

THE DYNAMIC CAPABILITIES IN LOW-COST HIGH-VALUE COMPANIES: THE ITALIAN HEALTH CARE

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Abstract. *The aim of the study is to examine the fundamental entrepreneurial capabilities and the business models in CSR management from the dynamic capabilities perspective. The dynamic capabilities are related to exogenous changes: competitive, technological, and financial and for the emergence of new economies. Every company is involved in building great capabilities: gaining competitive advantage from the things it does exceptionally well, creating new business models. The companies in a context of change have to innovate faster, to minimize labor, raw materials, production and logistics costs, in order to reduce the inefficiency. The entrance of low-cost high-value companies into the market has created a new competitive landscape: the low-cost high-value production philosophy, based on a set of behaviors designed to offer goods and services at low cost respecting the quality, implementing innovative distribution processes and modern management policies. Encouraging a consumer style, it can generate high benefits for consumers, for businesses and for the country's system. The healthcare sector today is at a crossroads and every nation in the world faces healthcare challenges. Low cost-high value healthcare companies are new entries in those areas of the competitive system left vacant by the welfare state and meet the consumer/patient's new needs to safeguard health with out of pocket payment. The study analyzes the dynamic capabilities implemented in three low-cost high-value companies: Centro Medico Santagostino, Odontosalute and Nau! allocated in northern Italy. They signed the ethical code of Assolowcost and are engaged to increase their Corporate Social Responsibility (CSR). Whether and how can Low-Cost - High-Value healthcare companies follow a standard management process to cope with emerging CSR challenges? With dynamic capability, they can follow the rapidly evolving CSR expectations of stakeholders. Drawing on the dynamic capabilities perspective can help firms to meet emerging CSR requirements by following a set of common management processes. Our research findings contribute to understanding better the capabilities of low-costs high-value companies and their CSR values.*

Keywords: *dynamic capabilities; low-cost high-value; prime mover; health care; Corporate Social Responsibility.*

Introduction

The aim of the study is the proposal of the comprehensive and integrative framework on management and strategic factors which have lead companies to position themselves in the low-cost high-value sectors. The global social and economic changes have induced companies to innovate more quickly and to administer business costs, from supplies through production and logistics, so as to reduce and contain inefficiency. The purpose is to offer consumers goods and services with high levels of real and perceived value, at fair prices. Every company is involved in building great capabilities: gaining competitive advantage from the things it does exceptionally well, creating new business models. Dynamic capability is a set of learned processes and activities that enable a company to produce a particular outcome. The companies in a context of change are committed to innovating faster, to minimize labor, raw materials, production and logistics costs, in order to reduce and contain the inefficiency.

The growth of new business ventures is very important; new entrepreneurs and new ideas entering into an economic-productive system, lead to new goods and production techniques and encourage the interaction between people, ideas and capital that results in the inception and development of new fields of business. This, in turn, sparks a virtuous cycle, leading to the growth of technical and organizational skills that makes it possible to recreate the pattern in other businesses operating in the same field.

The study focuses on three fundamental aspects:

- The first aimed at selecting the basic concepts and theories from the theoretical framework of reference, as outlined in the existing body of literature, with which to analyze data and obtain a picture of the background and competitive environment in which low-cost high-value health services developed. The final objective is to analyze the strategies implemented, and the business models of three companies that have adopted low cost/high value, particularly in the realm of health services and what is their contribution to corporate social responsibility with the study of "cross-case analysis" (Osterwalder, Pigneur & Tucci, 2005).
- The second studies and compares the basic theoretical strategies that form the business model from which low-cost high-value health services develop.
- The third aspect is a cross-case analysis of three companies operating in this sector, with particular knowledge of the area in which they operate and the develop a theoretical framework to explain how dynamic capabilities can contribute to their developing, in order to adopt appropriate marketing and trade policies, taking into account the strategies of growing and replication of business

Organization of the work and research method

An analysis of changing economic and political choices in health care will be highlighted if there is a new real space of action for companies to be compared with the activity of supply of healthcare services. Wanting to prove, therefore, that there is a new sector that stands between the public and private health care, business health low-cost high quality and sustainable.

The specific objective of the research is to be put in benchmarking, through the study of cases (Hartley, 1994), which may act as a guide for those who want to go down this road

or want to improve their corporate policies in view of low cost high value in order to maintain the virtuous cycle of economic growth and healthy. The adoption of a descriptive research design, fieldwork and qualitative method is the default choice in the structuring of research and considered appropriate to achieving the objectives of the work to define the business model for Low-Cost High-Value in healthcare providers (Selltitz, Wrightsman & Cook, 1976).

Case studies are considered the most effective course to come up with answers to “how” and “why” questions when researchers have only limited control over events, but at the same time want to explore concurrent trends with the aim of explaining certain phenomena and casual relationships. This is the reason why case studies and real stories are the research strategies that are most suitable for this kind of study (Yin, 1989) suggested applying the logic of “literal e theoretical replication”, which is based either on the identification of cases that will give similar results (literal replication) or which will give different results, but for predictable reasons (theoretical replication). The importance of this logic is that it allows for the extension or replication of the emerging theory. In our case, we have chosen the “literal replication” analyzing three kinds of companies active in the low-cost/ high-value sector to find their similarities. They are Italian companies working in northern Italy: the Centro Medico Santagostino Milan in Lombardy, OdontoSalute Gemona in Friuli - Venezia Giulia and NAU! In Castiglion Olona, Varese. They are companies that have adopted the low-cost/ high-quality philosophy by focusing on improving their organization and creating economies of scale to cut costs, thus making health services available to a wider range of consumers.

These companies adhere to the ethical code drawn up by the Assobwcost and so while adopting different business strategies, they must follow similar parameters.

Developing CSR as a dynamic capability starting from the literature review

The authors Teece, Pisano and Shuen (1997) are among the first to formulate a definition of dynamic capabilities as an organization's ability to integrate, build, and reconfigure internal and external resources and expertise in response to rapid environmental changes, Teece, (2010). Following this concept, it is expanded by Eisenhardt and Martin (2000), which redefine the dynamic capabilities as processes that use their own resources to cope or even create a change in the market.

In dynamics capability are summarized two key elements: with dynamic refers to the firm's ability to renew skills in relation to the environment dynamism, while the capacity is intended to emphasize the strategic management capacity to adapt, integrate and reconfigure the resources and the expertise within the company with those held by other organizations to address environmental change or even promote and build it (Eisenhardt & Martin 2000, Helfat et al 2007, Teece, Pisano & Shuen, 1997): “*dynamic capabilities [...] emphasizes two aspects. First, it refers to the shifting character of the environment; second, it emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competencies toward changing environment*” (Teece & Pisano, 1994, p.537).

Dynamic capability is a set of learned processes and activities that enable a company to produce a particular outcome. The companies in a context of change are committed to innovating faster, to minimize labor, raw materials, production and logistics costs, in order to reduce and contain the inefficiency (Teece, 2011). Therefore, the context of CSR strategy in question involves the dependence of corporate success on the relations and interactions between an organization and its stakeholders (Wu, He & Duan, 2014). The strategic effectiveness of CSR and their features such as dynamic capabilities is important for emphasize the change in capacity of enterprises to adapt quickly to a changing environment and its associated impact on organizational performance (Teece et al, 1997).

Now companies recognize the enormous potential of business to contribute to social progress and they understand they depend on healthy and well-functioning societies to thrive. For companies, it is not enough to integrate CSR into strategy (McWilliams, Siegel & Wright, 2006.). They integrate society into the strategy they reinforce competitive advantage for the business. In this way they follow the principle of shared value, it can create economic value in a way that also created value for society paying attention to its needs and its challenges (Colombo & Gazzola, 2015). The competitiveness of the companies will increase if they follow the economic and social conditions simultaneously. Creation of shared value focuses on identifying and expanding the connections between societal and economic progress. Businesses must reconnect company success with social progress (Gazzola & Colombo, 2013).

In this way, the company creates economic value by creating social value. The companies could reach shared value when the interests of business and society are aligned, (Gazzola & Colombo, 2015). Management needs a new approach to engaging the stakeholder. Companies must incorporate interaction with stakeholders into decision-making at every level of the organization. (Browne & Nuttall, 2013). Currently companies recognize the enormous potential of business to contribute to social progress and they understand they depend on healthy and well-functioning societies to thrive. Indeed the corporate transformation goes from the external environment information that is transformed into strategies to change the strategic position of the company and enable it to remain viable indefinitely in an ethical environment, social, political, it belongs and with which it interacts not only with a system of monetary exchange, financial but also through physical, human flows and communications with which they produce knowledge, confidence and reputation (Harrison & St. John, 1998; Prahalad & Bettis, 1986). Therefore, the operations of companies should be directed to improve their dynamic capabilities to meet the changing needs of their various stakeholders.

In this analysis of the contribution of CSR to the dynamic capability, we need, however, to remember the voluntary aspect of CSR. Its voluntary nature could give rise to obstacles to the spread of the phenomenon including the risk of self-referential CSR policies and the lack of transparency in the markets with consequences both for business, in terms of reputation, and for the stakeholders (consumers first place), who are unable to discern social responsibility solutions from those wishing to offer just appearance and to go beyond the image and philanthropic business activities

The Green Paper of the European Commission, COM (2001) may be helpful because, out of it, one can deduce a number of fundamental principles of the social responsibility

of "enterprise summarized as follows:

- recognition of voluntary nature of CSR;
- need to make credible and transparent socially responsible practices;
- recognition of the agreements and existing international instruments: standardization. examination of areas of law in national contexts of reference and profusion of a commitment that possibly go beyond the aspects regulated by legal requirements;
- global Approach: understanding of the economic, social and environmental, as well as the interests of consumers to act sustainably in accordance with long-term logic.

Information that is more recent was issued by ISO in November 2010. It is an international standard designed to provide the tools to manage better the principles of corporate social responsibility. ISO 26000 is applicable to all types of organizations, is a guideline approved by the representatives of 91 countries of the world, based on the best practices on the topic and is a model to help organizations implement best initiatives in order to optimize internal processes and operate in a socially responsible way towards its stakeholders (Castellani, 2015).

An Organization that it will follow the standard ISO 26000 will have to be integrated into business practices the principles contained in the standard, monitoring and responding to economic expectations, environmental and social expectations of all stakeholders, a working logic synthesis is presented in Figure 1.

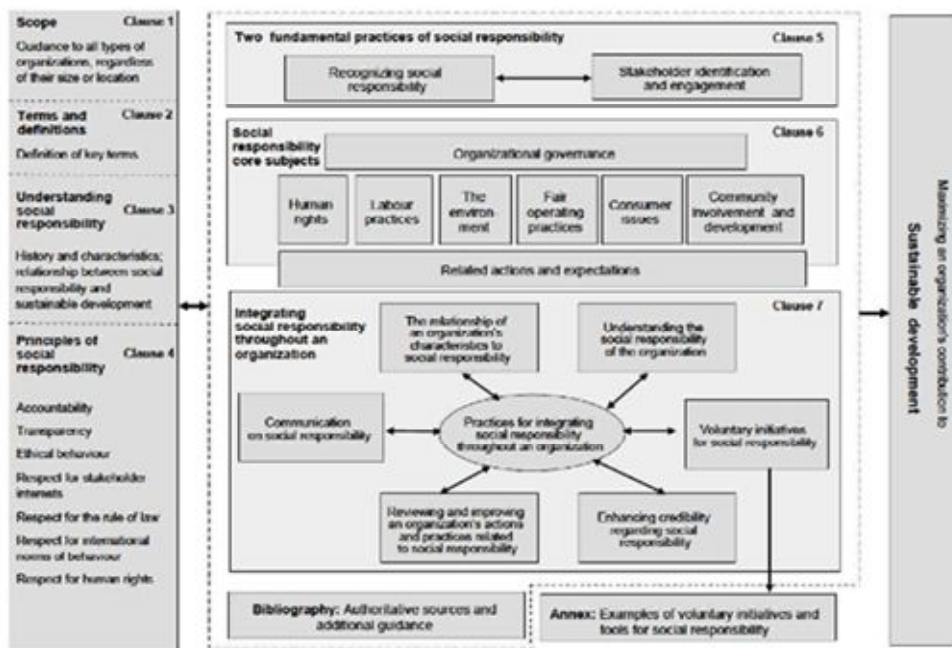


Figure 1. Specimen layout ISO 26000 (Italian Centre for Social Responsibility, 2016)

The dynamic capabilities in Low-Cost High-Value healthcare companies: case works

In the Italian economic system of crisis found him in a situation of resources limited and the Italian National Health Service is struggling to deal with many problems like

inadequate treatments due to insufficient staff and long waiting lists, mainly caused by lack of hospitals, inefficient bureaucracy, poor management and general disorganization which all contribute to cost increases. This is mainly due to the shift from the National Health Service to the private sector and to the trends towards privatization occurring on a global scale. This has led to an attempt to overcome the economic downturn due to the privatization of assets and services, through the creation of new areas of market and the expansion of existing ones by increasing their profitability (Querci, 2014). Low-cost healthcare providers, encouraged by the opening up of new market areas, particularly those in the lightweight care areas, are privileged correspondents of voluntary healthcare funds, while accredited private providers and the National Health Service itself often find it difficult to conform to the operating systems of company health funds which take into consideration things like on-line appointments, short waiting lists and even pleasant environments (Pessina, Cantù, Carbone & Ferrè, 2011).

Low Cost- High-Value healthcare companies are new entries in those areas of the competitive system left vacant by the welfare state and they meet the consumer/patient's new needs to safeguard health with out of pocket payment. In many cases, they are prime mover companies that launch innovations, invest in the development of new products, and accept the risk of exploring unknown territory. Consumers' requirements are always evolving, particularly in the sectors of healthcare; with regard to the former one, there is a widespread need for new services, ranging from psychological treatments to plastic surgery, and to find a balance between public and private costs (Ramdorai & Herstatt, 2015). Their company mission is to provide low-cost quality health care while at the same time meeting the commitment of company health funds to provide the required services to their members. Normann, (2002) calls *prime mover* innovator/inventor those individuals that he considers "creators of sleeping assets markets". The prime mover transforms these assets into liquidity that can be advantageously employed in a different context. In this sense the prime mover makes all the players richer, leading others to identify untapped assets to be exploited, such as, in the realm of low-cost high-value health services, short waiting lists, comfortable accommodation and convenient geographical locations. They have a new approach to *subjects capable of impacting on the outside environment. They are organizations that don't only understand the changing market but, in some ways, implement or direct the change itself* (Normann & Ramire, 1998). The three cases studied, are Centro Medico Santagostino (CMS), OdontaSalute and Nau! though offering different types of goods and services shared certain common elements like business strategies, the organization of their supply chains and customer satisfaction and orientation.

The three companies are characterized by profit margins based on industrial production; dental prosthesis and specialties for the Centro Medico Santagostino and dental prosthesis Odonta Salute, Nau! It manufactures and sells eyeglasses, sunglasses, and contact lenses. They are companies that have adopted the low-cost/high-quality philosophy by focusing on improving their organization and creating economies of scale to cut costs, thus making health services available to a wider range of consumers. These companies adhere to the ethical code drawn up by the AssoLowcost and so while adopting different business strategies, they must follow similar parameters. The ethic code of Assolowcost promotes the principles of Corporate Social Responsibility and in this case, it is coincident with what is prescribed by ISO 26000. The function of

the ethical codes is to present the charters of rights and fundamental duties, with which the company clarifies its ethical and social responsibilities towards the various internal stakeholders (shareholders, employees, and management) and external stakeholders (customers, suppliers, competitors, the social and natural environment surrounding and public institutions). Through the code of ethics, despite their differences, it's possible to make explicit a kind of "social contract" that binds the company to the various groups and individuals that interact directly or indirectly with it (Sacconi, De Colle & Baldin, 2003). Companies associated with Assolowcost must respect the general principles of his code of ethics; the companies should commit to put at the center of their strategies geared towards sustainable economic development to improve the quality of life, to try to meet the needs of society and the communities in which they operate, helping to solve problems and respecting their cultures, religions, and traditions, with particular attention that their activities do not conflict with the protection of the rights and dignity of man (Querci, 2016). The company chose Legambiente as partners; the association, which works to protect the environment. Their aim is to promote and enhance the wide variety of production activities (local products, cultural heritage, technical innovation and maintenance of urban and regional), which are able to improve the quality of the environment and to give more competitiveness for Italy. The crew of the schooner green wears glasses recycled plastic Nau!

Nau! signature and supports projects for the defense and preservation of the environment supports campaigns to protect the ecosystem and donates, for every pair of glasses sold in recycled plastic, a contribution to Legambiente (Querci, 2013). Concern for the environment has led Nau! optics to realize the first eyeglasses and sunglasses in recycled plastic. The particularity in the processing is that the recycling, defined pre-consumer, takes place with the use of milling and curls of machining of its frames. The production process of these collections is certified by the Institute for the Promotion of the plastics for recycling that issued the Certificate of Conformity Plastic Second Life - Category B. The line of eyewear. The brand, in just 10 years has created a network that has now reached a height of 100 stores, employing over 450 people. The Centro Medico Santagostino operates outside the system of accreditation of the NHS and it is stated in the private sector, but in a quasi-market, between profit and non-profit.

The Centro Medico Santagostino is an innovative project which cannot be separated from economic revenue. In fact, although the primary objective of lenders is not profit, but the exploitation of economically sustainable initiatives for social interest, to start a project of this nature serve specific skills, as well as a substantial capital to invest in the early stage, but also in conservation of a high standard of quality throughout the process of affirmation and development of the initiative (Mariani, 2012).

OdontoSalute has fourteen locations in Italy, ample parking, near airports, and motorway exits. Seven clinics are owned by other franchise agreement, they have special agreements with hotels, restaurants and transportation companies to ensure a pleasant stay during treatment. Large volumes of sales and narrow margins are the philosophy of all three companies and suppliers have had to conform to this same policy. Just one of the dental clinics of the OdontoSalute group invoices, in one month, what a traditional dental clinic invoices in a year, giving it a strong bargaining position with suppliers, which are never very numerous. The strategies to contain costs benefit

patients who are offered quality services at lower prices than those of the competition, with minimum waiting lists and easy access to care. The social report of OdontoSalute highlights its approach with stakeholders to its Corporate Social Responsibility and evaluate the benefits produced by the multiplicity of outcomes that positive relationships are maintained with the communities, or social groups, represented by all agencies, organizations, formal organizations and informs them that they are in contact in various ways with the clinics.

Conclusion

The enterprises studied show that the adoption of CSR process since their formation can be developed in a dynamic capability that provides a competitive advantage. The establishments of enterprises under study were born between 2008 and 2009 as a prime mover. They anticipated the ISO 26000 dell'Assolowcost adhering to the code of ethics. To this end, we can say that good practices are creating new ways to conduct valid and replicable. The growth rate of Odontosalute, Centro Medico Santagostino and Nau! It is very high. The first began opening new dental centers by entering into contracts franchising, passing from the first 6 clinics between 2008 and 2011 to 26 today, distributed throughout Italy. Santagostino Medical Center has replicated its business by opening three other clinics. The Nau! It has become international, opening in India and in Dubai, reaching more than 100 stores. CSR is an idea whereby our companies integrate economic, social and environmental concerns in their business operations. CSR balances the needs of stakeholders.

In all three businesses, Human resources are considered an asset, hiring procedures to focus on finding that professional employees share the company mission. The choices made by Nau! for the low environmental impact, for Environmental Benefits are encountered relate to the recovery and reuse of waste materials resulting from the normal production of optical frames and sunglasses. The use of renewable energy sources in the stores and shoppers biocartene, that can be reused by the customer for wet waste disposal and elimination of unnecessary packaging in liquids, solutions, and contact lenses are choices made by Nau! of the low environmental impact. Nau! for working the lenses enters directly into the production cycle of the Zaiss. It's used a computerized machine that makes direct contact with the manufacturer of lenses. In this way, the company conquers efficiency. The savings and margins are for customers, with a saving of 50% on average compared to the competition on the market. Centro Medico Santagostino is an innovative project the exploitation of economically sustainable initiatives for social interest, to start a project of this nature serve specific skills, as well as a substantial capital to invest in the early stage, but also in the high level of quality during storage the whole process of affirmation and development of the initiative. The social report of OdontoSalute highlights to its Corporate Social Responsibility and evaluate the benefits produced by the multiplicity of outcomes and the positive relationships maintained with the communities or social groups.

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