Managed Care's Challenge: Physician-System Integration

Steve McDermott calls California's fast-growing managed care market "barely controlled chaos." The executive director of San Ramon–based Hill Physicians Medical Group said healthcare executives can learn a lot from California's experiences with managed care and physician integration in healthcare systems.

California's failures are especially instructive, according to McDermott. Despite the state's strong health maintenance organization growth (traditional indemnity insurance is extinct and preferred provider organizations are also becoming dinosaurs), McDermott noted that many physicians remain "anti-HMO" and most medical groups are financially and structurally unsound.

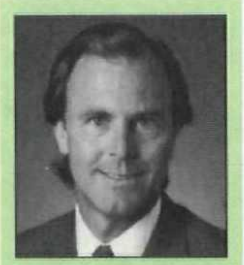
But Hill Physicians, California's largest independent practice association, has brought some order to the chaos by involving physicians in management. McDermott described Hill Physicians' experience at an October meeting on integrated delivery systems sponsored by the Healthcare Forum.

To Own or Not to Own?

Hospitals have gone bankrupt buying physician practices, McDermott warned the audience of hospital and managed care executives. Start-up costs for a hospital-sponsored physicians' organization are high, he said, and most medical groups lack essential organizational systems and controls, as well as group commitment to the organization's success.

Physicians, however, want to be part of an organization that they own and control and that partners with HMOs and hospitals, McDermott maintained. Hill Physicians is a professional corporation owned entirely by its 2,150 participating physicians. It serves 250,000 capitated enrollees from eight HMOs in five northern California counties.

More than 120 physicians participate directly in Hill Physicians' leadership through its committees, medical management activities, and 12-member elected board of directors, McDermott explained. Six directors are primary care physicians and six are specialists.



"You want to transition physicians from being in control of their practices to being in control of an organization," Steve McDermott said.

"If you can capture the hearts and minds of specialists, it's a powerful driver," McDermott said. Hill Physicians has gained specialists' support by having regional specialty teams take over utilization review. McDermott said this arrangement has resulted in unprecedented reductions in inpatient days and specialty costs.

In addition, he attributes the corporation's success to the early decision to create a single, large medical organization, which can obtain capital and also achieve market clout, brand name identity, and economies of scale. Hill Physicians also continuously works on maintaining open communications and refining its compensation system. But McDermott noted that compensation is not simple. "Whatever you decide in compensation will change," he said. "Compensation is an evolving game because you're in an evolving structure."

Success Key: Physician Managers

McDermott said the key factor for organizations who want to succeed in managed care is skilled, experienced management. Hill Physicians is managed by PriMed, Inc., an organization McDermott founded. PriMed is owned jointly by Hill Physicians; Catholic Healthcare West, San Francisco; and PriMed's management. As chairman/chief executive officer of PriMed, McDermott sees his challenge as training physicians to be managers.

"You want to transition physicians from being in control of their practices to being in control of an organization," he said. He pointed out that doctors who can run a physicians' organization as a group responsibility can regain control over medical decisions.

McDermott has set his sights on helping physicians assume their role as managers of the health of populations. He said his goal is to connect primary care physicians and specialists into an inte-

grated delivery system and "totally change the way medicine has been practiced."

Clinical Integration

Stephen M. Shortell, PhD, also called for physician integration. He said a delivery system (a network of organizations that are clinically and fiscally accountable for the health status of a population) cannot succeed unless it integrates physicians into its structure.

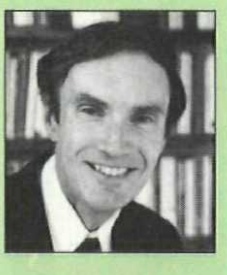
Physician-system integration is not hospital ownership of practices or employment of doctors; integration is the extent to which physicians are involved and share accountability for the system's success, he said. To reach full physician integration, and thus clinical integration (CI)—coordination of care across the system's operating units—systems need a "basic package," according to Shortell:

- Ongoing physician education and leadership development
- Practice management support
- Meaningful physician involvement in management and governance

"Best Practices" for Clinical Integration

In the most integrated systems, strategic planning begins with medical group practices and physicians' organizations, not the hospital, Shortell said. In his research on the performance of 11 healthcare systems, Shortell, who is a professor of health services management at Northwestern University's Kellogg Graduate School of Management, has identified other "best practices":

- Developing a common information data base for all physicians in the system
- Developing a systemwide physicians' organization
- Establishing a forum in which the system's physician leaders can discuss concerns about managed care
- Forming strategic alliances with primary care networks



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What Top Management Can Do

Shortell's research shows that a participatory, or "group," organizational culture, which encourages learning, is positively associated with both physician-system integration and CI, whereas a hierarchical culture is negatively associated with integration. He advised system leaders to build a group culture that helps sustain the momentum for change. Shortell also recommended that top managers act in the following areas.

Planning Develop a CI plan that clearly defines CI, goals, and initiatives. Plan to involve physicians in CI efforts. Wellness and health maintenance, not illness, should be the focus of planning activities, which include an assessment of community health status and the involvement of many community organizations and epidemiologists.

Governance Rethink the board's membership and its role in promoting CI and wellness. Shortell noted that multiple boards can hinder decision making.

Implementation Assign an individual (a physician, if possible) to be accountable for implementing CI. Develop an "integration scorecard" to monitor the system's progress, and build new performance appraisal and incentive systems that promote CI.

Information Systems Create clinical and financial information systems that support monitoring of care across the continuum and include a cost accounting system, a common medical record system, and a standardized risk assessment data base.

Care Management Establish common methods for developing critical pathways, measuring outcomes, and analyzing variances across the system. Develop new approaches for managing the multiple chronic illnesses of an aging population.

Working Together

Shortell has not found any delivery systems with all these success factors in place. But to meet the challenge of capitation, he said, healthcare executives and physicians must work together toward delivery systems with these components.

—Judy Cassidy