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Exercising Control at Sports Rehab Network*

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This is a field-based disguised case describing how an entrepreneur who develops a successful rehabilitation business now must operate within the confines of a bureaucratic hospital setting. The CEO of the hospital who had ordered him not to seek any new ventures given the hospital's cash flow problems was stymieing his entrepreneurial orientation. The case has a difficulty level appropriate for a junior level course in small business management and entrepreneurship. The case is designed to be taught in one class period (may vary from sixty minutes to one hundred minutes depending upon the course structure and the instructional approach employed) and is expected to require between three to six hours of outside preparation by students.

Key Words: Entrepreneurship, Intrapreneurship, Bureaucracy, Power, Authority

Exercising Control at Sports Rehab Network

“Mike, if you try to move forward on this project, I’ll fire your butt! I won’t even give you time to clear out your desk! I’ll have security escort you right off the premises,” screamed Bob Lynch, President of Southampton Hospital to Mike Marshall, Director of the Sports Rehab Network.

Background

Mike Marshall founded the Sports Rehab Network in 1991, after identifying a need in the local high schools on the East End of Long Island, New York. Marshall's background included certification in Health and Physical Education as well as being a licensed Athletic Trainer. In surveying the area and with discussions with many school officials, Marshall found a lack of sports medicine services to local high schools. The athletes would be injured while playing interscholastic sports, and be forced to sit out and wait until they were fully recovered. Only then, and with a physician's approval, could they return to play. Upon further investigation, Marshall discovered that each high school was deficient in weight training facilities and proper injury prevention programs. He intended to do something about these deficiencies. (For more information on Physical Therapy and Athletic Training as careers see www.collegeboard.com, www.apta.org and www.nata.org.)

After a great deal of searching for the proper location, Marshall identified a location in Southampton, New York as the site for a proposed sports medicine center. From this location, which was the center of the South Fork of Long Island, Marshall contacted the area high schools and secured contracts for his new company. These contracts called for Marshall to provide licensed athletic trainers to the schools for all practices and games. This ensured that there was adequate medical coverage of all sports sanctioned events. Although not required, the trainers also helped with after school intramurals, but their first priority was with the student athletes.

When a student athlete was injured, the athletic trainer referred the student to an orthopedic surgeon or sports medicine specialist. After being seen by the physician/specialist, the athlete normally entered into a physical therapy program. Therapy was conducted at the Sports Rehab Network, located in Southampton. The design of the new Sport rehab Network facility was based on the Olympic Training Center in Lake Placid, New York, where Marshall had worked previously. It had 3500 square feet of the most advanced sports medicine and fitness equipment available. Athletes were quick to recover from their injuries, and in many situations were able to enhance their physical performance by working with athletic trainers. Parents also were delighted that their children were receiving proper medical attention.

In 1991, Sports Rehab Network worked with three school districts: Longwood, Southampton, and East Hampton. In 1992, Sag Harbor, Bridgehampton, and Hampton Bays were added. By the start of the 1993 school year, Westhampton, Eastport, and Mattituck joined as clients. Having absorbed most of the school districts in the South Fork, Marshall decided to expand to the North Fork. In 1994, Southold, Greenport, and Shelter Island joined. (See Appendix A for a map of locations. Long Island's east end has two areas referred to as forks. The one on top is called the North Fork and the bottom one is the South Fork.)

By 1995, the business was extremely successful and the initial plan of entering the market through the high schools paid off in other areas. Sports Rehab Network expanded its physical therapy program to work with adults with non-sports related injuries. Injuries related to work (Worker's Compensation), automobile accidents (No Fault Insurance), personal injury (indemnity plans), and post-surgery were treated at the facility in Southampton because more physicians were referring patients to Sports Rehab Network.

The Buyout

In 1995, Southampton Hospital approached Marshall for the purpose of entering into a joint venture. Due to Marshall's marketing efforts, personality, and personal attention to school officials and physicians, Sports Rehab Network captured the major share of the physical therapy market on the East End of Long Island. Southampton Hospital, which had a small physical therapy facility, stopped trying to compete. Instead, it offered Marshall a joint venture to open a new facility outside of the Hospital. Through this joint venture the Hospital could better use the space for other areas, such as the emergency room. The new location was in Westhampton and permitted those patients west of Hampton Bays easy access to a physical therapy facility, rather than driving to Southampton. The Hospital funded the new facility and Sports Rehab Network operated it. Profits were split equally.

The Westhampton facility was a huge success and generated profits in its first year, 1997. At the

urging of its president, Southampton Hospital decided to buy all of Sports Rehab Network and made an offer to Marshall. The buyout terms included purchasing Marshall's interest in the Westhampton facility, as well as the entire business in the Town of Southampton. Marshall was hired as the Director of the Sports Rehab Network, reporting directly to the Hospital president. A new business plan and employment contract were developed providing for expansion to East Hampton, Riverhead, Mastic, Coram, and the entire North Fork. Marshall, seeing a chance to make a sizeable return, stayed in the business he created, and took the offer. (See Appendix B for the Employment Agreement). Sports Rehab Network was kept as a separate entity to maintain the marketability of its name brand.

Ills at the Hospital

In early 1998 Marshall began to implement the business plan for expanding new facilities. At the same time, news broke that Southampton Hospital had overspent on the design and construction of several offsite medical centers. Also, the president decided to sell the receivables of the entire Hospital, including those of Sports Rehab Network, to fund these extravagant projects. By the end of the year, the Hospital had severe financial problems. In late 1998 the president of Southampton Hospital resigned. In early 1999, Bob Lynch took over as President and CEO. Lynch was President of Peconic Health Corporation, which owned and operated all three East End hospitals (Southampton, Central Suffolk in Riverhead, and Eastern Long Island in Greenport). Lynch served as President of both Southampton Hospital and Peconic Health Corporation.

Lynch was quite revered in the hospital administration industry, having saved a number of hospitals from going bankrupt. He was successful in reengineering the corporate structure of the Peconic Health Corporation, making it profitable. A hard driving person, he demanded excellence in performance from his subordinates, as well as himself. Some people said "that it was Bob's way or the highway."

A New Plan

Lynch developed a new plan for the financial turnaround of Southampton Hospital. To have each hospital responsible for their results, he decided that each home hospital would own each of its facilities. Regarding Sports Rehab Network, Southampton would now own only the facilities in the Southampton, East Hampton, and Westhampton areas. Southold, Shelter Island, and Mastic would be owned by Eastern Long Island Hospital in Greenport. Any expansion on the North Fork, Riverhead, or any other location would come under the ownership of either Central Suffolk Hospital in Riverhead or Eastern Long Island Hospital in Greenport.

Sports Rehab Network would enter into a management contract with the home hospital and would receive a franchise fee as well as a management fee for operating the facility. All profits from the new locations would go directly to the hospital, which owned the facility. Sports Rehab would be required to provide an annual report as well as new business plans at the request of the president (See Appendices C and D). Also, Marshall would no longer report to the President of Southampton Hospital, but rather to the Director of Rehabilitation Services, Frank Brown. Likewise, if new facilities were opened, Marshall would report to the

corresponding Directors of Rehabilitation Services at each of the other hospitals, Eastern Long Island Hospital and Central Suffolk Hospital. (See Appendix E for the Organizational Chart)

Initially the plan worked, but before long disagreements developed. Marshall did not agree with the Director of Rehabilitation Services for Eastern Long Island Hospital in Greenport (which owned the facilities on the North Fork) on policies and procedures, as well as the implementation of the original business plan. Confusion among the staff resulted because it was not clear who was in charge. Employees took direction from Marshall, but the Director made operational changes without conferring with Marshall or even notifying him. Marshall spoke to some employees and they told him in confidence that Brown insisted that they report and “be loyal” to him, not Marshall. These employees were concerned about getting poor performance reviews or being fired by Brown if they “sided” with Marshall. To make matters worse, both facilities in Southold and Mastic lost over \$150,000 each for the year.

Compounding the operational problem in the Eastern Long Island Hospital, Central Suffolk in Riverhead decided to cease its sports rehabilitation services in late 1999. Marshall knew there was a need for such services from his previous research with his contacts, so he decided to establish a separate facility. The Director of Rehabilitation Services at Central Suffolk became irate and informed the President of Central Suffolk Hospital of Marshall’s plan. Since the Hospital was the ultimate owner, the President prevented Marshall from opening the facility. Marshall posed the problem to Lynch who simply said, “... leave it alone and move on to other things.” Marshall was shocked and unhappy at Lynch’s response, because Marshall wanted an expansion of services and facilities, not contraction.

Potential Competition

In 2000, St. Charles Hospital in Port Jefferson announced plans to open a six thousand square foot sports medicine and rehabilitation center in Riverhead, less than one mile from Central Suffolk Hospital. The President of Central Suffolk Hospital, upon hearing the news, called Marshall in for a meeting. At the October meeting, he told Marshall that his decision not to open a Sports Rehab Network facility in 1999 was not a reflection on Marshall, but rather a distrust of the President of Southampton Hospital, which had control over the East End Hospitals. Marshall informed him that the Southampton Hospital President (before Lynch) left in 1998 and the business plan was presented to Bob Lynch and him at the beginning of 1999. Marshall also reminded him that both Lynch and he agreed to the plan. The Central Suffolk Hospital President was firm in his decision, but related that there was now competition from another hospital. He asked for Marshall’s help. Since Marshall wanted to grow the business, he agreed.

Marshall met with his contacts in the community, especially those on the Riverhead Town and Planning Boards. He then met with the landlord of the site St. Charles selected. After a few phone calls from members of the Boards, an agreement was reached in which St. Charles would not get the site, and a lease was signed with Central Suffolk and Sports Rehab Network. The Riverhead location opened in June 2001. (See Appendix D for Sports Rehab Strategic Vision 2001)

Another Threat

Marshall had heard through his contacts that another company was interested in establishing a facility in Coram. This new competitor was Sports Medicine Resources, a major physical therapy organization in the western part of Suffolk County. Sports Medicine Resources investigated the feasibility of opening a facility and contacted the athletic director of Longwood School District, who was Marshall's oldest contact. Marshall knew that if Sports Medicine Resources was successful in obtaining Longwood, it would make significant inroads to the East End of the Island. His plans for expansion would be severely curtailed, if not doomed. Likewise, Sports Medicine Resources could draw patients away from the Mastic facility and hurt their profitability.

Marshall met with Lynch and proposed that Southampton Hospital move quickly and open a facility in Coram. Lynch rejected the idea indicating that the organization was expanding too rapidly. He didn't see the importance of Coram even with the threat of Sports Medicine Resources. Marshall left and was visibly upset. He knew he had to act. A week later, Marshall met with Lynch again. He said he was still very much concerned and appreciated Lynch's position, but felt that the matter was very serious. He offered an alternative to Southampton Hospital opening the facility. Marshall stated, "If I could find a group of investors willing to open the Coram site, with a management contract with Sports Rehab Network, could I move forward with the project?" Lynch countered with "Mike, if you try to move forward on this project, I'll fire your butt! I won't even give you time to clear out your desk! I'll have security escort you right off the premises." Marshall was stunned! He left without saying a word.

Driving home, Marshall was steamed. He had spent a lot of time and effort in building a great organization. Now he felt he was seeing the beginning of the end. He thought, "Should I move ahead anyway and defy Lynch. After all, the location would be outside the non-compete clause in my contract. Or should I listen to Lynch, and just be satisfied with the existing size of the organization. Why am I breaking my back with all this additional work? What should I do?"

* All events are true. Some names have been changed to provide confidentiality. Teaching note may be obtained, by request, by contacting Herbert Sherman at herbert.sherman@liu.edu

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Appendix A Map of Sports Rehab Locations: Long Island, New York 2001



Appendix B

Employment Agreement of Mike Marshall

Employment Agreement dated _____, between _____ (herein referred to as the "Corporation"), a New York corporation and Michael Marshall (hereinafter referred to as the "Employee.")

Witnesseth:

Whereas, the Corporation is organized and existing under and by virtue of the laws of New York and the Employee is licensed and/or otherwise authorized by law to practice physical therapy and rehabilitation in New York State; and

Whereas, the Corporation desires to employ the Employee, and the Employee desires to be employed by the Corporation, upon the terms and conditions herein set forth. Now, therefore, in consideration of the foregoing and or the mutual covenants herein contained, and for other good and valuable consideration, the parties hereto agree as follows:

First, The Corporation agrees to employ the Employee as a manager/therapist for the period (hereinafter referred to as the "Employment Period"), commencing on _____ and continuing until the earlier of either the death of the Employee or the termination of his employment pursuant to the provisions of this Employment Agreement. The Employee agrees to accept such employment and, as a manager/therapist of the Corporation, to render any type of physical therapy services which may be lawfully rendered by a member of such profession for a period of at least one year. The Employee also agrees to diligently devote such time, skill and attention to such services as is required by the Corporation. During the employment period, employment shall be "at will" and either the Corporation or the Employee may terminate employment, with or without cause, by giving the other sixty days notice of such termination. No later than three months prior to the expiration of the first year of employment, the Corporation, through its Board of Directors and/or officers, shall advise the Employee of whether or not his employment will be continued. If the Employee's employment with the Corporation is terminated during the first year, or if the Corporation informs the Employee that it does not intend to continue the Employee's employment, then, in either of those events, the Employee shall not, at the end of his Employment Period, be entitled to any further benefits from the Corporation.

Second, the following pertains to compensation and benefits:

- A. The Corporation shall pay the Employee and the Employee shall accept from the Corporation, for the Employee's services during the first year of employment period the sum of _____ per annum, payable in accordance with the Corporation's customary payroll policy.
- B. The Employee shall be entitled to four weeks fully paid vacation, per annum, and shall further be entitled to an additional one week per annum, for the purpose of attending professional conventions and/or seminars. The taking of time or times of the four weeks vacation, and the taking of time or times of the

- one week leave for conventions and/or seminars, shall be agreed to in advance of such events by the Employee and the Corporation.
- C. The Corporation shall provide to the Employee, at no cost to the Employee, the same medical health insurance plans as are offered to other Employees of the Corporation.
 - D. The Corporation shall provide to the Employee, at no cost to the Employee, appropriate malpractice insurance for the duties being performed by the Employee for the Corporation, which insurance shall be equivalent to the malpractice insurance provided to other employees employed by the Corporation. In this regard, the Employee represents to the Corporation that the Employee is not aware of any claims made against the employee for malpractice, nor is the Employee aware of any instances, actions, or omissions on the part of the Employee which may form the basis for a malpractice claim or similar negligence cause of action against the Employee.
 - E. If, at any time during the employment period, the Employee shall claim that he is disabled, the Employee shall give written notice of such disability to the Corporation. If such disability results in the Employee being unable to perform his duties under this Employment Agreement for twelve consecutive months, then, in that event, the Employee shall resign from the Corporation on the first day after the expiration of the twelfth successive month. The Employee shall be entitled to receive his salary as set forth herein for a period of thirty days after the first date of disability.
 - F. The Corporation shall provide to the Employee up to, but not exceeding, the sum of _____ for expenses incurred in moving to comply with the terms of this employment agreement.
 - G. The Corporation shall provide to the Employee up to, but not exceeding, the sum of _____ for expenses pertaining to the attendance at seminars, including tuition. The Corporation shall also provide to the Employee up to, but not exceeding, the sum of _____ for expenses pertaining to the purchase of professional texts/journals and/or books.
 - H. The Corporation shall provide to the Employee term life insurance with a face amount of _____ during the employment period.
 - I. The Employee agrees that, at all times during the employment period, the Employee will provide, at his own cost and expense, such means of transportation as shall be reasonably necessary for the performance of his services hereunder and, with respect to all automobiles which the Employee shall so use for the performance of such services. The Employee shall have in effect liability insurance insuring the Employee for not less than _____ with respect to any one person and at least _____ with respect to any one accident.

Third: If at any time during the employment period, the Employee shall become legally disqualified to practice in the State of new York, the employment by the Corporation of the Employee shall terminate as of the last day of the week in which such event shall occur, and from and after such day the Employee shall no longer be entitled to receive any payments hereunder. Thereafter, the Corporation shall be relieved of all further obligations on its part hereunder, and the Employee shall have no further rights pertaining to the Corporation.

Fourth, the following pertains to employee covenants:

- A. The Employee agrees that in the practice of physical therapy for the Corporation he will

at all times maintain a standard of professional conduct which shall in all respects conform with the standards of the appropriate professional organization.

- B. The Employee agrees that (1) the duties and services to be performed by him hereunder are of special and unique character; (2) any breach by the Employee of any of the provisions of this employee agreement will cause irreparable injury and damage to the Corporation which cannot be readily or adequately compensated for in damages in an action at law and (3) the Corporation shall be entitled to injunctive or other equitable relief, however, shall not be deemed to waive or to limit, in any respect, any other right or remedy which the Corporation may have hereunder or at law with respect to such breach.
- C. The Corporation and the Employee agree that all patients and patients charges and professional records are the property of the Corporation; and that upon the termination of this employment agreement, the Employee shall not be entitled to receive any patients' charts or professional records, except in accordance with the unsolicited specific written instructions of any patient as to the disposition of his particular charts or records.
- D. The Corporation and Employee agree that all income earned by the Employee due to the practice of physical therapy during the employment period is the income of the Corporation and shall be turned over to the Corporation by the Employee for the distribution in accordance with the Corporation's policy, subject to Federal, New York State and Suffolk County tax laws.
- E. In the event that the Employee's employment with the Corporation is terminated during the first year, or if the Employee's employment with the Corporation is terminated during the first year, or if the Employee's employment with the Corporation is not continued after the first year, then, in either of those events, the Employee agrees that he will not compete with the Corporation, either directly or indirectly, either as a principal, shareholder, or employee of a competing corporation or entity, in an area within a ten mile radius of any office of the Corporation, for a one year period from the termination of employment with the Corporation, except that the Employee may be employed by Stony Brook university Hospital. This covenant on the part of the Employee may be specifically enforced, by injunction or any other means available, by the Corporation.
- F. In the event that it becomes necessary for the Corporation to commence legal action or suit to enforce any of the provisions of this employment agreement, the Employee shall be liable to the Corporation for attorneys' fees, costs and disbursements incurred by the Corporation in the enforcement of its rights under this employment agreement.

Fifth: All communications hereunder shall be in writing and shall be sent by registered or certified mail, return receipt requested; if intended for the Corporation, shall be addressed to it, attention of Mr. Robert Lynch, or any other addressee of which the Corporation shall have given notice to the Employee in the manner herein provided and, if intended for the Employee, shall be addressed to him at the designated address given by the Employee at the time of employment.

Sixth: This Employment Agreement constitutes the entire agreement between the parties hereto, replaces all prior employment agreements, if any, between the parties hereto and no waiver or modification of the terms hereof shall be valid unless in writing signed by the party to be charged and only to the extent therein set forth.

Seventh: This Employment Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Eighth: This Employment Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, administrators, executors, successors and assigns, provided, however, that this Employment Agreement may not be assigned by either party hereto.

Ninth: This Employment Agreement may be executed in one or more counterparts, each of which shall be deemed an original.

In Witness Whereof, each of the parties hereto has executed this Employment Agreement
the day and the year first above written:
For the Corporation: _____
The Employee: _____

Appendix C

Sports Rehab Network Statement of Operations 1995 to 2000

		1995	1996	1997	1998	1999	2000	2001
								Projected
Revenue		\$501,604.00	\$858,714.00	\$1,011,523.00	\$1,254,817.00	\$1,476,402.00	\$1,798,472.00	\$2,081,608.00
Expenses								
	Payroll	\$223,455.00	\$378,915.00	\$409,368.80	\$511,711.00	\$836,589.00	\$915,831.00	\$944,704.00
	Benefits	\$33,518.25	\$87,150.45	\$90,061.14	\$102,342.20	\$ 157,513.00	\$191,876.00	\$220,728.00
	Operating	\$94,662.00	\$119,423.00	\$128,466.00	\$166,209.00	\$306,579.00	\$324,178.00	\$412,152.00
	Depreciation	\$48,844.00	\$100,555.00	\$100,555.00	\$100,555.00	\$124,225.00	\$145,012.00	\$157,200.00
	Interest	\$0.00	\$0.00	\$0.00	\$0.00	\$5,675.00	\$10,642.00	\$9,252.00
	Total	\$400,479.25	\$686,043.45	\$728,450.94	\$880,817.20	\$1,430,581.00	\$1,587,539.00	\$1,744,036.00
Net Profit		\$101,124.75	\$172,670.55	\$283,072.06	\$373,999.80	\$45,821.00	\$210,933.00	\$337,572.00

Appendix D

SPORTS REHAB NETWORK Strategic Vision 2001

Introduction

As 2000 draws to a close, the leadership of the Sports Rehab Network has reflected on areas we have succeeded as well as areas where we struggle. The greatest risk for failure of the Sports Rehab Network is a lack of unity. Very simply, you can have one body with many parts as long as the body has one soul, one heart, one mind and one vision. While expanding in the Peconic Health Corporation System, Sports Rehab has developed a Management Service with Eastern Long Island Hospital and Central Suffolk Hospital. Sports Rehab provides expertise in management, billing, accounting, advertising and marketing for the locations owned by our sister hospitals.

The original plan would have been successful if Sports Rehab had been allowed to manage and direct the business as we have in our three locations on the South Fork. The business' owned by ELIH (Southold, Shelter Island and Mastic) have the existing patient base to become profitable, but are poorly managed and the business lacks a plan for growth. The new Riverhead project (CSH) is scheduled to come on line in July and it is important that we learn from the mistakes made with ELIH before we open the doors to our first patient.

This presentation will summarize the recommendation of the administration of the Sports Rehab Network. In taking full control of the entire network, the business will increase profits through improved staff utilization; improved staff morale; one policy and procedure for personnel and therapy treatments; improved clinical education as well as economy of scale savings in supplies. The initial reaction from our sister hospitals will most likely focus on Southampton Hospital's attempt to take over the Sports Rehab business. However, we believe that once the facts are presented and a new profit allocation system is explained, all parties will see the benefit of our efforts.

The Plan

As of January 1, 2002, all employees of the Sports Rehab Network will become Southampton Hospital Employees. All Physical Therapy Treatments will be billed with Southampton Hospital Tax ID. All revenue collected will be deposited into one central checking account on behalf of Sports Rehab Network. Operational Expenses will be paid from the corporate checking account.

On a quarterly basis, Southampton Hospital will be reimbursed for expenses related to Payroll and Employee Benefits.

At the end of the year, Southampton Hospital will collect the management fee from the ending cash balance. The Management fee will be calculated as follows: \$ 100,000.00 for management

of three ELIH locations, \$ 50,000.00 for one Central Suffolk location. The remaining balance will be distributed to the two sister Hospital's on a pro rata share based on revenue generated by the facilities they own.

The Business Plan

For 2001, we have projected growth for the three locations owned by Southampton Hospital to reach 23,105 patient visits. This volume will generate revenue in the amount of \$ 2,081,608.00. Expenses for the same period will total \$1,744,036. Net Income from operations will total \$337,572.00.

Management Fees from ELIH (\$100,000.00) combined with an operational loss for the Riverhead location (\$101,725.00) will result in a negative impact on Net Income in the first year. (Attachment B) The cumulative effect of centralizing the Sports Rehab Network will result in 329,847.00 cash profit for Southampton Hospital; \$134,889.00 cash profit to ELIH and no impact to CSH.

AU calculations and projections were based on current Year To Date financial and statistical data. Expenses for all locations were budgeted for each location based on actual expenses in 2000 and increase by five percent (5%).

Issues and Obstacles

Shelter Island

The Shelter Island location is run through Project Fit. The business agreement is between Sports Rehab and the Town of Shelter Island. It is located in the Fitness Center, which is adjacent to the High School Gym. Sports Rehab is charged with no expenses for use of the facility. In exchange, Sports Rehab has agreed to staff the facility with a Physical Therapist seven hours a day, three times per week. We have also agreed to provide either a Certified Athletic Trainer or Personal Fitness Instructor seven hours a day, five days per week. All fees for the fitness program go directly to the Town of Shelter Island. All Physical Therapy revenue goes directly to Sports Rehab.

If Southampton Hospital should take over the business, we need to evaluate personnel and business practices. The problems are minor and can be corrected resulting in ten to fifteen percent increase in gross revenue.

Southold

This facility needs the most work. However, the great thing about Southold is the existing volume. Staff problems are the greatest concern here. The current Lead Physical Therapist would need to be replaced. Issues here include insubordination, personnel policy violations, poor documentation, patient confidentiality violations, sharing trade secrets with competitors and lack of support to the Sports Rehab Network. All of these are documented.

The facility is currently understaffed in the front office. Based on volume (Shelter Island and Southold) we need one full time office manager and two fifths receptionist. Adding staff here will improve insurance verification, documentation and billing while decreasing denials. The greatest impact to cash is with improvements we will make in the front office. Beginning in June 2000, Sports Rehab has contributed more time to helping the front office in Southold and the result was a significant increase in revenue.

Changes to the current clinical caseload system is also needed. Southold does not utilize the Sports Rehab Team Caseload System. The system in use is extremely inefficient. Other issues include upgrade of some equipment, change in facility layout and review of any and all leases.

Mastic

This location is the cream of the ELIH business. However, growth in the initial months of operation has been stalled due to a lack of vision on the part of ELIH leadership. Staff morale is also a significant problem at this location.

Staff should be immediately increased by recruiting either a Physical Therapist or a Physical Therapy Assistant. The new person also needs to be a male. With long hours and current staff of three females, security has become an issue. We have budgeted for this new position in 2001.

The front office is also maximized here and we can effectively improve efficiency with bringing on a three-fifths receptionist (also budgeted for 2001).

Plans in 2001 also include bringing on a new Certified Athletic Trainer in the fall of 2001. This new position will not only serve a clinical role, but will service the Center Moriches School District. (enrollment of 1,856 in 2000-2001). Center Moriches is a highly competitive class B school (similar to Westhampton and Eastport). It boasts a very competitive Junior High and High School Athletic Program as well as several successful little league programs. This position will generate an estimated \$62,000.00 in additional revenue through physical therapy treatments provided to injured athletes. Annual cost for this position will be \$31,250.00.

There are also problems with the current landlord that will need additional investigation. Issues here include lack of C.O.; roof problems, rent concessions and construction cost reimbursements.

Riverhead

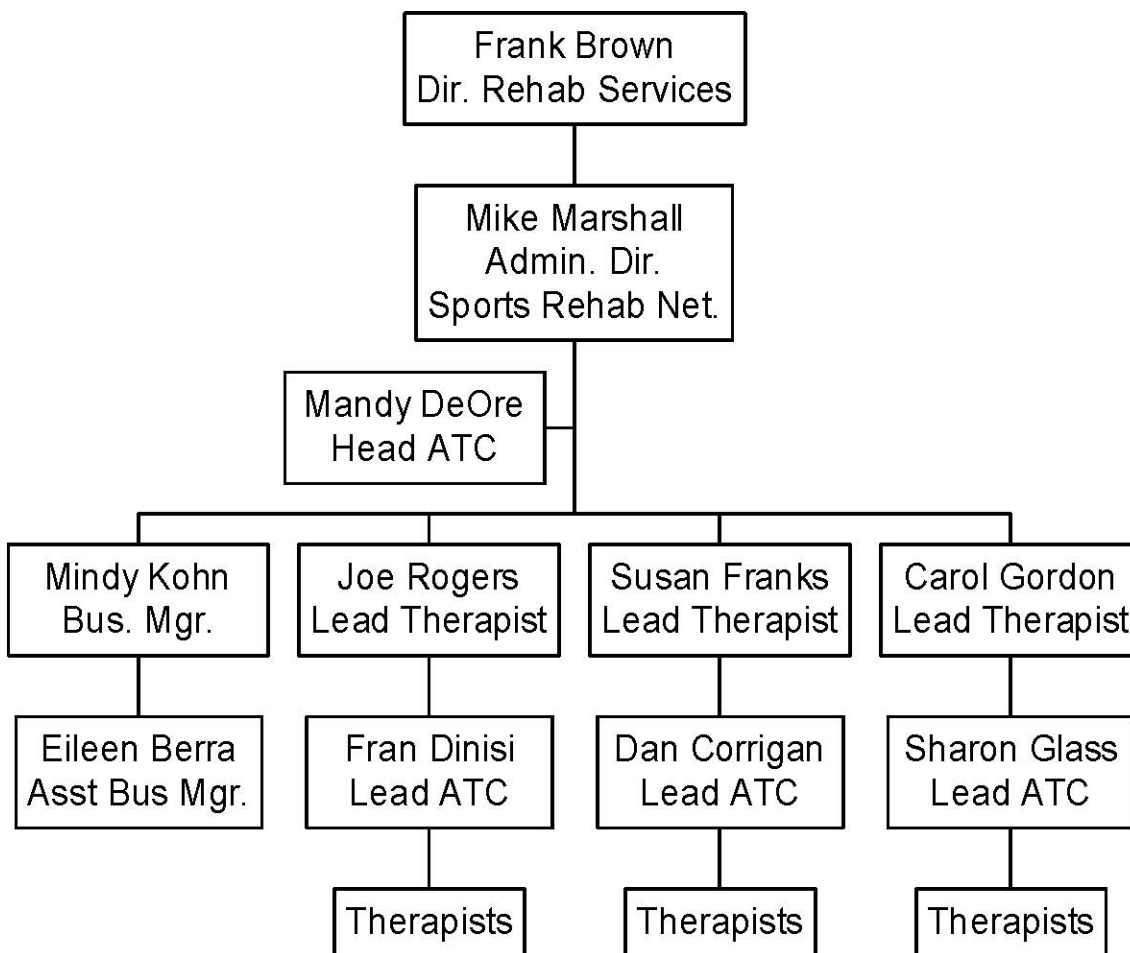
Riverhead is a new project, approved by Central Suffolk Hospital in August of 2000. Construction of the building began in September. The plan calls for the building of a 8800 square foot facility. Sports Rehab will occupy approximately 60% of the space. The remaining space will be occupied by two primary care physicians and three orthopedic surgeons. With Physicians located in the same building as our business, this location has significant potential. (compare Westhampton Sports Rehab with Primary Care next door) No real issue here. Mr. Lynch has already alluded to the fact that he would like to discuss a risk sharing contract with Southampton Hospital. However, if the centralization plan does not go forward and Sports

Rehab is forced to deal with issues similar to those we currently experience with ELIH then the business will struggle.

Conclusion

Based on the information presented and the three years of experience attempting to be successful within the Peconic Health arena, we feel the move toward centralization is the most appropriate. Southampton will continue to reap the rewards of owning three very profitable centers on the south fork. However, if losses in our other locations continue we will, without question, come under fire in the near future. In addition, staff morale in each of the ELIH locations is extremely low and we have experienced the loss of very qualified employees during the past two years. The Sports Rehab Network can be successful in all markets, for all communities and for all three Hospitals. The level of our success will be directly related to our ability to operate as one business with one vision ... To be the best providers of sports medicine and physical therapy on Long Island.

Appendix E Organizational Chart Sports Rehab Network 2000



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