Getting Beyond Industrial Logic:
Renewing Our Faith in the Value of Health
By Shari Mycek
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In 1962 a group of powerful record company executives made what they believed to be a "sound" business decision based on relevant market indicators. After listening to a demo tape, Decca Records executives rejected the start-up, hoping-for-that-big-break English rock band on the grounds that "guitar groups were on their way out."

Decca's read on the market was erroneous. Within a few short months, EMI's Parlophone signed the Beatles, who became an overnight success in the United Kingdom, Europe, and eventually the U.S.

Looking beyond the surface of what appears to be market-driven logic is an important business strategy, not only for record company producers but also for healthcare leaders. During the Healthcare Forum's fifth Healthier Communities Summit, futurist Jeff Goldsmith, PhD, president of Health Futures, Inc., challenged healthcare leaders to adopt the vision and courage necessary to look beyond the short-term, quick-fix, fear-based business plans all too apparent in today's market. Instead, he advised investing in long-term, new growth strategies that capital markets are truly seeking - creating healthier communities for a healthier workforce.

Seeds of retribution

"Many leaders of health plans and provider systems have unwittingly become prisoners of industrial thinking and the notion that brute-force economic leverage and access to capital are somehow the key to creating value," says Goldsmith.

The rapid concentration of ownership in healthcare -- with traditional providers circling their wagons and formerly independent physicians retreating inside the circle of wagons -- has been a direct provider reaction to managed care. "The prospect of being absorbed into investor-owned hospital systems and seeing their physicians disappearing into for-profit physician practice management companies has also added to the anxiety and created among hospital executives a tornado of fear," suggests Goldsmith.

Executives have responded, he explains, with "the incorrect idea that there is safety in mass. But the price for getting bigger and bigger is institutional paralysis and political vulnerability."

The managed care industry itself has not been immune to the consolidation "logic" shaping the current healthcare scene. Having conquered traditional indemnity insurance, many managed health plans have awakened in the Nineties triumphant, only to look in the mirror and see in their reflections the flabby and unresponsive faces of those they drove from the field.

As a result, many managed care advocates --who envisioned managed care as a vehicle for changing incentives, behavior, and relationships to create a healthcare system that would take a more constructive interest in health -- are now seeing managed care firms replicate many of the defects of the old insurance system.

“After having grown up in an environment where collaboration with providers was essential to even reaching the playing field, an increasing number of health plan executives are now taking the brute-force, "here's-the-deal" approach to their relationships with doctors, hospitals, and other healthcare providers," observed Goldsmith. “They talk rhetorically about professional services as if they were commodities like wheat or automobile tires. And about lives in units of 100,000 as if -- the ultimate arrogance -- they owned them.”

"There will be a chilling retribution for this behavior," continues Goldsmith. “Unless the damaging perception that managed care is really about money and not about value for money, that managed care is somehow adversarial to the interests of patients rather than a powerful advocate for their health, is resolved, managed care will have a short, unhappy reign as our dominant payment system.”

What does this have to do with patients? Of course, not all managed care plans -- or hospital systems -- are alike. Throughout the country there are examples of healthcare leaders who have pursued integration to create value and a framework to improve the health of communities.

But for every one of those leaders there are a half-dozen others-deer in headlights-who've opted to defend their franchises and their margins. At all costs.

"Frightened people make bad business decisions and bad business partners," observes Goldsmith. "In advanced managed care markets, shell-shocked doctors and nurses have seen their institutions go through as many as five mergers or ownership changes. They've seen the executives who run their organizations increasingly closeted in meetings with their lawyers, strategists, and bankers, relocating their headquarters into downtown or sterile office complexes physically and emotionally removed by miles -- not feet -- from the caregiving process.

“Caregivers -- those with blood on their shoes and beepers on their waists -- look at all this corporate maneuvering and ask: What does any of this have to do with us? Or our patients?

"As a strategist, I can't find a market-driven logic to the concentration of ownership taking place in the healthcare field," says Goldsmith. "Market forces eventually destroy large, unresponsive institutions."

Talk to Peter Drucker, father of modern management theory, and he'll point out that in industry, the traditional advantages of "big business" have largely evaporated, says Goldsmith. Firms no longer need to be massive in order to raise capital, access information, or secure the brightest managers. in fact, one of the most competitive industries in the country-information technology is a hive of smaller enterprises knitted together by partnerships and strategic alliances. The large firms are all struggling against the disabilities of their huge scale.

Probe Drucker further on the issue of mass and scale in knowledge-based enterprises Such as large medical group practices or hospital systems, and he'll offer a signal-to-noise ratio analogy: The addition of each relay in an electronic circuit halves the amount of signal that passes through it, doubling the noise. And when a healthcare enterprise reaches a certain size and complexity. the message and value is also overwhelmed by the static.

"It is not hard to envision the healthcare landscape if we follow the brute-force industrial scenario out to the end of the road," predicts Goldsmith "We end up with metropolitan healthcare

markets with three provider systems and three health plans entrenched behind high salaries, tall organization charts, and a vast gulf between the generals and the people in the field giving and receiving the care.

"And when capital markets look at that World War I scenario -- with its war of attrition, poor morale, despairing citizens, and poor returns -- they're going to put their capital somewhere else."

Picking the low-hanging fruit Goldsmith contends that a thriving healthcare economy ties not in concentration of ownership, but rather in improving health and building healthy communities. He espouses a competitive business logic that says a healthier community is good for society as a whole, and that firms working to improve the health status of people are good places to invest society's capital.

Certainly there is evidence of this premise at work inside America's corporations, start-up companies, and managed care firms. Increasingly, employers are coming to terms with the idea that improving the health of their workforce is good business. Aside from slashing the number of dollars spent on healthcare, there is an emerging conventional wisdom among employers that improving health is an important bonding process -- a way to ensure that employees remain with the company over the long term, and thus contributing to a stable, productive, and committed workforce.

The rapidly growing crop of start-up firms focused on managing health risks also attests that health improvement is good business.

Finally, the development of managed care underscores the need for healthier communities in a market-driven healthcare economy. Currently. explains Goldsmith, most managed care markets are in the earliest stage of development: They are still "picking low-hanging fruit -- that is, they achieve savings for employers and subscribers by obtaining discounts from providers who effect these discounts by reducing hospital utilization.

Only a handful of markets, mostly in the western United States, have reached Stage 2 -- clinical conservatism -- encouraging more conservative, thoughtful use of clinical resources. Within a decade, however, most all managed care markets will be engaged in Stage 3: managing health risks. [For a detailed description of these stages. see "Managed Care Comes of Age" by Jeff Goldsmith and Michael Goran, in the September/October 1995 issue of this journal. -- editor]

"The true added value in managed care will be found in the management of health risks," maintains Goldsmith. "Once savings have been achieved and the culture of clinical practice transformed, there is no other place for managed care companies to go but to work collaboratively with the community to try and reduce the avoidable or manageable health risks in their population of subscribers."

Among the managed care firms that are publicly traded, those with the highest price-earning ratio, like PacifiCare and Oxford Health plans, are the firms that have moved most aggressively in the direction of collaborative partnerships and risk sharing. And have also begun developing disease management and community-based health initiatives.

Each of these three trends-heightened emphasis on corporate wellness, the growing number of start-up firms centered around managing health risks, and managed care-based health

improvement-represents only one piece of leverage to improve the health of their subscribers and our citizens," says Goldsmith. "But it's important to realize that these tools are there, and they are there because capital markets have invested in them."

The real power of an idea of course, there is also indisputable humanistic value in building healthy communities. When the idea to improve health first surfaced, hospitals were challenged to accept the notion that:

- There is a higher and better use for hospital resources than merely repairing the damage of avoidable illness after it has occurred.

- Hospitals possess many of the tools and relationships necessary to move health status upward, and to render a lot of the care currently being provided unnecessary.

- Community contribution should be measured not by the passive accumulation of un-reimbursed charges rendered to people without insurance, but rather by providers' effectiveness as a community resource in improving the health of those they serve.

In surveying the field in 1997, The Healthcare Forum found that literally hundreds of organizations-managed care leaders like Health Partners, Group Health Cooperative Puget Sound, and PacifiCare among them-were so moved by the idea of improving health that they had incorporated the concept into their mission statements. Health professionals involved in building healthy communities continue to say that the movement has reaffirmed and renewed their core values of what they want to do with their knowledge and talent-and that improving the health of communities was so self-evidently the right thing to do.

"The real power of an idea is measured by the number of people who share it and whose lives it changes," declares Goldsmith. "In healthcare, we can worship the God of brute force and economic leverage if we choose. if we're afraid, we will create what we fear. Or we can believe that we can change people's lives for the better and work with fearsome energy and commitment to make it so. Working to improve the health of our citizens will not only help unify our communities, it will recommit our healthcare system to a higher purpose and a renewal and affirmation of its values."

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