seem to succeed? [Start your skill-building: Do some background research here on MedCath and its strategy]

Case Analysis Questions:
1. *What is MedCath's focused strategy? Be thorough. (20%)*
2. *What are the vulnerabilities of focusing on this particular market? (20%)*
3. *What are the tailwinds at Medcath's back, early on? (30%)*
4. *What are the headwinds facing MedCath, later on? (30%*

PART II STRATEGY MEETS THE PECULIARITIES OF HEALTHCARE

SEP 23 **COMPLEXITY OF THE HEALTHCARE VALUE CHAIN**
MARKET FAILURE IN HEALTHCARE

Readings:
- Burns. *The U.S. Healthcare Ecosystem*: Chapters 1, 3.

Class Discussion: What is a "healthcare system" and how does it differ from *an ecosystem. In what ways is the health care industry different from other economic sectors? What market mechanisms do not seem to operate in healthcare? What do such differences mean for competitive strategy?*
One-page analysis #2 due

SEP 25 **EVERYONE'S STRATEGIC GOALS:**
- **SOLVE THE IRON TRIANGLE**
- **ACHIEVE THE TRIPLE AIM**

Readings:
- Burns. *The U.S. Healthcare Ecosystem*: Chapter 5.
- Berwick, Nolan, & Whittington. "The Triple Aim: Care, Health, and Cost," *Health Affairs* (2008) (L).

Class Discussion: Consider the "iron triangle" (described by William Kissick) and "triple aim" (described by Don Berwick). Are the iron triangle and triple aim (1)

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consistent, (2) contradictory, or (3) just talking about entirely differentthings? Select one of these positions that you think is most appropriate and defend it. You should also acknowledge whether the other views have any merit. What do these two triangles have to do with corporate strategy?

SEP 30 **PUTTING THE TRIPLE AIM INTO ACTION: COMPETING ON VALUE**

Readings:

- Porter & Lee. "The Strategy That Will Fix Health Care," *Harvard Business Review* (October 2013) (S)
- **HBS CASE:** ThedaCare System Strategy (S)**

Class Discussion: What is the strategy that will fix healthcare? What is the core argument made by Porter & Lee? What are the assumptions that underly their argument?

Case Analysis Questions:

What are the strategic initiatives that ThedaCare is pursuing? (20%)

What impact do these initiatives seem to be having on its performance and its relationships with key constituencies? (40%)

What are the major headwinds facing ThedaCare here? (40%)

PART III **<u>RE-DRAWING THE BOUNDARIES OF HEALTHCARE FIRMS</u>**

OCT 2 **HORIZONTAL INTEGRATION STRATEGY: OVERVIEW**

Readings:

- Grant. *Contemporary Strategy Analysis*, Chapter 14: "External Growth Strategies: Mergers, Acquisitions, and Alliances." Pp. 340-351.
- Besanko, Dranove, and Shanley. "The Horizontal Boundaries of the Firm: Economies of Scale and Scope." *Economics of Strategy* (John Wiley, 2000): 71-108 (L)

Class Discussion: What are the main rationales for mergers & acquisitions (M&A)? Do these apply to healthcare in a straightforward manner? How well do mergers perform? Are there cycles in M&A activity? How do you distinguish scale economies, scope economies, and synergies?

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OCT 7 **HORIZONTAL INTEGRATION OF HOSPITALS**

Readings:

- Burns. *The U.S. Healthcare Ecosystem*: Chapters 11-12.
- Gaynor & Town. The Impact of Hospital Consolidation – Update. (2012)
- **HBS CASE**: Cleveland Clinic Growth Strategy (2012) (S)

Class Discussion: What is the logic of hospital chains according to Gaynor and Town? What does the research evidence say about the benefits of hospital chains? Are there any other logics behind hospital chains?

Case Analysis: You are the CEO of the Cleveland Clinic. Of the growth strategies discussed in the case (starting on p. 12), which ONE is the most promising avenue for growth and why? What problems do you see with the others?

OCT 9 **THE LOGIC OF REGIONAL HOSPITAL SYSTEMS**

Readings:

- Gawande. "Big Med: Restaurant Chains Have Managed to Combine Quality Control, Cost Control, and Innovation," *New Yorker* (August 13, 2012) (L)
- Eric Larsen. "The False Choice of Sitting Back: A Conversation with Bill Gassen and James Hereford," *Advisory Board Blog Post* (4/18/23)
- Ralph: "Kaiser's Acquisition of Geisinger and What it Means for the Future of Value-Based Care," *Cain Brothers Industry Insights* (6/22/23)

Class Discussion: What is the logic of hospital chains, according to Gawande? Is Gawande right? Can hospital chains learn from restaurant chains?

One-page analysis #3 due

OCT 14 **GOVERNANCE: THE ACHILLES HEEL OF HOSPITALS & INTEGRATION**

Guest Speaker: Lisa Goldstein, Kaufman & Hall

Readings: TBA

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OCT 16 **HORIZONTAL INTEGRATION OF PHYSICIANS: GROUP PRACTICES & PRIVATE EQUITY MODELS**

Readings:

- Burns. *The U.S. Healthcare Ecosystem*: Chapter 9.
- Zhu and Polsky. "Private Equity and Physician Medical Practices - - Navigating a Changing Ecosystem," *NEJM* (March 18, 2021) (L).
- Robert Pearl. "Private Equity and the Monopolization of Medical Care," *Forbes* (February 20, 2023)

Class Discussion: What do Porter's Five Forces suggest about physicians? What do you need to know about the landscape of US physicians before thinking of integrating them or "rolling them up"? What do the statistics and trend data tell us about physician practices? What are the rationales for rolling up the practices of individual physicians within a given specialty? Whatare the advantages of single specialty (versus multi-specialty) practices? Are all of the concerns about private equity's involvement in medical practice warranted?

OCT 21 **HORIZONTAL INTEGRATION OF PHARMACEUTICAL FIRMS**

Readings:

- Burns. *The U.S. Healthcare Ecosystem*: Chapter 21.
- Burns, Nicholson, and Wolkowski. "Pharmaceutical Strategy and the Evolving Role of Mergers and Acquisitions (M&A)." Chapter 3. In LR Burns (Ed.). *The Business of Healthcare Innovation* (Cambridge, UK: Cambridge University Press, 2012 (L)
- **HBS CASE**: Merck & Co. (S)

Class Discussion: What happens as firms grow? What is the rationale for M&A in pharma? What does the research evidence say about the benefits of M&A in "Big Pharma"? What might explain these findings?

Case Analysis: Was the SGP acquisition an attempt to resolve MRK's problems,or simply the opportunistic purchase of an under-valued asset? If the former, what were the problems an SGP acquisition could have been expected to address? Rather than buying Schering Plough (SGP), what else could Merck (MRK) have done with the capital?

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OCT 23 **VERTICAL INTEGRATION STRATEGY: OVERVIEW**

Readings:

- Grant. *Contemporary Strategy Analysis*, Chapter 10: "Vertical Integration and the Scope of the Firm." (L)
- Besanko, Dranove, and Shanley. "Organizing Vertical Boundaries: Vertical Integration and its Alternatives." *Economics of Strategy* (John Wiley, 2000): 169-196 (L)

Class Discussion: What are the two forms of economic organization? What are the tradeoffs between them? What are the rationales for vertical integration? How well do these apply to healthcare providers, payers, or suppliers? Which pairings of these healthcare sectors make the most sense in vertical integration? When does vertical integration make more sense than outsourcing?

OCT 28 **VERTICAL INTEGRATION OF HOSPITALS & PHYSICIANS**

Readings:

- Burns and Muller. "Hospital-Physician Collaboration: Landscape of Economic Integration and Impact on Clinical Integration," *Milbank Quarterly* 2008, 86(3) 375-434 (L)
  Available online at**:**
  http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2690342/
- **CASE**: Allina Medical Group (S) **

Class Discussion: What is "integrated healthcare"? What are the benefits of vertical integration of hospitals and physicians? What specific problems do these arrangements solve? What does the research evidence suggest?

Case Analysis Questions:

What were the key assumptions guiding the formation of the Allina Health System? Be thorough; don't rely just on what you read. (20%)

What was the supporting evidence for these assumptions? (20%)

Evaluate Allina Health System's organizational structure in terms of its ability to achieve its strategic goals. Might it be improved? (30%)

What are the pluralistic interests that need to be balanced and accommodated within Allina Health System and Allina Medical Group? (30%)

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OCT 30 **VERTICAL INTEGRATION OF INSURERS & PROVIDERS**

Readings:

- Burns. *The U.S. Healthcare Ecosystem*: Chapter 17.
- Burns and Thorpe. "Why Provider-Sponsored Health Plans Don't Work." *Healthcare Financial Management: 2001 Resource Guide*: 12-16. 2001 (L)
- Goldsmith, Burns, Sen et al. *Integrated Delivery Networks: In Search of Benefits and Market Effects*. (Washington, D.C.: National Academy of Social Insurance, 2015) (L)
- **HBS CASE**: Humana, Inc (S) **

Class Discussion: What do hospitals and hospital systems seek when they develop their own health plans? What problems befall them? Do hospitals have the infrastructure needed to run health plans?

Case Analysis Questions:

What was Humana's strategic intent? (30%)

How well are Humana's two businesses doing? (30%)

Is there a problem with its vertical integration strategy? (40%)

NOV 4 **DIVERSIFICATION STRATEGY: OVERVIEW**

Readings:

- Grant. *Contemporary Strategy Analysis*, Chapter 12: "Diversification Strategy"
- Azzoparde et al. "US Health Systems: Diversify to Thrive," McKinsey (November 2022).

Class Discussion: What is diversification according to Grant? What are the rationales for diversification? What are the different ways that firms can diversify? What is the track record of diversification? What are the costs? How do you evaluate the McKinsey argument favoring diversification by hospitals?

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NOV 6 **DIVERSIFICATION IN HEALTH CARE: INSURANCE LINES OF BUSINESS**

Readings:

- Burns. *The U.S. Healthcare Ecosystem*: Chapters 18-19.
- Bruce Japsen. "Oscar Health Readies 2020 Medicare Expansion With Bigger Profits," *Forbes* (May 15, 2019) (L)
- **HBS CASE**: CareMore Health System (S)

Class Discussion: Are there scale and/or scope economies in health insurance? Are there upsides or downsides to the mergers of insurers? What are the major hurdles for insurers who try to diversify into new lines of business - - e.g., for Oscar as they move from the individual market into Medicare Advantage?

Case Analysis: What are the major hurdles for insurers who try to diversify into new lines of business - - e.g., for CareMore as they move from Medicare Advantage into Medicaid?

NOV 11 **DIVERSIFICATION IN HEALTHCARE: AETNA/CVS**

Readings:

- "CVS Outlines Strategy to Accelerate Growth" (L)
  Available online at: https://www.prnewswire.com/news-releases/cvs-health-outlines-strategy-to-accelerate-growth-300861452.html.
- CVS. *Creating Value by Transforming the Consumer Health Experience.* CVS Investor Day (June 4, 2019) (L)
- Adam Fein: *Exhibit 234*
- **HBS Case**: Aetna and the Transformation of Health Care (S)

Class Discussion: *What is Aetna's strategy? In what way is it trying to transform health care? Is this merger for offensive or defensive reasons? What are the headwinds and tailwinds it faces?*

Are you concerned about the vertical integration depicted by Adam Fein in Exhibit 234? Why or why not?

Case Analysis: How easy will it be for CVS-Aetna to develop a customer focus? Can they really transform the consumer's experience?

One-page analysis #4 due

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NOV 13 **STRATEGIC ALLIANCES IN HEALTHCARE: ACCOUNTABLE CARE ORGANIZATIONS (ACOs)**

Readings:

- Grant. *Contemporary Strategy Analysis*, Chapter 14: "External Growth Strategies: Mergers, Acquisitions, and Alliances". Pp. 351-357.
- Tu et al. *Origins and Future of Accountable Care Organizations*. Leavitt Partners (2015) (L)
- MedPAC. "Assessing the Medicare Shared Savings Program's Effect on Medicare Spending". Chapter 6, *Report to Congress* (June 2019) (L)

Class discussion: What are strategic alliances? How do they confer competitive advantage? What is their performance record? What problems do they face?

How easy will it be for Accountable Care Organizations to foster productive working alliances among different types of providers? What mechanisms do they use to resolve conflicts among parties? What is their track record to date?

NOV 18 **STRATEGIC ALLIANCES: HOSPITALS & MEDTECH FIRMS**

Readings:

- Burns. *The U.S. Healthcare Ecosystem*: Chapter 23.
- Deloitte Insights. *New Payment Models in Medtech*. (Deloitte 2020) (L).
- **HBS Case**: Medtronic: Navigating a Shifting Healthcare Landscape (S) **

Class Discussion: How does Medtech differ from pharmaceutical companies? What are the benefits and drawbacks of using a single vendor versus a "best of breed" approach?

Case Analysis Questions:

How easy will it be for Medtronic to develop value-based contracts with its provider customers? (50%)

What will be the tailwinds and headwinds? (50%)

NOV 20 **DISRUPTIVE INNOVATION STRATEGY: OVERVIEW**

Readings:

- Clayton Christensen et al. "Will Disruptive Innovation Cure Health Care?" *Harvard Business Review* (2000) (L)

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- Clayton Christensen et al. *How Disruptive Innovation Can Finally Revolutionize Healthcare* (2017) (L)

  Class discussion: Where is "disruption" in Porter's Five Forces? What is Christensen's theory of disruption? How well does Christensen's theory apply (or not apply) to healthcare? Can you think of any managerial or payment innovations that have disrupted healthcare?

NOV 25 **DISRUPTION IN HEALTHCARE**
Guest Speaker: Jeff Goldsmith, Ph.D.

Readings:
- Goldsmith. "United Healthcare: Anatomy of a Behemoth," blog available online at: https://medium.com/@tcoyote/united-healthcare-anatomy-of-a-behemoth-63dc5f1b485a. (L).
- Herzlinger. "Why Innovation in Health Care is So Hard," *Harvard Business Review* (May 2006)
- Lepore. "The Disruption Machine," *The New Yorker* (June 16, 2014). Available at: https://www.newyorker.com/magazine/2014/06/23/the-disruption-machine.

DEC 2 **DISRUPTION: DIRECT CONTRACTING**

Readings:
- Burns. *The U.S. Healthcare Ecosystem*: Chapter 15.
- Woods, Slotkin, & Coleman. "Transforming Health Care," *Harvard Business Review* (March 2019) (S)
- **HBS Case**: Pitney Bowes – Employer Health Strategy (S) **

Class Discussion: What are some of the employers' efforts to address issues in employee health and health coverage? What is the theory that firms have about investing in their employees' health? Does it make sense for employers to offer on-site clinics?

Case Analysis Questions:

Why does Pitney-Bowes care about healthcare? (10%)

What is Pitney Bowes' strategy? How is it disruptive? (10%)

What approach does it take to providing health insurance to its workers and

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management of its health plans? (40%)

What challenges does it face? (40%)

DEC 4 DISRUPTION: GOOGLE, AMAZON, HEALTH TECH, VIRTUAL PRIMARY CARE

Readings:
- Burns. *The U.S. Healthcare Ecosystem*: Chapter 24.
- Apple. *Empowering People to Live a Healthier Day* (July 2022) (L)

Class Discussion: What are the tailwinds and headwinds confronting the digital revolution in healthcare? What does Amazon offer as a solution to the problems in healthcare we have come across during the class? What is so disruptive and unnerving about its entrance into the industry?

DEC 9 CORPORATE STRATEGY VIA THE LENS OF LITIGATION

Readings: TBA

TBA FINAL EXAM @ HOME