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Guadalupano Hospital: Looking for sustainable growth

Felipe Pérez-Pineda *, Anthony E. Privetera *

INCAE Business School, Managua, Nicaragua.

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ABSTRACT

Guadalupano Hospital is a teaching case study geared toward understanding the factors shaping the sustainable growth of hospital administration and operations that focuses on the need for a professional management team and for the establishment of institutional processes that accompany growth. The case describes a situation in which the protagonist must redeploy resources to deal with strategic guidelines of the board of director and the shifting market demand. The case illustrates business conditions in a small, densely populated economy recovering from civil strife that is experiencing massive emigration to the US. This case has two fundamental objectives: illustrate the complex nature of hospital management where long-term sustainable growth goals must be reconciled with short-term interests of the shareholders and emphasize the importance of a long-term strategy and the need to adapt over time to the changing demands of the business environment.

1. Introduction

On a sweltering March 2013 afternoon in Sonsonate, El Salvador, while his assistant was busy placing placards and folders around the table for the Guadalupano Hospital's Board of Directors meeting, Mr. Marcos Galdamez, the hospital's general manager, asked himself about several things that had been bothering him for some time now. His questions centered on this issue: "What can the hospital do to guarantee a sustained growth in income and profit?"

On a recent visit, visitors of a prestigious business school in the region had discussed with him the topic of business threats due to the United States' (US) fiscal crisis and measures that had been announced to close the so-called "fiscal cliff." He wondered if the crisis would affect the $4 billion of remittances that were sent constantly to El Salvador from Salvadorians living abroad in the US. He was also worried that growing competition from private hospitals and the fact that the hospital did not have the financial results he was hoping for would limit his ability to take on other projects that could be profitable to the shareholders and crucial to the organization's long-term strategy.

In past board meetings, they had talked about the possibility of entering the medical tourism market because a considerable number of Salvadorian expatriates (the so-called, "Hermanos Lejanos") came to visit family in the area each year. They represented a new source of clients for medical exams and services that were considerably more expensive in the US. The hospital had recently acquired the latest technology for cardiac catheterization and a number of other medical exams; however, for non-Salvadorian clients, Mr. Galdamez believed that "it's hard to develop medical tourism in a country with our crime rates."

Piecing together his recent discussions with the members of the Board of Directors, Mr. Galdamez identified three main areas that needed to be analyzed to make decisions: changes in the country's business climate, in general, and particularly in the department of Sonsonate; a series of structural problems in the hospital's operations; and the organization's investment and growth strategy. He wondered, what could the administration do to improve the hospital's profitability? How the hospital could do this while not losing the perspective of long-term sustainable growth and profits?

2. History

The Guadalupano Hospital was founded in 1990 by a group of medical specialists who were interested in providing quality services to Sonsonate, one of the most important cities located in the western part of El Salvador. At that time, there were no facilities capable of providing the level of service the specialists desired. After years of hard work, they had finally gathered enough financial and human resources for their inaugural project.

Throughout their 23 years of history, the hospital had grown in terms of the number of patients, beds, income, costs, and assets. Despite the presence of other hospitals, the organization had established itself as an important influence in the medical sector. Still, the administration

* Corresponding authors at: INCAE Business School, K.m. 15.5 c Sur, Managua, Nicaragua.
E-mail addresses: felipe.perez@incae.edu (F. Pérez-Pineda), anthony.privetera@miam3.incae.edu (A.E. Privetera).

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felt threatened by several external factors and were concerned about the returns on the investments they had made over the past few years.

3. The country

El Salvador was located in Central America with an estimated population of 6.2 million inhabitants covering 20,720 km^2, making it the most densely populated country in the region. The country had recently been recovering from a 12-year civil war that ended in 1992 and had since rebuilt its democracy with political peace. Several events had changed the way investors viewed the country, such as dollarization in 2001 and a free trade agreement in 2006.

4. Social indicators

The capital city, San Salvador, was the most important urban center in the country. Other cities such as Santa Ana, San Miguel, and Sonsonate also had significant populations as well as notable commercial and economic activities. Even after the war had ended, El Salvador continued to experience a great disparity between rural and urban areas, as well as between the capital and other cities. Fig. 1 contains more information about social indicators of each department of the country.

5. Economic indicators

Fig. 2 presents some of the recent economic indicators of the country which highlight some intriguing dichotomies. Real GDP grew 1.24% on average from 2006 to 2012, while per capita GDP only grew 0.65% on average during that same time period. Remittances grew from US$3.471 billion to US$3.911 billion during this period, up from US$1.751 billion in the year 2000. This flow of money coming in from Salvadorians living abroad and sending money back had resulted in little new investment and had led to household expenditures (consumption) to account for close to 100% of GDP. The unemployment rate had averaged 6.6% for the last 5 years, though 32.7% of the economically active population in urban areas categorized as underemployed in 2011.

El Salvador had converted its currency to the US dollar in 2001, allowing it to maintain a relatively stable macroeconomic situation with inflation and interest rates much less volatile than the rest of the region. The Salvadorian economy was relatively open and one of its main free trade agreements was with the US. As a result, trade barriers had been reduced or eliminated for most products and services.

6. Environmental indicators

Fig. 3 shows several environmental indicators from the United Nations Statistics Office. CO_2 levels had increased considerably over the last 20 years—a normal situation for countries experiencing industrialization. More worrisome was the level of deforestation: forest cover had decreased 24% during that same period to only 14% of the country's total area.

7. Health sector

El Salvador was the CA-4 country (which included Guatemala, Nicaragua, and Honduras) with the greatest per capita expense in

Social Indicators for El Salvador

Human Development Index and its Components

Department	Human Development Index	Life Expectancy (years)	Literacy Rate (%)	School Enrollment (%)	GDP (PPP, USD)
San Salvador	0.810	72.90	92.30	77.00	9.367
La Libertad	0.788	73.40	86.50	70.0	8,826
La Paz	0.757	73.30	85.50	68.10	5,446
Santa Ana	0.754	72.10	83.10	66.90	6,636
Cuscatlán	0.749	72.90	84.60	69.20	4,979
Sonsonate	0.745	72.80	83.30	64.30	5,499
San Miguel	0.745	72.40	79.10	66.70	6,416
San Vicente	0.744	73.80	80.80	65.80	5,226
Chalatenango	0.737	73.60	78.60	65.40	5,149
Ahuachapán	0.723	73.00	79.40	63.10	4,337
Usulután	0.723	72.50	75.70	63.60	5,199
Cabañas	0.704	70.90	74.40	64.60	4,522
La Unión	0.698	70.90	69.90	57.20	5,591
Morazán	0.695	71.10	68.80	67.20	4,435
El Salvador	0.761	72.10	84.10	68.80	6,972

Source: UNDP, 2010

Income Distribution

Year	Poorest 20%	Richest 20%	GINI Coefficient (Household income)	GINI Coefficient (Household income, not including remittances)
1979	**2.0**	**66.0**	**N/A**	**N/A**
1992	**3.2**	**54.5**	**0.550**	**N/A**
2000	**2.9**	**55.1**	**0.516**	**0.543**
2004	**3.6**	**52.0**	**0.478**	**0.515**
2009	**4.2**	**52.1**	**0.473**	**0.505**

Source: UNDP, 2010

Fig. 1. Social indicators for El Salvador. Human development index and its components.

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