MANAGED CARE AND
THE INDUSTRIAL ORGANIZATION OF HEALTH CARE

HCMG 845-001
Spring 2017

Instructors

Lawton Robert Burns, Ph.D.  The James Joo-Jin Kim Professor
Professor of Health Care Management
The Wharton School
burnsL@wharton.upenn.edu

Brad Fluegel    Lecturer, Wharton School
Chief Healthcare Commercial Market Development
Officer - Walgreens
Bradley.Fluegel@gmail.com

Class Time / Location

Time:       Wednesday Evening 4:30-7:30 p.m.
Location:   JMHH F-70
Teaching Assistant Steve Schwab

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:

- The core processes and infrastructure of managed care
- Measures of market power and concentration
- The horizontal and vertical integration strategies of payers, providers, and suppliers
- The rationales behind horizontal and vertical integration strategies
- The development of value chain alliances, and
- The performance effects observed to date.

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. We will meet every Wednesday from 4:30-7:30 p.m. Professor Burns will hold office hours before class on Wednesdays from 3:30-4:30 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 1 and May 3, 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 should form by the third class of the semester (Feb 1st). 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 1) and second half (May 3rd) 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.

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
- 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

**Grading**

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

**Required Readings**

Many readings are available on Canvas: https://wharton.instructure.com. Other readings (e.g., some book chapters) are found on Study.Net, which can also be accessed from Canvas. There are also many chapters assigned from Peter Kongstvedt, *Essentials of Managed Health Care* (Sixth Edition, 2013), which is available from the Penn Bookstore.

**Sequence of Topics and Readings**

**JAN 18 INTRODUCTION**  
Class intro and Health information technology

**Guest Speaker:**  
- Ray Falci

**Readings:**

- Kongstvedt
  - Chapter 1: A History of Managed Health Care and Health Insurance
  - Chapter 2: Types of Health Insurers, Managed Health Care Organizations, and Integrated Health Care Delivery Systems
  - Chapter 3: Elements of the Management and Governance Structure
  - Chapter 10: Data Analysis and Provider Profiling in Health Plans
  - Chapter 23: Information Systems and Electronic Data Interchange
JAN 25  CUSTOMER EXPECTATIONS AND ACO DEVELOPMENT

Guest Speakers:
• Mike Taylor & Richard Montwill

Readings:
• Kongstvedt, Essentials of Managed Health Care
  o Chapter 4: The Provider Network
  o Chapter 5: Provider Payment
  o Chapter 16: Marketing and Sales
  o Chapter 20: Member Services

FEB 1  HEALTH CARE COSTS

Guest Speaker:
• Jeff Levin-Scherz, MD

Readings:
• Kongstvedt
  o Chapter 7: Basic Utilization and Case Management
  o Chapter 8: Fundamentals and Core Competencies of Disease Management
  http://jamanetwork.com/journals/jama/fullarticle/1769890
  http://jamanetwork.com/journals/jama/fullarticle/1148376
• Gawande, A. “The Cost Conundrum” The New Yorker, June 1, 2009
  http://www.newyorker.com/reporting/2009/06/01/090601fa_fact_gawande
• 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

FEB 8  THE PROVIDER PERSPECTIVE
Guest Speakers:

- Allen Smith
- Jessica Dudley, CMO Brigham and Woman's Physician's Organization

Readings:

- Kongstvedt, Essentials of Managed Health Care
  - Chapter 9: Physician Practice Behavior and Managed Health Care
  - Chapter 13: Disease Prevention in Managed Health Care Plans
  - Chapter 14: Quality Management in Managed Health Care
  - Chapter 15: Accreditation and Performance Measurement Programs
- Chernew et. al. “Private-Payer Innovation in Massachusetts: The ‘Alternative Quality Contract,” *Health Affairs*, Jan 2011 30:51-61. [http://content.healthaffairs.org/content/30/1/51.full](http://content.healthaffairs.org/content/30/1/51.full)
- Kongstvedt, Essentials of Managed Health Care
  - Chapter 5: Provider Payment

FEB 15  
ECONOMICS OF MANAGED CARE AND PUBLIC EXCHANGES

Guest Speaker:

- Kurt Wrobel

Readings:

- Kongstvedt
  - Chapter 22: Underwriting and Rating
- 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. [http://content.healthaffairs.org/content/30/7/1265.full](http://content.healthaffairs.org/content/30/7/1265.full)
- Burns and Pauly, “Accountable Care Organizations May Have Difficulty Avoiding the Failures of Integrated Delivery Networks of the 1990s,” *Health Affairs* Nov 2012, 31(11):2407-2416. [http://content.healthaffairs.org/content/31/11/2407.full](http://content.healthaffairs.org/content/31/11/2407.full)
FEB 22  MANAGED MEDICARE AND MEDICAID

Guest Speaker:
• Steve Wood

Readings:
• Kongstvedt
  o Chapter 24: Health Plans and Medicare
  o Chapter 25: Medicaid Managed Health Care
  http://content.healthaffairs.org/content/30/2/228.full.pdf+html

MAR 1  Project Presentations

MAR 8  Spring Break

MAR 15  INDUSTRIAL ORGANIZATION & MARKET STRUCTURE
INTRODUCTION TO CORPORATE STRATEGY

Readings:
  http://scencedirect.com/science/article/pii/B9780444535924000098
• HBS Module Note. Corporate Strategy (9-713-415, 2012).

MAR 22  HEALTH PLAN MERGERS AND DIVERSIFICATION
ECONOMIES OF SCALE AND SCOPE

Readings:
• Boston Consulting Group. Innovation, Diversification, Focus on Fundamentals (2011)
• Kongstvedt Chapters 24 and 25 (review)

MAR 29  HOSPITAL MERGERS AND MULTI-HOSPITAL SYSTEMS
**Readings:**

- Capps and Dranove, “Hospital Consolidation and Negotiated PPO Prices,” *Health Affairs* 23(2): 175-181. [http://content.healthaffairs.org/content/23/2/175.long](http://content.healthaffairs.org/content/23/2/175.long)

**APR 5**  
**VERTICAL INTEGRATION OF HOSPITALS & PHYSICIANS**

**Readings:**


**APR 12**  
**PAYER-PROVIDER CONTRACTING AND RISK-BASED PAYMENTS**

**Readings:**


**APR 19**  
**KAISER MODEL AND PROVIDER-SPONSORED HEALTH PLANS**
Readings:


**APR 26**  
No Class

**MAY 3**  
Project Presentations