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From the Editor

The Bleeding Edge

David B. Nash, MD, MBA*

* Thomas Jefferson University

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From the Editor

The Bleeding Edge

Almost four years ago, I was intrigued by a very incisive and provocative editorial[1] in the Wall Street Journal by J. D. Kleinke, a noted healthcare economist. The editorial spoke of an industrial revolution coming to medicine based on a rationalization of the haphazard use of services, an improvement in quality, and a reduction in costs. Now, the same author has written a new book entitled, The Bleeding Edge,[2] published recently by Aspen Publishers. I thought our readership would be interested in his detailed thesis about the future, focused on the ascendancy of a new business entity in health care, the EHO—the Emerging Healthcare Organization.

The central thesis of this fascinating book is that five key forces will culminate in the transformation of the health care industry to a world of EHOs characterized by decreased costs, an increase in quality, and the "liberation" of physicians from the perceived bonds of managed care. Let me first note these five forces and define them; then, we will explore Kleinke's vision for each of these forces in turn. The key question that Kleinke addresses is, "How do we transform 15% of the world's largest economy?" The interaction among these five forces provides the driving energy for the transformation. The five forces include risk assumption, consumerism, consolidation, integration, and ultimately industrialization. These five forces will create a post-managed care organization world with the inevitable demise of the national managed care companies that we know today. The managed care company of the future will become only a middle-market health plan reduced to sales, marketing, and reinsurance functions only. Over time, according to Kleinke, EHOs will eventually "develop the critical mass and organization sophistication necessary to assume financial risk, thereby industrializing their processes of care to manage this risk in a profitable way" in a nutshell, a complete transformation of the healthcare economy. Let's review these five forces in turn.

Risk assumption will correct the fundamental problems in healthcare consumption and market economics. Kleinke contends that through risk assumption or capitation physicians and hospitals will be required to act like all other free-market producers of goods who are motivated to focus not only on maximizing revenues but also on the cost of the goods sold. He specifically contends that capitation will force us to confront the reality that physicians are self-interested economic agents—surely, a provocative viewpoint. Capitation, then, becomes the vehicle for "provider liberation" by eliminating the middleman and guaranteeing provider ascendancy in this New World Order of the EHO. As the role of the managed care organization becomes increasingly marginalized, one simple truth emerges in Kleinke's vision that "in the new century's healthcare system, the only transactions left will be the transfer and assumption of medical/financial risk."

The second force, consumerism, will neutralize distortions in the healthcare system created by the self-interest and faulty paternalism of managed care organizations and other insurers. Consumerism will correct the "asymmetries of information" by providing consumers with information for more informed decision-making. It will also engender the branding of healthcare services. Both topics have been covered in this column previously ("Consumerism in Health Care," September 1998 [Vol. 11, No. 3]).

The third force, consolidation, will rescale the healthcare infrastructure properly, mobilize capital, spread risk across broader populations of patients and providers, and allocate healthcare resources more efficiently. Essentially, this section of the book repeats his key theme that healthcare is transforming itself into a business, no less exempt from the laws of competition than automobiles or the airline industry. Why are managed care organizations like Aetna U.S. Healthcare purchasing Prudential and NYLCare? According to Kleinke, its nothing but the law of large numbers. They are attempting to create larger risk pools to better absorb larger losses. Bigger is less risky. But Kleinke contends that this is their "only structural competitive advantage" against the fundamental economic challenge posed by what he calls "forward integration of providers." Translation: the managed care companies can get bigger and bigger but, eventually, the elimination of the middleman will occur if providers are able to integrate and industrialize their processes.

Integration, the fourth force, corrects the fragmentation and other structural defects built into the medical delivery system. Kleinke calls this the end of "clinical apartheid"—meaning that those decisions with the greatest impact on the institution's cost and profits, and the quality of the care delivered, are made by a class of people not usually employed by that institution. Of course, he speaks here of physicians. Integration and integrated delivery systems are, themselves, better able to systematically study how to improve the process of care. As provider information systems mature and go beyond simple intermediate measures, like length-of-stay and the cost of prescriptions, we will enter the integration stage where the true endpoints for measurement, like total costs and final outcomes (across the continuum of care), will be quantifiable. Integration, then, becomes inextricably linked to quality improvement, better information systems, better understanding of the processes, and improved ability to change those processes. Simply put, integration is the gateway to the final force of industrialization.

The fifth force, industrialization, according to Kleinke, is the stage where we rationalize the haphazard use of services, increase economic predictability, improve quality, and reduce costs. This might sound familiar to our newsletter readers ("Higher Quality at Lower Cost?" January 1999 [Vol. 12, No. 1]). Industrialization means that providers will bring to an end unexplained clinical variation and neutralize unnecessary heterogeneity in the processes we use to care for patients. The richness of the clinical data available to us will become our critical strategic advantage for the future, eclipsing the claims-based data left available to the insuring organizations. Finally, we will obtain the greatest paradox of all, according to Kleinke, in that "physicians will be driven by their own financial self-interest to create and support systems that measure their own performance, reduce variability, and promote treatment paths where they, themselves, are the providers of last resort."

Certainly, this book may not appeal to everyone. Yet the theme, as articulated through these five forces, is an engaging hypothesis worthy of our discussion and debate. Kleinke has asked some critical questions and put forward his own well-supported views about the transformation of the business of healthcare into the next century. Perhaps he will begin a more focused national provider-driven debate on these salient issues. Selfishly, I would like to continue the discussion and I am, as usual, interested in your views. Kleinke can be reached directly at his Web Site: http://www.hs-net.com.

- David B. Nash, MD, MBA

References

1. Kleinke JD. Medicine's industrial revolution. Wall Street Journal, August 21, 1995; p.A8.

2. Kleinke JD. The Bleeding Edge. Gaithersburg, MD: Aspen Publishers, Inc., 1998.