*IOSR Journal of Business and Management (IOSR-JBM)*
*e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 17, Issue 6.Ver. II (June. 2015), PP 68-74*
*www.iosrjournals.org*

# Can Airline Share the Same Business Strategy with Private Hospital to Achieve Breakeven: Case Study in Malaysia

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***Summary:****For a new business, the aim of the strategies is to achieve breakeven which is reaching the point of equilibrium between a profit or a loss. The breakeven point can be achieved if the company apply the right strategies and one of the strategies is to expand the business in stages. In this study, Hospital A and AA airline were chosen as samples. The reason for comparing airline and private hospital sectors is because both industries are classified as service sectors industry. The objectives of this study are to compare the business expansion plan for both airline and private hospital, to see the outcome of expansion plan for both industries and to see the impact of expanding business in stages for both industries. Case study method was chosen to conduct the study. In this study, Hospital A represent the private hospital and AA airline represent the airline industry and various data were collected on the business expansion plan for both industries. Hospital A expanding business in stages through the addition of new beds and new services whereas AA airline expanding business by adding airplanes and routes. Hospital A started with 20 beds early of 2005 and increased to 56 beds by middle of the same year. Beds further increased to 82 in 2006 and 105 in 2007. AA airline started with two airplanes in 2001, increased to seven in 2003 and further increased to 17 in 2004. In 2005, Hospital A generated a total revenue of RM 19.5 million, increased to RM 60.8 million in 2006, further increased toRM 66.3 million in 2007 and was able to achieved breakeven and generated a profit of RM 2.8 million for that year. AA airline generated RM 167.7 million in 2001, increased to RM 217.4 million in 2002, further increased to RM 330.0 million in 2003. This airline was able toachieve breakeven and recorded a profit of 11.5 million for that year. Based on this study, it was found that by expanding in stages, both industries were able to achieve breakeven within a short period. Hospital A achieved breakeven in three years whereas AA airline achieved the breakeven in two years.*

***Keywords:****Hospital A, AA airline, expanding business in stages, breakeven*

## I. Introduction

A long term planning to obtain a specific target or a set of targets or goals is called a business strategy. According to Steward( 2008), the word strategy is originated from the Greek word stratēgos, consisting of two words: stratos (army) and ago (ancient Greek for leading).It is a road map to provide guidance for the top leaders in the company, to strengthen the performance of the company and is the basic principle to obtain the set targets of the organization and serve as the main role of the management.

Johnson and Scholes (1996), defined strategy as a long term direction of any organization which is important for the organisation to meet the demand of the market and to fulfil the requirement of the stakeholders which can be done through a proper planning of the resources to meet any changes on the environment. It is the way a business can get from where it is today, to where it wants to be tomorrow.Porter (2008),defined a strategy as what make your company different from others, values that meet your need, a clear definition and the choice on what is not required which is related to actions that meet the need and strengthening each other. It is also a continuous strategic continuity followed by continuous improvement to achieve the strategy.

For a new business, the aim of the strategies is to achieve breakevenwhich is reaching the point of equilibrium between a profit or a loss.According to (Michele Boldrin,2008), at the breakeven point (BEP) the expenses or cost are equal to revenue, therefore the net loss or gain is zero. There is no profit or loss being made even though the opportunity costs have been "paid", and the company had received the expected return of the capital.At the breakeven point, the sales revenue is equal to total costs.

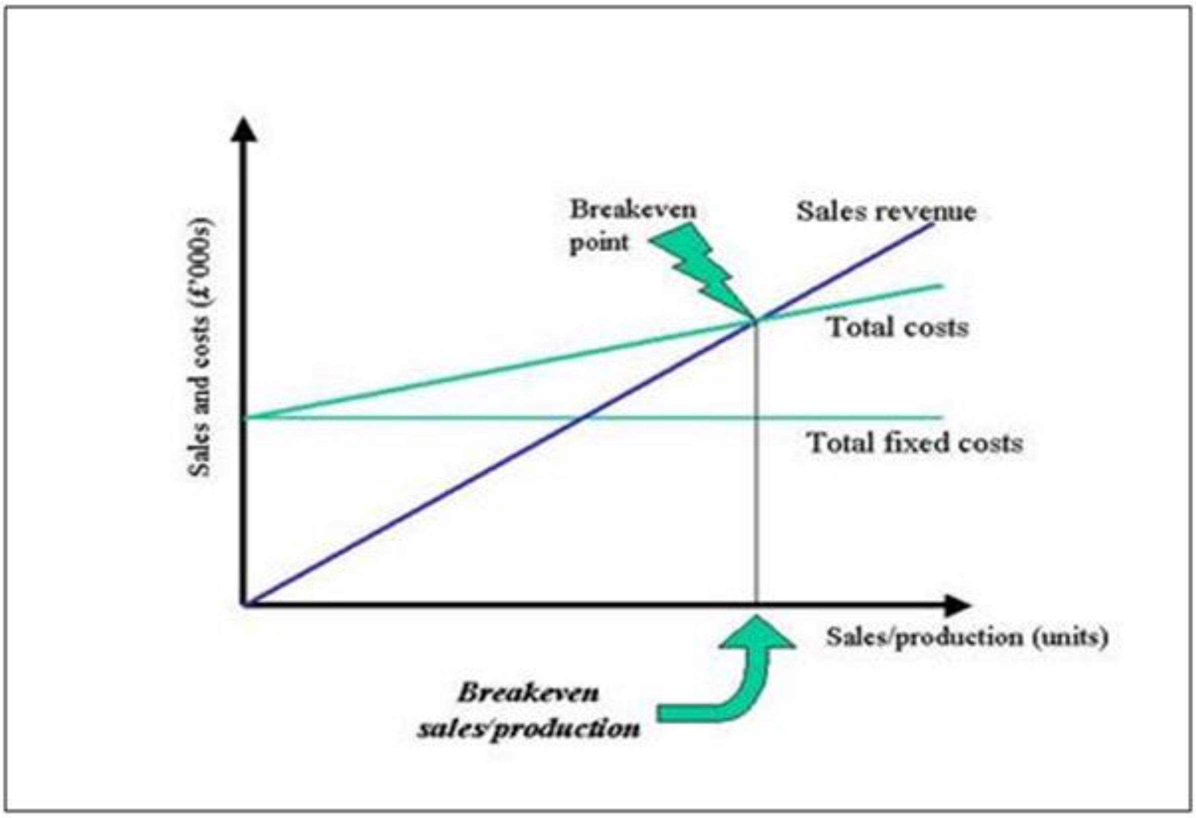


**Figure 1.0**: Break-even point

The reason for comparing airline and private hospital sectors is because both industries are classified as service sectors industry. A service is an intangible commodity where buyers do not generally, except by exclusive contract, obtain exclusive ownership of the thing purchased. With appropriate level of resources, skill,ingenuity and experience, it will give specific benefits to customers and service providers participate in an economy without the restrictions of carrying inventory (stock) or the need to concern themselves with bulky raw materials. In the face of competition, their investment in expertise does require consistent service marketing and upgrading. Services have the following characteristics:

i. Intangible where it cannot be touched, gripped, handled, looked at smelled and tasted.
ii. Services have little or no tangible components, are produced and consumed duringthe same period of time.
iii. The service provider is indispensable for service delivery where the providers must promptly generate and render the service to the requesting service consumer.
iv. Each service is one-time generated, rendered and consumed and can never be exactly repeated as the point in time, location, circumstances, conditions, current configurations and or assigned resources are different for the next delivery, even if the same service consumer requests the same service.

The market for hospitals and airlines like global market in general is becoming more competitive. There is a tendency for price transparency for both industries with focussed competition making it more difficult for the industry players. Based on the projection in year 2025 hospitals in the U.S will resemble the U.S airlines where they are required to cut costing, eliminating certain services due to financial constraint and finally become unstable in term of financial. Both hospital and airline industries require complex infrastructure and provided cross subsidized services. Due to price competition, both hospital and airline only operate in the area where they can make profit. Airlines will choose profitable routes whereas hospital will choose locations and types of services where they can make most profit from the business. In order to compete, both use inherent cost advantages. Many advocacy organizations are requiring hospitals to post their prices in the internet which is similar to the airlines industry (Stuart, 2006).

Both doctors and pilots are responsible for human lives in their hand and they have strong opinions about things where they don't care much when the management trying to tell them what to do and how to do it. Both professions are using simulation equipment for training purposes. When patients or passengers enter hospital or airplane, they relinquish control to the experts where you are required to provide personal data. Both industries are required to share best practices in order to survive. Strategic partners play a big role for both industries by bringing cross industry expertise and changing the skill of the management of both organizations

(Xerox blog, 2013).Customers participated in the service delivery process, has the opportunity to get the services modified according to specific requirement.

The breakeven point can be achieved if the company apply the right strategies and one of the strategies is to expand the business in stages. A new company should determine the point in time when to expand the business and there must be a time period when to expand( Damodaran,2009). A new company must also have good cash flow because cash constraints can be the biggest factor limiting growth and wrong decision made can be fatal(Info Entrepreneurs,2013). Making the best use of financial strength should be a key element in assessing new opportunities because if the resource is limited, expansion would mean starving the business of essential funding and to maximise the free cash flow, every element of working capital should be carefully controlled. As business grow, good stock control and effective supplier managementtend to become increasingly important and the company may also consider raising financing against trade debts and for expansion plan including raising the equity from the shareholders. With this type of approach the new company is required to expand business in stages depending on the cash flow and affordability to raised funding. When firms face financing constrain, investment spending will vary with the availability of internal funds, rather than just with the availability of positive net present value projectand the important of managing free cash flow is to ensure the sustainability of the business (Fazzari, Hubbard, and Petersen ,1988). Therefore expanding in stages can prevent the business failure. Business failure has been defined as insufficient revenue or a rise in expense to such a point that the company cannot sustain business(Jagafa and Wood (2012). The consequence of this will be a discontinuance of business or discontinuance of ownership (Shepherd, 2003) .Dikman et al (2010) quoted that business failure is a situation when a firm cannot pay their lenders, stock shareholders or suppliers.

## II. Objectives

1. To compare the business expansion plan for both airline and private hospital
2. To see the outcome of expansion plan for both industry
3. To see the impact of expanding business in stages for both industry

## III. Methodology

Case study method was chosen to conduct the study. In this study, Hospital A represent the private hospital and AA airline represent the airline industry. Various data were collected on the business expansion plan for both industries. Data for Hospital A were collected from Finance Manager through the following process:

1. Initial contact with the organization through phone calls and conduct interview via telephone
2. Draft and submit the official letter using email
3. Received the required data from Hospital A

Data were also collected from Suruhanjaya Syarikat Malaysia (SSM) which produced the financial statement of this hospital. For AA airline data were collected from Suruhanjaya Syarikat Malaysia (SSM), Annual report of this company through internet and various reports from newspapers. For both industry , various data were collected starting from the time the companies started business until they achieved breakeven. All data were sorted out in each categoryand tabulated accordingly to facilitate the analysis. To ensure privacy, the name of Finance Manager for Hospital A was not named and the hospital was labelled as Hospital A and the airline as AA airline.

## IV. Results

**Table 1.1:**Balance Sheet of Hospital A

| | 2004RM | 2005RM | 2006RM | 2007RM |
|---|---|---|---|---|
| Total assets | 40,704,308 | 65,329,169 | 68,959,741 | 83,326,517 |
| Total liabilities | 34,784,506 | 49,592,996 | 54,572,296 | 55,387,240 |
| Share-holders equity | 5,919,802 | 15,736,173 | 14,387,445 | 27,939,358 |

Sources:Annual report of Hospital A

**Table 1.2:**Income Statement of Hospital A

| | 2004 RM | 2005RM | 2006RM | 2007RM |
|---|---|---|---|---|
| Revenue | 4,095 | 19,497,021 | 43,142,190 | 59,155,238 |
| Cost Of Sales | (243,827) | (15,276,627) | (30,520,481) | (40,352,902) |
| Gross Profit/(Loss) | (239,732) | 4,220,394 | 12,621,709 | 18,802,336 |
| Other Operating Income | 13,061 | 59,224 | 389,052 | 138,578 |
| Administrative Expenses | (614,161) | (7,380,080) | (10,641,958) | (13,511,406) |
| Finance Cost | (92,410) | (2,227,746) | (2,739,201) | (2,661,472) |
| Loss Before Tax | (933,242) | (5,328,208) | (370,398) | 2,768,036 |

Sources:Annual report of Hospital A

**Table 1.3:**Income Statement of AA Airline

| | 12 months 31 March 2001 RM | 15 months 30 June 2002 RM | 12 months 30 June 2003 RM | 12 months 30 June 2004 RM | 12 months 30 June 2005 RM |
|---|---|---|---|---|---|
| Revenue | 167.7 m | 217.4 m | 330.0 m | 392.7 m | 666.0 m |
| PBT | (19.1) m | (1.6) m | 11.5 m | 58.1 m | 125.4 m |

Sources:Annual report of AA Airline

**Table 1.4:**Balance Sheet of AA Airline

| | 12 months 31 March 2001 RM | 15 months ended 30 June 2002 RM | 12 months 30 June 2003 RM | 12 months 30 June 2004 RM | 12 months 30 June 2005 RM |
|---|---|---|---|---|---|
| Total Asset | 49.3 m | 51.4 m | 124.3 m | 350.0 m | 1,122.9 m |
| Shareholders Equity | (105.0) m | 2.6 m | 49.0 m | 150.3 m | 952.9 m |

Sources:Annual report of AA Airline

**Table 1.5:**Cash Flow Statements of AA Airline

| | 12 months 31 March 2001 RM | 15 months ended 30 June 2002 RM | 12 months 30 June 2003 RM | 12 months 30 June 2004 RM | 12 months 30 June 2005 RM |
|---|---|---|---|---|---|
| Net Cash Flow | 21.0 m | (20.8) m | 18.8 m | 26.0 m | 254.0 m |

Sources:Annual report of AA Airline

**Table 1.6:**Operating Statistics of AA Airline

| | 12 months 31 March 2001 | 15 months ended 30 June 2002 | 12 months 30 June 2003 | 12 months 30 June 2004 | 12 months 30 June 2005 |
|---|---|---|---|---|---|
| Passengers Carried | 290,687 | 610,738 | 1,481,097 | 2,838,822 | 4,414,069 |
| Fleet Size | 2 | 3 | 7 | 17 | 27 |
| No.of Employees | 241 | 322 | 648 | 1,382 | 2,016 |

Sources:Annual report of AA Airline

## V. Discussion

Hospital A started business on 1st November 2004 by opening the Emergency services which only cater outpatient cases and this services is headed by Medical Officer. By year end the hospital had treated 46 patients consisting of 2 children and 44 adults. For this year, hospitalA generated revenue of RM 4,095 with a total expenses of RM 950,398 consisting of cost of sale (RM 243,827), administrative expenses (RM 614,161) and finance cost (RM 92,410).Therefore Hospital A recorded loss before tax of RM 933,242.The hospital received the license from Ministry of Health to fully operate as a private hospital on 6th January 2005. The business started with 20 beds consisting of 18 general beds and 2 Intensive Care Unit. Middle of the year the beds was expanded to 58 beds consisting of 56 general beds and 2 Intensive Care units.In January 2005, thirteen Consultants (Medical Specialists) had joined the organization and in March 2005 another five Consultants joined the hospital. Therefore for the year 2005, eighteen consultants started practising in hospital A. These Consultants are partners to the hospital and they are not salaried. Their consultation and procedure charges were based on the 13$^{th}$ schedule of the Private Healthcare Facilities and Services Act 1998/2006. The hospital will deduct 10% from their income for cash paying patients and 12.5 % from credit paying patients. Anaesthetist will get their income from 35% of surgeons' fee for surgical cases and for non- surgical cases such as consultation, they can charged according to the 13$^{th}$ schedule of the PHFSA.The Management will deduct 20% from surgical income and 15% from non- surgical income. Radiologist will get 15% from the department income of Diagnostic Imaging Services. However, if Radiologist performed procedures, the income will belong to the Radiologist and the Management will deduct 10% for cash paying and 12.5% from credit sales.

The charges for consultations or procedures by Radiologist will be based on the 13$^{th}$ schedule of the PHFSA. All Consultants are Resident doctors where they had signed practising agreement with the hospital and they cannot practise in any other places. The hospital provides clinic for each admitting doctors where they have to pay monthly rental . Clinic renovation had to be done by the Consultants and the hospital only provided computer, utilities and one clinic receptionist to facilitate the Consultants which managed both outpatient and inpatient services. The Medical Officers only managed the Emergency Services and for admission of patients to the wards, they have to refer to Consultant's. For this year the hospital received cash injection of RM 5.1 million from the shareholders to facilitate the business.In year 2005,revenue generated was RM 19,497,021 consisting of RM 12,314,123 from hospital revenue and RM 7,182,897 from the Consultants revenue. Total expenses were RM 24,884,453 consisting of cost of sale (RM 15,276,627), administrative expenses (RM 7,380,080) and finance cost (RM 2,227,746). Total number of outpatients for the year 2005 was 36,845 and inpatients 4,920. The number of surgery done was 35 cases consisting of general surgery, orthopaedic and obstetrician andgynaecology cases. The services were supported by 27 staff including one Medical Officer managing the Emergency unit. For year 2005, total expenses were RM 13,700,474 excluding Consultants income of RM 7,182,897. For year 2005 the hospital was running at loss with a total loss before tax of RM 5.3 million.

In 2006, this hospital generated total revenue of RM 43,142,190 and in year 2007, the hospital generated total revenue of RM 59,155,238. The hospital was running at loss from year 2004 with a total loss of RM933,242. A loss of RM 5.3 million in 2005 but reduced to RM 370,398 in year 2006. This hospital achieved breakeven and generated profit of RM 2,768,036 in year 2007.

Table 1.1 indicates the total assets from 2004 to 2007 where the asset increased from RM 40,704,308 in 2004 to RM 83,326,517 in 2007. However total liabilities also increased from RM 34,784,506 in 2004 to RM 55,387,240 and shareholder's equity also increased from RM 5,919,802 in 2004 to RM 27,939,358 in 2007.In year 2005, Hospital A received a cash injection of RM 11, 053,207 from the holding company. The share capital also increased from RM 7.0 million in year 2004 to RM 13,111,333 million in year 2005 and the company received additional cash of RM 17,164,540.

In year 2006,Hospital Arenovated a new wardwith the total cost of RM 2.6 million and thus increased the number of beds from 56 to 82 beds. With the additional 26 beds, the revenue increased to RM 43,142,190 million consisting of RM 27,360,289 hospital revenue and RM 15,781,901 consultants' revenue which is 122% higher compared to year 2005. The total expenses were RM 43,901,640 consisting of cost of sale (RM 30,520,481), administrative expenses (RM 10,641,958) and finance cost (RM 2,739,201). Total expenses increased by 76.4 % compared to year 2005due to the increase in activities. However, it was much lower compared to the total revenue generated by the hospital. In the same year,the hospital recruited the second Anaesthesiologist followed by 1 Resident Cardiologist in the middle of the year. A new dialysis services had been started with 3 machines to cater the need of 8 patients. The number of outpatient increased to 68,894 which is 86.9% higher than the previous year. The same trend can be seen in the inpatient with a total inpatient of 10,095 which is 105.1% higher compared to year 2005. Even though the revenue generated had increased to 122 % compared to the previous year,Hospital A is still running at loss of RM 0.3 millionby year end. However the loss had reduced by RM 5 million compared to the previous year.

The amount owing to holding company was RM 11,969,516 and even though the current asset increased by 46.6% compared to year 2005, the company still managed to cover the expenses because the revenue increased by 122% compared to the previous year.For year 2006, net cash flow from operations is RM 12,943,424.

In year 2007, the company increased it paid up capital from RM 15 million to RM 25 million and with this capital injection, there was an additional cash of RM 10 million. Hospital A was able to renovate the ICU which requires RM 1.35 million and the new unit consists of 4 bedded Intensive Care Unit and 3 bedded Cardiac Intensive Care Unit. Since this hospital is cash rich, it expanded further in year 2007 with an additional 23 beds at the cost of RM 3.25 million. With this expansion the number of beds increased to 105 beds. In line with the expansion, the management received RM 13.6 million Islamic loans consisting of RM 6 million for facility and RM 4 million as an overdraft. For this year, a new Resident Neurologist joined the hospital to provide neurology services. CatheterizationLaboratory was installed at the cost of RM 3.1 million supported by a new Cardiac Operation Theatre at the cost of RM 2.15 million. With this expansion, the hospital had 3 Operation Theatres. Total revenue generated was RM 59,156,044, consisting of RM 38,546,371 hospital revenue and RM 20,609,673 Consultants revenue. The revenue increased by 37.3% compared to the previous year. Outpatient increased by 30.8% to 89,282 and inpatient increased by 20% to 12,945. With the promising increasing of the revenue, the hospital managed to achieve the breakeven point and by year end generated a profit before tax of RM 2.7 million.

Hospital A generated total revenue of RM 4,095 in 2004 but suffered losses of RM 933,242. In 2005,this hospital generated total revenue of RM 19.5 million with a total loss of RM 5.3 million. The hospital increased the number of beds from 56 to 82 beds in 2006 and added more consultants. As a result, the revenue increased to RM 60.8 million and total loss reduced to only RM 370,398. The hospital expanded further by adding another 23 beds plus other services. For this year the hospital generated total revenue of RM 66.3 million and was able to generate a profit of RM 2.8 million. Therefore by expanding business in stages, the breakeven point was achieved in 2007

As reported by the Economist (2009), a businessman met with the Prime Minister of Malaysia and during the meeting,the Prime Minister had given the permission tooperate a new Low-Cost Carrier. However instead of using a new license, he was given the offer to take over AA airline and in September 2001, an agreement was drafted and he hadpaid a token sum of RM 1 (about USD $0.26 at the time) to purchase AA airline.At that time the company had twoageing Boeing 737-300 jets and with the signing of the agreement he had taken over of 50% of net liabilities which is about RM 40 million (USD $11 million) worth of debts.

In January 2001, AA airline took its first flight using two aeroplanes serving six destination supported by 241 staff.By 31st March 2001, the company had generated total revenue of RM 167.7 million. Cash available was RM 34.5 million with a total of RM 49.3 million assetswithtotal expenses ofRM182.3 million. Therefore the company was running at RM 19.1 million losses. During that period total passengers carried was 290,687. In year 2002 the company had added in the third aeroplane to expand the business. The number of passengers carried increased to 610,738, generating total revenue of RM 217.4 million by end of June 2002.Staff was increased from 241 to 322 and with the increase in the number of staff and flight, the expenses increased to RM 218.7 million.

In year 2003 the company expanded the service further by adding another 4 aeroplanes from 3 to 7 planes.With this expansion the number of staff also increased to 648 followed byan increased in expanses to RM 318.5 million. As expected the revenue increased tremendously from RM 217.4 million in year 2002 to RM 330 million in 2003.The company cash also increased to RM 33.5 million. With a huge increase in revenue the company had generated a positive balance of profit before tax to RM 11.5 million for the first time after starting business in year 2001. Total asset had increased to RM 124.3 million. As the business grow the passengers carried also increased from 610,738 to 1,481,097 by end of year 2003.AA airline on 12th November 2003 announced the formation of AAAviation Company Limited, a low cost courier in Thailand through the joint venture with partner in Thailand. On 8 December 2003, AA airline first international flight took off to Phuket.In year 2004, AA airline further expanded its business. The first Thai AA airline international flight from Bangkok to Singapore took off on 16th February 2004. The armada expanded from 7 fleets to 17 fleets to cover local and international flights.

The passengers carried increased to 2,838,822, generating revenue of RM 392.7 million with a RM 58.1 million profit before tax. When the number of flight increased, the flights expenses also increased to RM 332.1 million. Total asset in year 2004 was RM 350 million with a positive cash of RM 66.1 million. To support the operation, the number of staff also increased to 1382.

AA airline expanding further to Indonesia after the purchased of 49% shares from the local and on 9th January 2005, had started flights to Bali and Surabaya and on 5th April 2005,bthe business was expanded to Philippines. With the venture into international business, the number of fleets had increased from17 to 27 in year 2005. Passengers carried increased to 4,414,069, generating total revenue of RM 666 million with expenses of RM 532.6 million. However the company was able to record RM 125.4 million profits before tax.With that expansion the asset of the company increased to RM 329.4 million.To support the growth of the business, the number of staff also increased to 2,016.

AA airline managed to achieved breakeven and generated profit in year 2003 and continue to increase for 2004 and 2005. The total asset increased from RM 49.3 million in year 2001 toRM 1,122.9 million in 2005. The shareholders equity increased from RM 105.0 million in year 2001 to RM 952.9 million in years 2005. By expanding the business in stages, the company increased the number of aeroplane from 2 in year 2001 to 27 in year 2005. In line with the expansion, the number of passengers also increased from 290,687 in year 2001 to 4,414,069 in year 2005. The revenue increased from RM 167.7 million in 2001 to RM 666.0 million in 2005. The company starting with RM 19.1 million losses in year 2001, reduced to RM 1.6 million losses in 2002 andthe breakeven point was achieved in year 2003 with a profit before tax of RM 11.5 million and further increased to 125.4 million in 2005.

## VI. Conclusion

Hospital A, expanding business in stages through the addition of new beds and new services. In January 2005, this hospital operated 20 beds consisting of 18 normal beds and 2 ICU beds. Mid of January 2005, the number of beds increased to 58 consisting of 56 beds and 2 ICU beds. In 2006, the number of beds was increased to 82 and followed by the setting up of new dialysis services with three dialysis machines. In 2007, the hospital increased the beds to 105, followed by the addition of three Cardiac Intensive Care Unit beds. AA airline expanded the business by adding more aeroplanes and routes not only in Malaysia but also in other countries. In January 2001, AA airline took its first flight using two aeroplanes serving six destinations and in year 2002 the company had added in the third aeroplane to expand the business.In year 2003 the company expanded the service further by adding another four aeroplanes and with this addition, the armada increased to seven aeroplanes. AA airline on 12th November 2003 formed AA Aviation Company Limited, a low cost courier in Thailand and in 2004, the armada expanded from seven fleets to 17 fleets to cover local and international flights.AA airline expanding further to Indonesia after the purchased of 49% shares from the local on 9th January 2005 and on 5th April 2005, the business was expanded to Philippines.With the venture into international business, the number of fleets had increased from17 to 27 in year 2005.

Hospital A generated the total revenue of RM 4,095 in 2004 but suffered losses of RM 933,242. In 2005 generated total revenue of RM 19.5 million with a total loss of RM 5.3 million. In 2006 the revenue increased to RM 60.8 million and total loss reduced to only RM 370,398.For year 2007, the hospital generated total revenue of RM 66.3 million and was able to generate a profit of RM 2.8 million. Therefore by expanding business in stages, the breakeven point was achieved in 2007. For AA airline, the company increased the number of aeroplane from two in year 2001 to 27 in year 2005 and in line with the expansion, the number of passengers also increased from 290,687 in year 2001 to 4,414,069 in year 2005. The revenue increased from RM 167.7 million in 2001 to RM 666.0 million in 2005. The company starting with RM 19.1 million losses in year 2001, reduced to RM 1.6 million losses in 2002 andthe breakeven point was achieved in year 2003 with a profit before tax of RM 11.5 million and further increased to 125.4 million in 2005.

Based on this study, it was found that by expanding in stages, both industries were able to achieve breakeven within a short period. Hospital A achieved breakeven in three years whereas AA airline achieved the breakeven in two years

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