

**MANAGED CARE AND  
THE INDUSTRIAL ORGANIZATION OF HEALTH CARE**

**HCMG 845-001  
Spring 2013**

**Instructors**

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**Class Time / Location**

**Time:            Tuesday Evening 6-9 p.m.  
Location:      John M Huntsman Hall**

**Overview of Course**

**This course examines two large topics in the healthcare industry: managed care and the industrial organization of health care. Each topic is really an umbrella concept that covers a broad array of approaches and techniques. The course seeks to analyze the strategy, structure, and performance of developments in each area. Thus, we shall consider**

- (a) the core processes and infrastructure of managed care**
- (b) measures of market power and concentration**
- (c) the horizontal and vertical integration strategies of payers, providers, and suppliers**
- (d) the rationales behind horizontal and vertical integration strategies**
- (e) the development of value chain alliances, and**
- (f) the performance effects observed to date.**

**The course shall also consider the crucial interface between managed care and integrated healthcare systems developed by providers.**

**The course will draw on a range of information sources: presentations by industry experts and executives, recent, ongoing research investigations in these areas, recent cases, and selected industry publications. The course will also ask students (in teams) to conduct focused industry investigations into managed care and industrial organization that extend our knowledge of these topics. Student investigations will be shared with the class.**

## **Conduct of the Course**

This course is co-taught by Robert Burns and Brad Fluegel, as well as several guest lecturers from the industry. It will meet every Tuesday evening from 6-9 p.m. Dr. Burns will hold office hours before class on Tuesdays from 5-6 p.m.

## **Course Requirements**

Students will conduct two team projects. The team projects must be handed in and prepared for in-class presentation on March 26 and April 30, respectively. Consult these dates in the syllabus for possible topics. The project reports should be no more than 15-20 pages in length each.

The two field-based investigations will focus on managed care during the first half of the course, and industrial organization or integrated healthcare during the second half of the course. Student project teams to study managed care should form by the third class of the semester (January 29th); teams to study industrial organization and/or integrated healthcare should form by the second class following spring break (March 19th). Topics should broadly focus on the strategy/structure/performance of managed care and industrial organization or integrated healthcare. Where possible, teams will be matched with industry experts as advisors. Managed care team projects will be formally presented in class at the end of the first half (March 26) and second half (April 30) of the semester. Papers are due in class the day of the presentation.

The two project papers (approximately 15-20 pages) and class presentation (approximately 15 minutes) should focus on a specific aspect of managed care and industrial organization or integrated healthcare. You should stake out a position with regard to your topic and present evidence/research supporting your position. You should also discuss prevailing counter perspectives on the topic, and show why you believe these arguments fail. Interviews with individuals knowledgeable about the topic are strongly encouraged.

## **Grading**

Grades will be based on a mixture of the two team projects (80% total, 40% each), and classroom attendance/participation (20%).

## **Required Readings**

1. Access *Study.Net* for small number of cases, articles, and book chapter readings
2. Access all other readings on *Canvas*: <https://wharton.instructure.com>
3. Kongstvedt, *Essentials of Managed Health Care* (Jones & Bartlett, 6<sup>th</sup> Ed., 2012) - - available for purchase in Penn Bookstore

## Sequence of Topics and Readings

### **JAN 15      COURSE OVERVIEW AND INTRODUCTION**

#### **Topics:**

- **Impact of managed care on health care costs and quality**
- **Key players and inter-relationships**
- **Current trends**
- **Introduction to industrial organization / corporate strategy in healthcare**

#### **Readings:**

1. **Kongstvedt, PR. *Essentials of Managed Health Care* (6<sup>th</sup> Ed. 2012)  
    Chap 1 (The Origins of Managed Health Care)  
    Chap 2 (Types of Managed Care Plans & Integrated Healthcare Delivery Systems)  
    Chap 14 (The Role of Health Plans in Preventing Disease)**
2. **Morgan Stanley, *Managed Care Industry Handbook*, November 2011**
3. **Boston Consulting Group, *Innovation, Diversification, and a Focus on Fundamentals: How Health Care Reform Will Change the Insurance Landscape* (BCG: July 2011).**

#### **Discussion Questions:**

- **Are the goals of cost containment and quality improvement compatible?**
- **What are the common strategies among healthcare payers & providers?**

**JAN 22**

**INFORMATION TECHNOLOGY AND NETWORK CONTRACTING**

**Guest Speaker: Raymond Falci, Managing Director, Cain Brothers & Company LLC (Wharton Grad!)**

**Topics:**

- **Healthcare IT Fundamental Overview**
- **Historical Challenges to IT Adoption in Healthcare**
- **Data Analytics: Using Information to Transform Care Management**
- **Payer IT Strategies**
- **Health 2.0 – increased engagement of the consumer**
- **The basics of managed care**
- **Functions of managed care organizations**
- **Historical perspectives**
- **Fee For Service vs. Capitation**
- **Provider profiling**
  - **Utilization management, evidence based guidelines**
- **Reimbursement arrangements**
  - **Incentives, penalties, pay for performance programs**
- **Quality, inefficiencies and wastage**
  - **Changing provider behavior**

**Readings:**

1. **Kongstvedt, PR. *Essentials of Managed Care* (6<sup>th</sup> Ed., 2012):**
  - Chap 3 (Elements of Management Control & Governance Structure)**
  - Chap 4 (Common Myths and Assertions about Health Plans)**
  - Chap 5 (Physician Networks in Managed Health Care)**
  - Chap 6 (Basic Compensation of Physicians in Managed Health Care)**
  - Chap 7 (Hospitals, Facilities, and Ancillary Services)**
  - Chap 16 (Data Analysis and Profiling in Health Plans)**
  - Chap 17 (Information Technology in the Healthcare Organization)**
2. **James Robinson, “Hospitals Respond To Medicare Payment Shortfalls By Both Shifting Costs And Cutting Them, Based On Market Concentration”, *Health Affairs* July 2011 30:1265-1271**
3. **Charles Roehrig and David Rousseau, “The Growth In Cost Per Case Explains Far More Of US Health Spending Increases Than Rising Disease Prevalence, *Health Affairs* September 2011 30:1657-1663**
4. **Melinda Beeuwkes et al., “The Benefits Of Health Information Technology: A Review Of The Recent Literature Shows Predominantly Positive Results”, *Health Affairs* (2011) 30:464-471.**

**Discussion Questions:**

- Does managed care further the goals of the health care system?
- Is managed care working for physicians? Why and why not?
- Why is it so difficult to change physician behavior?
- Which contracting interventions are most effective when?
- If you were a physician, what would persuade you to change your practice patterns?
- If you were in an HMO, how would you change physician practice patterns?
- Does our healthcare system deliver quality care? Why is it so expensive?
- How can alignment of economic incentives among healthcare stakeholders be used to increased HCIT adoption?
- How will managed care plans likely change their strategic approach toward IT over the next 5-10 years?
- Are government incentives in the HCIT adoption process necessary or not, ultimately a positive or not?
- Will improvements in HCIT help consumer engagement in health care?

**JAN 29**

**IMPLICATIONS OF HEALTH CARE REFORM & CONSUMERS**

**Guest Speaker:** Carl McDonald, Citi

**Guest Speaker:** Mike Taylor, Senior Vice President for Employer Strategies, OptumHealth

**Topics:**

- Implications of healthcare reform for managed care / payers
- Key customer needs by segment (purchaser and consumer)
- Consumer Directed Health Plans

**Readings:**

Kaiser. *Consumer's Experience in Massachusetts: Lessons for National Health Reform*. The Kaiser Family Foundation, September 2009.  
Link - <http://healthreform.kff.org/>

Kongstvedt, PR. *Essentials of Managed Health Care* (6<sup>th</sup> Ed., 2012)  
Chap 18 (Claims Administration)  
Chap 19 (Member Services)  
Chap 20 (Healthcare Consumerism)  
Chap 21 (Sales and Marketing)  
Chap 22 (The Employer's View of Managed Health Care)

**Discussion Questions:**

- What are the potential implications of reform?
- As a consumer, what is most important to you in selecting a health plan?  
Do managed care plans generally meet your needs?
- If you were an employer responsible for purchasing health care for your employees, what would be most important to you?

**FEB 5**

**PAY FOR PERFORMANCE &  
HOW PROVIDER ORGANIZATIONS ARE RESPONDING TO REFORM**

**Guest Speakers:**      **Allen Smith, MD, MS, Partners Healthcare**  
                                 **Jessica Dudley, MD, Partners Healthcare**

**Topics:**

- **Pay for Performance**
  - **Evolution of reimbursement and care models**
  - **Efficiency, quality and process targets**
- **Population Health Management**
  - **Role of Larger Provider Organizations**

**Readings:**

1.      **Kongstvedt, PR. *Essentials of Managed Care* (6<sup>th</sup> Ed., 2012):**
2.      **Chap 8 (Performance-Based Incentives in Managed Health Care:**
3.      **Pay-for-Performance)**
4.      **Chap 15 (Quality Management in Managed Care)**
5.      **Chap 23 (Accreditation and Performance Measurement Programs for**
6.      **Managed Care Organizations)**
  
7.      **Chernew et al., “Private-Payer Innovation In Massachusetts: The**  
         **‘Alternative Quality Contract’, *Health Affairs* January 2011 30:51-61;**
  
8.      **Mechanic et al., “Medical Group Responses To Global Payment: Early**  
         **Lessons From The ‘Alternative Quality Contract’ In Massachusetts”,**  
         ***Health Affairs* September 2011 30:1734-1742**
  
9.      **Hussey et al., “The PROMETHEUS Bundled Payment Experiment: Slow**  
         **Start Shows Problems In Implementing New Payment Models”, *Health***  
         ***Affairs* November 2011 30:2116-2124;**
  
10.     **Werner et al., “The Effect Of Pay-For-Performance In Hospitals: Lessons**  
         **For Quality Improvement”, *Health Affairs* April 2011 30:690-698**

**Discussion Questions:**

- **Will Pay for Performance progress make a difference in addressing quality and cost disparities?**
- **How important is quality management to improving provider relations?**
- **How is the role of large physician organizations shifting?**
- **What role can academic medical centers play in the health care delivery system and managed care?**

**FEB 12**

**EVALUATING THE EFFICACY OF MEDICAL MANAGEMENT PROGRAMS; VARIATION IN HEALTH CARE DELIVERY, and IMPLICATIONS FOR CLINICAL QUALITY AND EFFICIENCY**

**Guest Speaker:**       **Jeffrey Levin-Scherz M.D.**  
                                  **Chief Medical Officer – One Medical**  
                                  **Assistant Professor, Harvard School of Public Health**

**Topics:**

- **Examine the Distribution of Costs Within a Population of Patients**
- **Identify the Drivers of Increased Health Care Costs in the US**
- **Define the Interventions that are being tried to Lower Health Costs**
- **Assess Evidence of Efficacy in These Interventions**
- **Illustrate the Impact of Medical Management on Different Stakeholders**

**Readings:**

1. **Kongstvedt, PR. *Essentials of Managed Care* (6<sup>th</sup> Ed., 2012):  
    Chap 9 (Managing Basic Medical Surgical Utilization)  
    Chap 10 (Fundamentals & Core Competencies Disease Management)  
    Chap 11 (Case Management)**
2. **Gawande, Atul. “The Cost Conundrum”, *The New Yorker*, June 1, 2009.**
3. **Jeff Levin-Scherz. “Premium Price, Poor Performance,” *HBR Online* (April 2010).**
4. **Jeff Levin-Scherz. “What Drives High Health Care Costs – and How to Fight Back,” *HBR Online* (April 2010).**
5. **Al Lewis. “Case Studies that Flunk Every Plausibility Test Known to Mankind,” *Managed Care Magazine* (July 2012).**
6. **Lyle Nelson. “Lessons from Medicare’s Demonstration Projects on Disease Management and Care Coordination,” Congressional Budget Office (January 2012).**

**Discussion Questions:**

- **How can you evaluate the effectiveness of a medical management program?**
- **How can you project whether a medical management program is likely to produce cost savings?**
- **Which initiatives are most likely to produce cost savings?**
- **Which initiatives are least likely to produce cost savings?**



**Exercise:**

Some commentators believe that a patient centered medical home (PCMH) can improve the quality of health care while lowering overall costs. Others are more skeptical, and say that the increased costs of a PCMH are unlikely to lead to lower overall health care costs.

We will review the actuarial (commercial only) available at this [URL](#), and seek to understand

- Where would a PCMH likely save money in a non-Medicare population?
- What are the likely infrastructure costs required to establish a PCMH?
- How much savings would we need to accomplish for this effort to be cost-saving?
- Are there certain populations where a PCMH is more likely to be cost-saving?

*To prepare for this exercise, please skim Goroll article (costs) and skim Fields article (potential savings)*

- Goroll AH, et al. “Fundamental Reform of Payment for Adult Primary Care: Comprehensive Payment for Comprehensive Care.” *Journal of General Internal Medicine*, 2007. 22: 410–415.
- Fields, Leshin, and Patel. “Driving Quality Gains and Cost Savings Through Adoption of Medical Homes,” *Health Affairs* (May 2010).

**Supplemental Readings:**

Emanuel, E, Tanden, N, Alteman, S, Armstrong, S, et al. "A Systemic Approach to Containing Health Care Spending." *New England Journal of Medicine*. 2012; e-published Aug 1.

<http://www.nejm.org/doi/full/10.1056/NEJMs1205901>

Coye, M. "No Toyotas in Health Care: Why Medical Care Has Not Evolved to Meet Patient Needs." *Health Affairs*. 2001: 44-56

Lewis, A. "Questioning the Widely Publicized Savings Reported for North Carolina Medicaid." *American Journal of Managed Care*. 2012.

<http://www.ajmc.com/articles/Questioning-the-Widely-Publicized-Savings-Reported-for-North-Carolina-Medicaid>

Glasziou PP, Buchanan, H, Del Mar, C, Doust J et al "When financial incentives do more good than harm: a Checklist" *BMJ* 2012;345:e5047

Anderson, GF, Reinhardt UE, Hussey PS and Petrosyan, V "It's the Prices Stupid: Why the United States is So Different than Other Countries." *Health Affairs* 2003; 22;89-105 <http://content.healthaffairs.org/content/22/3/89.full.pdf>

Cohen, JT, Neumann, PJ, Weinstein, MC "Does Preventive Care Save Money? Health Economics and the Presidential Candidates" *N Engl J Med* 2008; 358:661-663

<http://www.nejm.org/doi/full/10.1056/NEJMp0708558>

**FEB 19**

**STRUCTURE & ECONOMICS OF THE MANAGED CARE INDUSTRY**

**Guest Speaker: Kurt Wrobel, MBA (Wharton Grad!)  
Humana**

**Topics:**

- The Underwriting Cycle
- Rate-setting process and rating methodologies
- Cost trends
- Capitation and risk-sharing
- Health Care Reform

**Readings:**

1. Kongstvedt, PR. *Essentials of Managed Health Care* (6<sup>th</sup> Ed., 2012):  
Chap 24 (Operational Finance and Budgeting)  
Chap 25 (Underwriting and Rating Functions).
2. Wrobel, K. "Economics of Health Insurance Plan Design." *[Study.Net]*
3. Wrobel, K. "Health Watch: The Actuarial Profession and Complex Models: Knowing the Limits of Our Knowledge." Society of Actuaries (January 2012).
4. HBS Case: *Oxford Health Plans: Specialty Management*. *[Study.Net]*

**Discussion Questions:**

- What are the major pricing and underwriting problem areas for managed care organizations?
- What do you see as the most critical trends affecting the managed care industry financially?
- What impact does financial risk transference to providers have on quality?
- In the Oxford case, what are the key issues in managing episodes of care and episode-based payment?

**FEB 26**

**MEDICARE, MEDICAID AND PREMIUM SUBSIDIZED EXCHANGE  
COVERAGE**

**Guest Speaker: Stephen Wood, Senior Vice-President, Ingenix  
Consulting**

**Topics:**

- **Historical perspective**
- **Medicare and Medicaid managed care today**
- **Employers role in Medicare**
- **Medicare and prescription drug coverage**
- **The future of Medicare managed care**
- **New state initiatives to improve access to health insurance**

**Readings:**

1. **Kongstvedt, PR. *Essentials of Managed Care* (6<sup>th</sup> Ed., 2012):  
Chap 26 (Medicare and Managed Care)  
Chap 27 (Medicaid Managed Care)**
2. **Sommers and Rosenbaum, “Issues In Health Reform: How Changes In  
Eligibility May Move Millions Back And Forth Between Medicaid And  
Insurance Exchanges”, *Health Affairs* February 2011 30:228-236**

**Discussion Questions:**

- **How strategically important are Medicare and Medicaid products to managed care organizations?**
- **Other than being older, how do Medicare HMO members differ from commercial HMO members?**
- **Do the current Medicare reforms make sense?**
- **What’s required for success in the Medicaid market?**

MAR 12

**HMO/PAYER MARKET STRUCTURE  
IMPACT OF MARKET STRUCTURE  
HORIZONTAL INTEGRATION & ECONOMIES OF SCALE**

**Topics:**

- Definitions of market structure
- Impact of market structure on HMO performance
- Rationale for horizontal consolidation
- Evidence for benefits of HMO consolidation

**Readings:**

1. Wholey, D, Feldman, R, and Christianson, J. "Scale and Scope Economies among Health Maintenance Organizations." *Journal of Health Economics* 15(6), Winter 1996; 657-684. [skim]
2. Dafny et al.: "Paying a Premium on Your Premium? Consolidation in the U.S. Health Insurance Industry." NBER Working Paper.
3. Besanko, D., Dranove, D., and Shanley, M. "The Horizontal Boundaries of the Firm: Economies of Scale and Scope." *Economics of Strategy* (John Wiley, 2000): 71-108. [Study.Net]
4. Gaynor and Vogt. 2000. "Antitrust and Competition in Health Care Markets." In *Handbook of Health Economics* (Elsevier, Chapter 27, Hospital Mergers). Read pp. 1419-1429. [Study.Net]
5. Scanlon et al.: "Does Competition Improve Health Care Quality?" *Health Services Research* 43: 1931-1951.
6. Dranove, D., and Sfekas, A. "The Revolution in Health Care Antitrust: New Methods and Provocative Implications." *Milbank Quarterly* 87(3): 607-632. 2009.
7. James Robinson, "Hospitals Respond To Medicare Payment Shortfalls By Both Shifting Costs And Cutting Them, Based On Market Concentration", *Health Affairs* July 2011 30:1265-1271
8. HCFO, *Health Plan Concentration and Consolidation* (October 2011).
9. Maeda and LoSasso, "Effect of Market Competition on Hospital Performance for Heart Failure," *American Journal of Managed Care* 17(12) (2011): 816-822.

**Discussion Questions:**

- What are the sources of economies of scale?
- How big are these economies in HMOs?
- Under what market conditions do mergers benefit the public?
- What are the most important dimensions of market structure?

**Supplemental Readings:**

10. Wholey, Feldman, and Christianson. “The Effect of Market Structure on HMO Premiums.” *Journal of Health Economics* (1995): 81-105. [skim]
11. Varney, C. “Antitrust and Healthcare.” U.S. Department of Justice. May 24, 2010.
12. FTC/DOJ Hearings on Health Care and Competition Law and Policy: “Health Insurance Monopoly Issues – Competitive Effects.” Session on Wednesday April 23, 2003, and Friday April 25, 2003. [skim]  
[www.ftc.gov/ogc/healthcarehearings/030328agenda.htm](http://www.ftc.gov/ogc/healthcarehearings/030328agenda.htm)
13. FTC/DOJ. 2004. **Improving Health Care: A Dose of Competition.**  
Chapter 4. “Competition Law: Hospitals.” [skim]  
[www.usdoj.gov/atr/public/health\\_care/204694/chapter4.htm](http://www.usdoj.gov/atr/public/health_care/204694/chapter4.htm)  
Chapter 6. “Competition Law: Insurers.” [skim]  
[www.usdoj.gov/atr/public/health\\_care/204694/chapter6.htm](http://www.usdoj.gov/atr/public/health_care/204694/chapter6.htm)

MAR 19

**PERFORMANCE OF HORIZONTALLY-INTEGRATED SYSTEMS  
HOSPITAL MERGERS AND SYSTEM FORMATION  
MERGER IMPLEMENTATION ISSUES**

**Topics:**

- Rationale for horizontal consolidation (mergers, system formations)
- Evidence for benefits of consolidation and systems
- Introduction to Health Systems Integration Study
- Important steps in merger implementation
- The Issue of Synergy

**Readings:**

1. Sirower, M. "Constructing a Synergistic Basis for Premier Deals - Parts I and II." *Mergers and Acquisitions* Vol. 32, 1998. Jan-Feb and May-June Issues.
2. Vogt, W., and Town, R. *How Has Hospital Consolidation Affected the Price and Quality of Hospital Care?* Robert Wood Johnson Foundation, 2006.
3. Gaynor and Vogt. 2000. "Antitrust and Competition in Health Care Markets." In *Handbook of Health Economics* (Elsevier, Chapter 27). Read pp. 1445-1456. [Study.Net]
4. Town, Wholey, Feldman, & Burns. "Revisiting the Relationship between Managed Care and Hospital Consolidation." *Health Services Research* 42(1): 219-238.
5. Zollo and Meier. 2008. "What is M&A Performance?" *Academy of Management Perspectives* August: 55-77.
6. Paul Ginsburg, "Health Care Provider Market Power," Statement before US House Ways and Means Committee (September 9, 2011).

**Discussion Questions:**

- How big are economies of scale in hospitals?
- Under what market conditions do mergers benefit the public vs. providers?
- Why are the results of hospital mergers so lousy?
- How are synergies actually achieved?

**Supplemental Readings on Hospital Mergers and Their Effects**

1. Kristin Madison. 2004. "Multihospital System Membership and Patient Treatments, Expenditures, and Outcomes." *Health Services Research* 39(4): August, pp. 749-769.
2. Capps and Dranove. 2004. "Hospital Consolidation and Negotiated PPO Prices." *Health Affairs* 23(2): 175-181.
3. Cuellar and Gertler. 2003. "Trends in Hospital Consolidation: The Formation of Local Systems." *Health Affairs* 22(6): 77-87.
4. Huckman. 2006. "Hospital Integration and Vertical Consolidation: An Analysis of Acquisitions in New York State." *Journal of Health Economics* 25: 58-80.
5. Commonwealth of Massachusetts Attorney General. *Examination of Health Care Cost Trends and Drivers*. March 16, 2010.
6. Partners Healthcare. *A Closer Look at Health Care Cost Trends and Drivers*. June 17, 2010.
7. FTC/DOJ Hearings on Health Care and Competition Law and Policy: "Hospitals – Post-Merger Conduct." Session on Friday April 11, 2003. [www.ftc.gov/ogc/healthcarehearings/030328agenda.htm](http://www.ftc.gov/ogc/healthcarehearings/030328agenda.htm). [skim]
8. Ho: "Insurer-Provider Networks in the Medical Care Market." Unpublished manuscript.



**MAR 26**

**PROJECT TEAM PRESENTATIONS**

**Potential topic areas include:**

- **The potential impact of health care reform on managed care organizations?**
- **Does managed care work for Medicare and Medicaid populations?**
- **The impact of contracting and payment methods on physician behavior or clinical outcomes**
- **The changing role of health care purchasers. Should employers continue provide health coverage or should individuals purchase coverage for themselves?**
- **Should health plans compete on the public exchanges? If so, how?**
- **What is the effectiveness of various trends in controlling costs and/or improving the quality of health care?**
  - **Different hospital structures (e.g. ACOs)**
  - **New provider payment structures (e.g. Pay for Performance)**
  - **Consumer Directed Health Plans (CDHP) plans**
  - **Wellness programs**
  - **Patient health records**
  - **New clinical technologies**

**PROJECT PAPERS DUE: MANAGED CARE**

APR 2

**VERTICAL INTEGRATION  
PAYER-PROVIDER INTEGRATION  
PHYSICIAN-HOSPITAL INTEGRATION  
PERFORMANCE OF VERTICALLY-INTEGRATED SYSTEMS**

**Topics:**

- Types of vertical and virtual integration among providers
- Theory of vertical integration
- Benefits of integration for different parties
- Infrastructure of integrated delivery systems
- Structure versus process of integration
- Alignment of provider incentives

**Readings:**

1. Burns and Muller. 2008. "Hospital-Physician Collaboration: Landscape of Economic Integration and Impact on Clinical Integration." *Milbank Quarterly* 86(3): 375-434.
2. Burns, L.R. "Polarity Management: The Key Challenge for Integrated Delivery Systems." *Journal of Healthcare Management* (1999): 14-33.
3. Burns, L.R., and Thorpe, D.P. "Why Provider-Sponsored Health Plans Don't Work." *Healthcare Financial Management – HFM Resource Guide* (2000): 12-16.
4. Besanko, Dranove, and Shanley. "Organizing Vertical Boundaries: Vertical Integration and its Alternatives." *Economics of Strategy* (John Wiley, 2000): 169-196. [Study.Net]
5. Cuellar and Gertler. 2006. "Strategic Integration of Hospitals and Physicians." *Journal of Health Economics* 25: 1-28.
6. Ciliberto and Dranove. 2006. "The Effect of Physician-Hospital Affiliations on Hospital Prices in California." *Journal of Health Economics* 25: 29-38.
7. Gaynor. 2006. "Is Vertical Integration Anticompetitive? Definitely Maybe (but that's not final)." *Journal of Health Economics* 25: 175-180.
8. O'Malley et al., *Rising Hospital Employment of Physicians: Better Quality, Higher Costs?* HSC Issue Brief # 136 (August 2011).
9. Malhotra et al., "Pharma in the Brave New World of Corporatized Care," *In Vivo* (September 2011).

**Discussion Questions:**

- Under what conditions does it make sense to vertically integrate?
- Are these conditions met in health care?
- What are the problems with aligning with physicians?
- Why is the process of “integrating” so important?
- What should next-generation models of integration look like?
- What implications do these systems have for manufacturers, like big pharmaceutical or medical device companies?

**Supplemental Readings:**

1. Friedman and Goes. 2001. “Why Integrated Health Networks Have Failed.” *Frontiers of Health Services Management* 17(4): 3-28.
2. Kristin Madison. 2004. “Hospital-Physician Affiliations and Patient Treatments, Expenditures, and Outcomes.” *Health Services Research* 39(2): 257-278.
3. MedPAC. 2008. *Report to the Congress: Reforming the Delivery System*. Chapter 3.
4. FTC/DOJ Hearings on Health Care and Competition Law and Policy: “Hospitals – Horizontal Networks and Vertical Arrangements.” Session on Wednesday April 9, 2003.  
[www.ftc.gov/ogc/healthcarehearings/030328agenda.htm](http://www.ftc.gov/ogc/healthcarehearings/030328agenda.htm)
5. Goldstein. 2005. “Not-for-Profit Hospital-Physician Integration: New Strategies or Back to the Future?” Moody’s Investors Service. [Study.Net]
6. Alliance Bernstein. 2005. *The New Industrial Revolution: De-verticalization on a Global Scale*.
7. D’Aveni, R., and Ravenscraft, D. “Economies of Integration versus Bureaucracy Costs: Does Vertical Integration Improve Performance?” *Academy of Management Journal* 37(5): 1167-1206. 1994.

**APR 9**

**PHYSICIAN-CENTRIC MODELS OF INTEGRATED DELIVERY SYSTEMS: CAN KAISER BE DUPLICATED?**

**Guest Speaker: Bernadette Loftus, M.D., Kaiser Permanente Medical Group  
Associate Executive Director – Mid-Atlantic Group**

**Topics:**

- The Kaiser Experience
- The Carilion Experiment
- Lessons from Geisinger Clinic, Carle Clinic, Ochsner Clinic

**Readings:**

1. Burns and Wholey. 2000. "Responding to a Consolidating Healthcare System: Options for Physician Organizations." *Advances in Health Care Management* (New York: Elsevier) Volume 1: 275-335.
2. Enthoven and Tollen. 2005. "Competition in Health Care: It Takes Systems to Pursue Quality and Efficiency." *Health Affairs Web Exclusive* (September 7): W5 420-433.
3. Ham, York, Sutch, and Shaw. 2003. "Hospital Bed Utilization in the NHS, Kaiser Permanente, and the US Medicare Programme: Analysis of Routine Data." *British Medical Journal* 327.
4. Crosson. 2005. "The Delivery System Matters." *Health Affairs* 24(6): 1543-1548.
5. Gitterman, Weiner, Domino, McKethan, and Enthoven. 2003. "The Rise and Fall of a Kaiser Permanente Expansion Region." *The Milbank Quarterly* 81(4): 567-601.
6. Ho. 2006. "Barriers to Entry of a New Health Insurer: An Analysis of Welfare and Entry Costs." Unpublished manuscript.
7. Gillies, Chenok, Shortell, Pawlson, and Wimbush. 2006. "The Impact of Health Plan Delivery System Organization on Clinical Quality and Patient Satisfaction." *Health Services Research* 41(4): 1181-1199.
8. Mehrotra, Epstein, and Rosenthal. 2006. "Do Integrated Medical Groups Provide Higher-Quality Medical Care than Individual Practice Associations?" *Annals of Internal Medicine* 145: 826-833.
9. Solberg et al. "Is Integration in Large Medical Groups Associated with Quality?" *American Journal of Managed Care* (June 2009).

**Discussion Questions:**

- What is unique to systems like Kaiser, Geisinger, etc?
- Can these features be replicated or imitated by others?
- Why did Kaiser's expansion strategy in the East fail?

**APRIL 16      CAPITATED CONTRACTING AND CONTRACTUAL RELATIONSHIPS  
BETWEEN PAYERS AND PROVIDERS IN THE MARKETPLACE**

**Guest Speaker: Michael Dandorff, Senior VP – Business Development,  
University Of Pennsylvania Health System**

**Topics:**

- Payer vs. provider contracting and bargaining
- What has happened to capitated contracting?
- Nature of contracting disputes

**Readings:**

1. Feldman & Wholey. “Do HMOs Have Monopsony Power?”
2. American Medical Association. “Competition in Health Insurance: A Comprehensive Study of U.S. Markets.” Executive summary.
3. Gaynor and Vogt. 2000. “Antitrust and Competition in Health Care Markets.” In *Handbook of Health Economics* (Elsevier, Chapter 27, Monopsony and Foreclosure). Read pp. 1456-1478. [Study.Net]
4. CSHSC Issue Brief No. 74. “Getting Along or Going Along? Health Plan-Provider Contract Showdowns Subside.” January 2004.
5. Davies. 2008 *National Payor Survey*.
6. Wu.: “Managed Care’s Price Bargaining with Hospitals.” *Journal of Health Economics* 28: 350-360.
7. Ginsburg, P. *Wide Variation in Hospital and Physician Payment Rates Evidence of Provider Market Power*. Center for Studying Health System Change Research Brief, #16, Nov 2010.

**Discussion Questions:**

- What skill sets do providers need to engage in capitated contracting?
- Who has leverage and muscle in payer-provider negotiations?
- What are they fighting over?
- Under what conditions do payers/providers dominate?
- What are providers’ major complaints about payors?

**Supplemental Readings:**

1. Brooks, Dor, and Wong. 1997. “Hospital-Insurer Bargaining: An Empirical Investigation of Appendectomy Pricing.” *Journal of Health Economics* 16: 417-434.
2. FTC/DOJ Hearings on Health Care and Competition Law and Policy: “Health insurance/Providers – Countervailing Market Power.” Session on Wednesday May 7, 2003. [skim]  
[www.ftc.gov/ogc/healthcarehearings/030328agenda.htm](http://www.ftc.gov/ogc/healthcarehearings/030328agenda.htm)

APR 23

**CARE COORDINATION  
ACCOUNTABLE CARE ORGANIZATIONS (ACOs)  
CLINICAL AND FINANCIAL INTEGRATION**

**Topics:**

- The Mechanics of Care Coordination
- Care Coordination in Medicare Risk Plans
- Payers Revisit Physician Acquisitions to Manage Care
- The Basics of Accountable Care Organizations (ACOs)
- FTC/DOJ Guidelines on Antitrust Among Physicians
- General Lessons Regarding Clinical and Financial Integration

**Readings:**

1. Casalino et al. (2003). "External Incentives, Information Technology, and Organized Processes to Improve Health Care Quality for Patients with Chronic Diseases." *Journal of American Medical Association* (January 22/29): 434-441.
2. Casalino. 2006. "The Federal Trade Commission, Clinical Integration, and the Organization of Physician Practice." *Journal of Health Politics, Policy and Law* 31(3): 569-585.
3. Pelnar, G. "Are Clinically Integrated Physician Networks Candy-Coated Cartels?" *CPI Antitrust Journal* October 2010.
4. Burke, T., and Rosenbaum, S. *Accountable Care Organizations: Implications for Antitrust Policy*. March 2010.
5. Berenson and Burton, *Accountable Care Organizations in Medicare and the Private Sector: A Status Update*. Urban Institute (2011).
6. Cane et al., "The Effect of Evercare on Hospital Use," *Journal of American Geriatrics Society* 51(10) (2003): 1427-1434.
7. Goldsmith, "Analyzing Shifts in Economic Risks to Providers in Proposed Payment and Delivery System Reforms," *Health Affairs* 29(7) 2010: 1299-1304.
8. Steinbrook, "The End of Fee-for-Service Medicine? Proposals for Payment Reform in Massachusetts," *New England Journal of Medicine* 361(11) (2009): 1036-1038.
9. Berwick, "The Triple Aim: Care, Health, and Cost," *Health Affairs* 27(1) (2008): 759-769.
10. Weaver, "Managed Care Enters the Exam Room as Insurers Buy Doctor Groups," *Kaiser Health News* (July 1, 2011).

**Discussion Questions:**

- What does clinical and financial integration look like in practice?
- How easy is it for provider networks to develop this infrastructure?
- How long does it take to develop it?
- Are providers really that interested in integration?

**Supplemental Readings:**

1. FTC/DOJ (2003). *Statements of Antitrust Enforcement Policy in Health Care*. Chapter 8: Physician Network Joint Ventures. Available at: [www.ftc.gov/reports/hlth3s.htm](http://www.ftc.gov/reports/hlth3s.htm) [skim]
2. FTC/DOJ. 2004. *Improving Health Care: A Dose of Competition*. Chapter 2. "Competition Law: Physicians." [skim]  
[www.ftc.gov/reports/healthcare/040723healthcarerpt.pdf](http://www.ftc.gov/reports/healthcare/040723healthcarerpt.pdf)

**APR 30**

**PROJECT TEAM PRESENTATIONS**

**Potential topic areas include:**

- **Physicians and hospitals: what models of integration work?**
- **Effectiveness of disease management**
- **Methods to achieve economies of scale in horizontal combinations**
- **What is the future of hospital systems?**
- **What is the future of physician organization?**
- **Does diversification in the provision of healthcare services work?**
- **Mergers and acquisitions: how do you make them work?**
- **Value chain alliances in health care**

**FINAL PAPERS for 2<sup>nd</sup> HALF OF COURSE DUE:  
INDUSTRIAL ORGANIZATION / INTEGRATED HEALTHCARE**