"Managing" Experts When You're Not One of Them

MERCEDES O'BANNON permitted herself a glance out her office window to the early summer trees bordering the hospital parking lot, then, with the slightest of shivers, returned to the notes she was making on a yellow legal pad. In two weeks she would be meeting with the 20 physicians of the North Shore Medical Group to get their support for a new reimbursement plan. While O'Bannon worked for a hospital that was nominally the doctors' employer, she was not a physician herself and knew that she could not easily force the regime on the doctors if they were unwilling to adopt it. Already there were signs of incipient resistance.

The North Shore Medical Group was a multi-specialty private practice located in the Chicago metropolitan area. Three months earlier, it had been acquired by a local hospital, O'Bannon's employer. The hospital had installed her, with an MBA in marketing and a bachelor's degree in English, as business manager of the medical group.

For some time, approximately 40% of the medical group's patients had been enrolled in a local health maintenance organization that reimbursed the practice on a fee-for-service basis, paying a set amount, discounted from local market rates, for any given procedure. Then, ten days ago, the HMO had announced that in three months it would be adopting a capitation rate for patients. Under this plan, the physicians would be allotted a fixed dollar amount per patient to cover the annual cost of caring for each patient.

Capitation is the trend in managed health care, and O'Bannon's analysis convinced her that the amount allotted per patient under the new program would adequately cover the projected per-patient costs. Indeed, under a capitation plan that featured bonuses for holding down specialist and hospital costs, one nearby practice earned 170% more than they would have treating the same patient population on a fee-for-service schedule.

The business manager's analysis convinced her, too, that as capitation became the national standard and as reimbursement rates dropped, North Shore would have to deliver services more efficiently. While she had not yet spoken with the doctors about the likely administrative changes in the office, she had thought a great deal about them. Under capitation, billing and collection become simpler, but scheduling becomes more complex because the doctors are seeing more patients more often. North Shore would need to implement computerized scheduling and a phone triage system whereby a nurse or physician's assistant would act as a gatekeeper to screen minor complaints and minimize unnecessary office visits. These efficiency improvements would have to be monitored closely because they represented a substantial change to the practice's culture and because, in the short term, they would increase overhead.

O'Bannon and North Shore's lawyer had met twice with representatives of the HMO—a sales manager, a lawyer, and a physician—after it had announced the change in its reimbursement system. At the second meeting, with the backing of her superiors at the hospital, she had agreed to the capitation plan. Now she had to secure buy-in from the doctors in the group, who so far had been informed of the upcoming change only in a memorandum she had sent around and in hallway conversations.

In those conversations, some of the physicians told the business manager that since she was not a doctor, she could not fully appreciate the ethical and legal predicaments that capitation created for them. "You managers will never understand," one had groused, "We are not in the business of rationing health care." Another had sent her a thoughtful memo summarizing four areas of concern he shared with colleagues: (1) How can we provide the highest quality care within the financial constraints of capitation? (2) What are the legal implications of, in essence, rationing care to comply with capitation? (3) Will we have more patients, or fewer? (4) Will we have to work the same hours, or longer ones?

O'Bannon believed she could address each of these worries at the meeting two weeks hence. She would be helped out by representatives of the HMO, who were prepared to make presentations demonstrating that capitation need not reduce the quality of care or increase the legal liability of the physicians. O'Bannon genuinely believed this herself but also realized that the doctors in the medical group would need to make a transition from thinking only about patient care to thinking about cost as well. How should she conduct the meeting, she asked herself, her pencil poised above the yellow pad?