

# Is Integrated Delivery Healthcare's Breakpoint?

BY PHILIP J. KARST, PhD

In 1984 IBM reported earnings of \$6.6 billion, still the largest profit any company in the world has ever achieved. In 1992 IBM reported a loss of \$5 billion, on the heels of a \$2.9 billion loss in 1991.

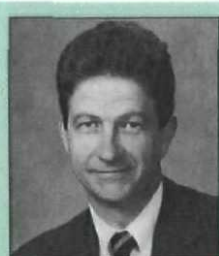
In 1967 the Swiss watch industry discovered the electronic quartz movement, which has become today's standard. The Swiss rejected the concept and saw their market share decline from 65 percent of all unit sales in 1968 to about 10 percent in 1980.

From roughly 1910 to 1970 the assumptions directing the U.S. automobile industry were not only valid, but they made it one of the most successful industries the world has ever known. But in the span of some 5 to 10 years, these assumptions virtually collapsed. The assumptions became invalid and so out of touch with reality that the industry almost went down the tubes—permanently.

**H**ow is it that these one-time leaders lost their market position, shaking our understanding of markets and success? What factors contributed to these failures? How could organizations known for being in touch with their markets experience such negative results? Can we in healthcare learn from these experiences as we plan our future?

The rapid changes that have occurred these past few years have challenged many healthcare professionals—from sponsoring religious institutes to direct care givers. Inpatient census has declined, cost-based reimbursement has been replaced by deep discounts, high-touch care has been replaced by productivity systems and targets for hours per patient service. If these trends continue, the decline in inpatient care will be reflected in ever fewer hospitals, more ambulatory locations, and a continuing restructuring of the delivery system. The concept of integrated delivery suggests that we are beginning to develop an entirely different way to provide care.

The concept of “breakpoint”—introduced by



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George Land and Beth Jarman (see **Box**, below)—might help us understand what has been happening in healthcare and serve as a starting point in planning for the future. Further, an analysis of breakpoint reveals what went wrong at IBM, GM, and the Swiss watch industry and what healthcare providers should be doing to avoid the same pitfalls.

## THE BREAKPOINT CONCEPT

A breakpoint is a change in a trend, a change so powerful that it breaks the link that usually connects future events with current and past events. We have been taught that change follows a pattern, such that the future can be predicted by extending an observed pattern or trend. At a breakpoint, however, the underlying change is so sharp that patterns cannot be extended. The old rules no longer apply, and, further, following the old rules may be the absolute wrong thing to do.

The **Figure** on the next page shows an exam-

## BREAKPOINT RESOURCES

Joel Arthur Barker, *Paradigms: The Business of Discovering the Future*, HarperBusiness, New York City, 1992

Paul Carroll, *Big Blues: The Unmaking of IBM*, Crown Publishers, New York City, 1993

Catholic Health Association, *A Handbook for Planning and Developing Integrated Delivery*, St. Louis, 1993

Michael Hammer and James Champy, *Reengineering the Corporation*, HarperBusiness, New York City, 1993

George Land and Beth Jarman, *Breakpoint and Beyond*, Harper-Collins Publisher, New York City, 1992

Ian I. Mitroff, *Break-Away Thinking*, John Wiley & Sons, New York City, 1988

Michael Ray and Alan Rinzler, editors, *The New Paradigm in Business*, Putnam Publishing Group, New York City, 1993

ple of this process, which is the accepted growth pattern in many firms and industries. Phase one (chaos) represents the initial organizing phase in which entrepreneurs struggle with applying a particular idea or technology. In phase two, the period of rapid growth, someone identifies the successful rules or procedures and therefore is able to produce outstanding results that can be duplicated. In phase three the industry or firm reaches maturity, a time when the market for a particular product or service is saturated, resulting in little or no growth and often decline. Breakpoints occur between phases one and two, and between phases two and three. At each of these points, an industry's fundamental rules change.

**First Breakpoint** In moving from phase one to two, a successful formula that can be duplicated is discovered. Firms that follow the formula experience growth, whereas those which continue to experiment fall by the wayside.

**Second Breakpoint** At the second breakpoint (between phases two and three) the market is saturated, and the underlying fundamental rules of an industry change. To be successful at this point, a company must look for new technologies or services to pursue and must then successfully transition to the new, marking the beginning of a different growth process—all the while maintaining past success.

**Heroes** Each phase has its heroes (see Table, p. 88). During phase one the most creative entrepreneurs will likely find the success formula and become the first to move past the breakpoint. So during phase one the entrepreneur is king.

In phase two the entrepreneur is replaced by the manager, the monitor. Rules and regulations are the keys to success, since, by following the rules, managers can duplicate the formula for success.

In phase three the leader becomes the hero, who can oversee the transition from the old ways or paradigms to the new ways or paradigms. Following the old rules will eventually lead to failure, but full acceptance of the new rules has not yet occurred. The leader pulls us to the future, while we disengage from the past.

## TWO INDUSTRIES' STORIES

During the computer industry's infancy, several firms developed and tested computers. By the 1960s, however, IBM had put together a combination of computers and programs, backed by high-quality service, which became the success formula for computer manufacturers. IBM became the dominant mainframe standard for quality. Executives who selected IBM computers were assured they would get high-performance

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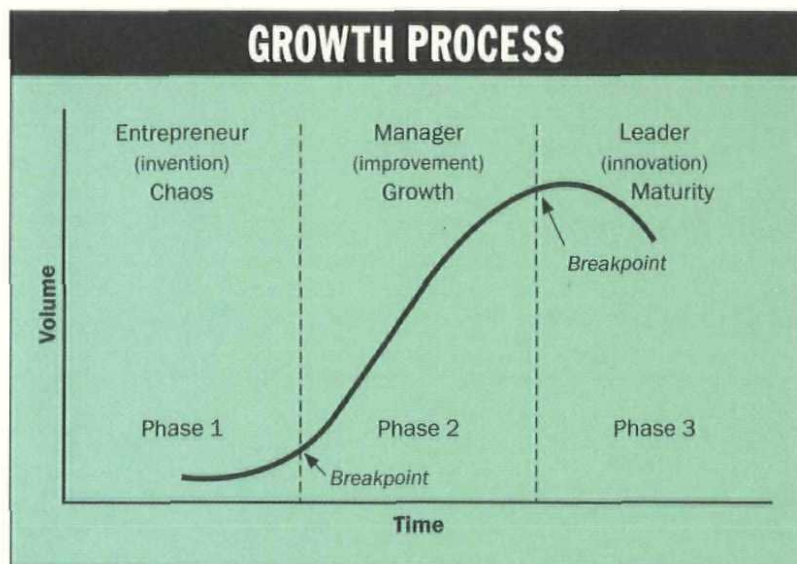
products, and IBM flourished.

But the development of the large-scale integrated circuit, with its ability to place a complete functional computer on a small chip, almost ruined IBM. This development led to the creation of microcomputers. Although it took many years for these computers to become really powerful, the fundamental assumptions about data processing changed forever. The ideas that only a few people were capable of writing programs, that data had to be controlled to be effective, or that small computers could never do big jobs all had to change. And IBM almost got lost in the process.

Likewise, GM failed to realize that some of its fundamental assumptions about automobile purchasers and their preferences became quickly outmoded during the late 1970s and early 1980s. The notion that the Japanese car manufacturers would never be a threat to American car manufacturers was no longer true. Reliance on such old assumptions threw GM into rapid decline, leading to its recent losses.

## APPLYING THESE LESSONS TO HEALTHCARE

Can these lessons be applied to healthcare? The big growth in institutional healthcare began in the 1950s, when Americans held healthcare professionals in the highest regard and access to healthcare, particularly hospital care, was a major concern. Insurance, which reduced the cost of healthcare's direct and immediate impact on patients, resulted in a formula for success that focused on acute inpatient care, using the latest technology. Those hospitals which were seen as the most sophisticated were usually also the most successful.



## GROWTH PROCESS PHASES

	Phase One	Phase Two	Phase Three
<i>Hero</i>	Entrepreneur	Manager	Leader
<i>Climate</i>	Chaos	Stability	Disorder
<i>Creativity</i>	Invention	Improvement	Innovation
<i>Organizational rules</i>	Forming: Do it, try it, fix it	Growth: Plan, organize, staff, measure	Maturity: Doing different things
<i>Known for</i>	Dynamic disorder	Growth through limitation	Bifurcation
<i>Heroes</i>	Edwin Land Tom Watson	Henry Ford	You?
<i>Quote</i>	A maniac with a mission	Don't rock the boat	Commitment to a vision
<i>Mind-set</i>	Ingenious and unpredictable	Linear, logical, rational	Balanced, between old and new

Today these fundamental rules are changing. Often referred to as a paradigm shift, this development appears to be a true breakpoint. If it is a breakpoint, then the past will not project the future, and leaders, not managers, are what healthcare needs most.

If healthcare has reached a breakpoint, then how should we respond? Balance: The challenge at a breakpoint is balancing the old way, which is clearly understood and has been successful, while seeking and discovering the new way, which few understand or appreciate. This is truly a time for leaders.

On a more operational level, the concept of reengineering applies this breakpoint thinking. Reengineering means "starting over," according to Michael Hammer and James Champy, architects of the concept (see **Box**, p. 86). "It means asking the question, 'If I were re-creating this company today, given what I know and given current technology, what would it look like?'" (p. 31).

Applying this thinking to the healthcare ministry, the questions become, What is our mission? How, in today's environment and today's reality, can that mission be carried out? If our mission is to be a patient-centered, caring, holistic, wellness-focused ministry, then how might the delivery system be structured to bring this about?

### INTEGRATED DELIVERY

This thought process led the Catholic Health Association's Task Force on National Health Policy Reform to propose integrated delivery as

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a better way to meet our nation's healthcare needs while achieving our mission. And it requires this kind of break-away thinking to realize the full potential that integrated delivery has to offer. Achieving this vision will call for healthcare providers to act in a new and different way, to create what has never existed before rather than just extend what we have always done.

Are we up to this challenge individually and collectively? The healthcare reform debate has provided the opportunity to fundamentally change the system and to reengineer our organizations to better fulfill our mission. But the work is difficult, the future uncertain, and the challenges ahead complex and daunting.

If we are able to recognize breakpoint, if we begin the process of reengineering our organizations for integrated delivery, we are likely to confront a number of challenges. Integrated delivery will likely mean:

- Fewer and different jobs
- More relationships between Catholic organizations and other community or religious organizations
- Development of new cultures, including new corporate values
- New leadership with different skills and competencies

Integrated delivery can mean better healthcare services and better, more holistic treatment of persons, with a greater chance to influence our society's values. Are we in Catholic healthcare ready to accept these challenges? □