CASE STUDY – Group Exercise 5

Part A. Read the information about Kaiser on the next page and the answer the following questions:

Q1. What does Kaiser do?
Q2. What were the operational problems at Kaiser’s business operations?
Q3. What is the “centerpiece solution” of Kaiser for its business operations?
Q4. In what ways is IT/IS aligned to the vision, mission and business strategies of Kaiser?
Q5. In what ways will information system and information technology help improve Kaiser future performance?

Part B. For strategic planning answer the following generic analytical questions. The company below refers to Kaiser.

QSP-1. What business is the company in? What is it related but not in?
QSP-2. What value does the business provide to the customer?
QSP-3. What are the most important issues facing the business?
QSP-4. What are the apparent problems?
QSP-5. Are the apparent problems the real problems or only symptoms of the real problems?
QSP-6. Your recommendations. On first reading what do you think the company should do?
QSP-7. What are the possible problems you anticipate will arise with your suggested recommendations?
QSP-8. What are the characteristics of the environment that the company operates in?
QSP-9. What are the characteristics of the industry that the company is in?
QSP-10. How does the company compare with other similar companies?
INFORMATION FOR CASE STUDY

Company: Kaiser Permanente

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By Jeffrey Rothfeder

Pulling Kaiser's IT Out of Intensive Care

If ever there was a company in serious need of alignment, it was Kaiser Permanente. Three years ago, the Oakland, Calif.-based HMO was among the most inefficient and least productive companies in the notoriously wasteful $1.6 trillion U.S. healthcare industry. At the time, Kaiser, which has nearly 9 million members in nine states and the District of Columbia, had just completed a $2 billion IT investment bonanza that was supposed to centralize the company's far-flung mishmash of networks and data.

The opposite occurred. A corporate turf war broke out, pitting region against region in disagreements as to what type of patient-record system to install companywide, and how much control over electronic information would have to be ceded by powerful regions such as Colorado and the Northwest—both of which jealously guarded their independent data networks.

Corporate executives barely had a say in the matter. Not surprisingly, the company's weak performance—which included losses from 1997 through 1999—continued, and by 2000 and 2001, Kaiser's net profit margin was a listless 3 percent.

Back to square one. Within the first six months of 2002, two significant personnel changes occurred at Kaiser. Clifford Dodd, former head of technology at telecom giants Ameritech Corp. and Qwest Communications, was named senior vice president and CIO, replacing Tim Sullivan, who had left two years earlier to get out of the crossfire.

And CEO David Lawrence retired; his position went to George Halvorson, former chief executive of Minneapolis-based HealthPartners, another HMO. Dodd recalls that, at least in terms of technology, there was nothing to salvage at Kaiser when he arrived.

"They had convinced themselves that building their own network was the only solution because anything off-the-shelf wouldn't be big enough to handle the massive information needs at Kaiser," Dodd says. "But by taking that position, every region got to put in their two cents on what this system should look like, how it should connect to what they're using already and numerous other smaller issues. The development process slowed to a standstill; it was a huge missed opportunity."

More than any company in its field, Kaiser is perfectly structured to take advantage of the rewards—cost cuts, revenue increases and labor performance improvements—that computerization has showered on virtually every industry except healthcare over the past few decades. Kaiser's closed-loop business model chiefly involves managing the three primary legs of healthcare—hospitals, doctors and insurance.
The company employs 11,000 physicians, owns 30 hospitals and offers a series of medical coverage plans.

So by installing an electronic patient-records system, for example, paperwork can be minimized and processing of bills sped up, while care at hospitals can be made less error-prone, and physicians, with instant access to patient histories on their terminals, will be able to treat more people in less time.

In turn, satisfied patients drive additional subscriptions. For Kaiser, computerization is, by default, a virtuous circle.

That's a far cry from what other healthcare companies face. More typical is the reluctance of hospitals and physicians, for instance, to implement computerized clinical records, because they tend to lower costs for insurers more than for clinicians.

Instead, hospitals would prefer to spend money on advanced diagnostic technology in an effort to entice more physicians with modern equipment, and thereby increase revenues by charging insurers exorbitant prices for these procedures.

"The business benefit [of computerization] for Kaiser is unique, since it is one of the very few staff-model HMOs that serves as both payer and provider," says Eric Brown, vice president and research director for healthcare at Forrester Research Inc. "Kaiser has a much clearer incentive than any of its competitors to make these systems work."

If this is so obvious, Dodd wondered when he took the job as CIO, then why doesn't Kaiser get it? The problem, he concluded, was an old culture war—an anachronism that infected the organization—and the only way to end it would be to, well, end it.

Working closely with new CEO Halvorson, Dodd and other top executives at the company began a wrenching reorganization of the $28 billion nonprofit. The main goal was to eliminate the regional "federations" that balkanized the organization, and reclaim strategic decision-making for the home office.

That would ensure that the choices made about which technology to acquire, and which areas of the business to build up, were synchronized with the company's overall growth plan—and not made willy-nilly at the whim of district management.

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On the business side, the makeover was announced in June 2002. Halvorson restructured the company so that the eight regions reported directly to headquarters, rather than to super regional division heads.

Dodd followed with a more stunning move, one that directly affected Kaiser's bottom line. He raised the white flag on the massive IT investment that was supposed to produce a centralized network, and took a $442 million write-off on the project. This move slashed net income by nearly 85 percent in 2002, to just $70 million.
Simultaneously, Dodd unveiled a $3.2 billion computerization project that would be bought, not built from scratch. "We're not a systems company," Dodd says. "It's a waste of our time to write our own programs. We can get what we need off the shelf." Dodd decided on medical records software from Madison, Wis.-based Epic Systems Corp.

More important, Dodd announced that this new initiative would be managed entirely out of his office. "That was the only way to link the use of technology with the strategic direction of the company," he says. "What we were doing before was operating in the dark. Now, the CEO is just as involved in the project as the CIO is. George [Halvorson] is a tech bigot, if you will. He believes, as I do, that technology-enabled reengineering in healthcare is the way to go."

Kaiser dubbed the project HealthConnect. Its centerpiece is a systemwide electronic medical-records system that will be accessible to authorized clinicians in all Kaiser hospitals, doctor's offices, emergency rooms and pharmacies, as well as to patients over the Internet. Besides patient information, the system will also handle billing and scheduling.

When HealthConnect is completed, any current Kaiser patient will be able to travel among Kaiser's many medical facilities and his or her entire patient history will be available, via terminals, to Kaiser healthcare professionals. Other healthcare companies are computerizing patient records, but because of Kaiser's breadth, no similarly sweeping IT initiative is underway, healthcare analysts say.

Although HealthConnect won't be fully operational until 2007, it is already installed in portions of California, Oregon and Washington, and initial results are promising. For the first six months of 2005, Kaiser's net profit margin reached about 6 percent, as operating revenues year-over-year increased to $15.5 billion from $13.9 billion, and net income grew to $915 million from $839 million.

It's impossible to tell how much of this improvement is due to the few sites that are using the first iterations of HealthConnect, but Dodd says that company executives have observed quicker turnaround in patient care at doctor's offices and hospitals that have access to the system.

Kaiser, however, is banking on HealthConnect to make a big difference in its long-term performance. Company executives forecast that operating costs will drop by at least 10 percent when the system is completed, while expenditures on medical-record supplies alone will drop by as much as 50 percent.

Moreover, substantial revenue increases are projected both because doctors are expected to see as many as 10 percent more patients in a day, which would greatly increase the capacity of the HMO, and because more precise and timely bills could improve the amount that Kaiser collects for its services by as much as 15 percent.

Computerized records are more legible and more accurate, so there should be far fewer hospital, pharmacy and physician errors at Kaiser. This is expected to cut down on the number of so-called injury-producing adverse drug events, each of which results in an estimated 2.2 extra patient days, and it should also limit malpractice litigation and hold down malpractice insurance premiums. Plus, the prospect of fewer medical errors, which are estimated to kill upward of 300 people a
day nationwide, gives Kaiser a powerful message to entice subscribers into its network.

"In each attribute of the system the key objective was to verify that the functions it offered was in strategic alignment with the organization's mission and vision, which is to provide market flexibility and, regulatory compliance, deliver excellent healthcare and manage the cost structure," says Brian Raymond, Kaiser's senior policy consultant.

Of course, none of the anticipated results are guaranteed. With medical costs in the U.S. spiraling higher each year, healthcare's Holy Grail has been computerization. Experts from former Speaker of the House Newt Gingrich, to former head of Health and Human Services Tommy Thompson, and many medical economists, argue that electronic patient records will save lives and increase efficiency in clinical settings.

But no one has tested this premise yet among millions of patients. For that reason, HealthConnect is being watched closely by the healthcare community to see if it validates the experts' predictions.

Moreover, Kaiser's record in its past computerization efforts has been anything but stellar. But analysts are impressed by how HealthConnect differs from the prior systems that Kaiser, and many other healthcare organizations, have tried to develop.

The key distinction is that all of the functions in HealthConnect revolve around the patient record, says Wanda Jones, president of New Century Healthcare Institute, a San Francisco-based think tank. Previously, she adds, most large medical systems were built around a model that required each application to reside in a separate node on the network, such as lab or radiology, with some shared and some independent data.

Those systems didn't work, because "unless a doctor looked in each of the network's baskets, he wouldn't see all the alarms and reminders involving the patient," Jones explains. "Kaiser potentially has a big advantage with this system.

The main challenge to make this work is whether people—especially more established doctors who are not used to technology—will use it. Everyone has to be forced to. This is a big hurdle."

Kaiser executives believe that Halvorson and Dodd have already leaped a bigger obstacle: tamping down the culture war at Kaiser sufficiently so that the company could actually get on with the tactical planning needed to fulfill the organization's strategic vision. Even if HealthConnect fails, which by all accounts is unlikely, this is a healthy sign for Kaiser.
KAISER PERMANENTE – BRIEF

CEO George Halvorsen

CIO Clifford Dodd

Revenues $28 billion (fiscal 2004)

3-year revenue growth 12.4%

3-year net income growth Approx. 32.9%

IT Budget 1.2 billion

Discretionary IT Spending n/a

Total Employees 154,000

IT Staff 4,700

Growth Strategy Kaiser wants to lower the cost of providing healthcare, minimize patient errors and implement electronic record-keeping in order to raise its profit margins and physician productivity and increase its subscriber base.

The Bottom Line Kaiser’s HealthConnect network wide electronic medical records system is the most ambitious computerization project ever attempted in the healthcare industry.