

The Five O'Clock News[®]

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"One organization with a long record of success in helping people find jobs is The Five O'Clock Club."

FORTUNE

CAREER STRATEGIES

Earning a Place at the Table

Upgrading Your Job to "Business Partner"

by David Madison, Ph.D., Director of the National Guild of Five O'Clock Club Career Coaches

The following article is based on a panel presentation at the June 9, 2003 meeting of the HR Network at the Marsh headquarters in Manhattan. The network is co-sponsored by Marsh and the Five O'Clock Club, and is a venue for HR professionals to meet informally and hear discussions of important issues of the day. The panelists on June 9th included Steve Atamanchuk, VP Human Resources for Sithe Energies, who has over 25 years of HR experience within various industries; Eric Jacobson, CEBS, who is a Senior Vice President for Marsh. He is the New York Office Leader for the Marsh Advantage business segment; Wendy Murphy, Partner and Global HR Practice Head for Heidrick and Struggles.

Anyone who wishes to build a successful career must be guided by big-picture thinking: How do I help my company capture market share? If you think of your role as minor, it probably will be. While the following article is written with HR professionals in mind, it is primarily about strategy. There are lessons here for people of any specialty who want to get ahead, achieve influence and be considered leaders in their field.

Most HR professionals would probably admit that they were drawn to the calling because they love people. For most, a primary reward of the job is being mentor, nurturer, facilitator, advocate and expediter, i.e., helping people do better in the workplace, the setting in which they spend most of their waking hours. The HR officer who gets poor marks for people skills probably came into the profession by the back door—and the

reputation of any HR department whose tone is set by such a person suffers accordingly. HR is supposed to show the kinder, gentler side of the company. Being nice is a *sine qua non* of the discipline.

But, under the pressure of a much more rigorous business environment, the HR discipline itself is evolving. No one would argue that the people-friendly aspect of HR ever will be, or should be, slighted. However, many HR professionals—sometimes following the lead of visionary CFOs and CEOs, sometimes on their own initiative—increasingly see themselves as businesspeople. HR has commonly accepted low status as a one of the maligned non-revenue-generating departments, at best on a par perhaps with auditing, or at worst as a necessary evil. Finance departments have looked with suspicion or resentment at HR because the latter is seen as a drain. HR holds the reigns on the revenue

Continued on page 3

HEALTHCARE FOR AMERICANS - page 7

HOW TO BOOST YOUR VISIBILITY AND POWER - lead article

What HR People Can Do to Boost Their Visibility

YOU CAN DO THE SAME

The Five O'Clock Club always declines to participate in media coverage that we suspect might be negative, and we tell job hunters not to read negative press—you don't need to hear things that might drag you down. This is our approach because we are an employee advocacy organization—we always try to do what is in the best interest of job hunters.

Part of our vision is to help HR people do their jobs better.

We aspire to be your advocate, but there are other people who should fulfill this role as well. They're known as HR professionals. These are the people at your place of employment who should be your advocates on the job. So part of our vision is to help HR people do their jobs better. To this end we established the HR Network, and Marsh offered to be co-sponsor. Four times a year the HR Network brings together panels of experts to shed light on topics of interest to HR officers.

Our cover story for this issue is based on the June 9th panel presentation. It's always in the best interest of employees when HR professionals are regarded as

key members of the management team, consulted frequently on matters of substance by CEOs and CFOs. On June 9th the panelists and audience members alike weighed in on the issue of what HR people can do to boost their visibility, status and influence. And the message of being proactive on the job is one that anyone can take to heart and apply in his or her place of work.

A very different matter receives our attention in this issue as well. Those of you who are unemployed know the downside of living in a country where health insurance is employment-based, that is, you have to have a job to be covered. It is in everyone's best interest to understand how our present healthcare system came to be. The other major article in this issue, on the American healthcare "mess," is by Pat Oden, an investment banker who has specialized in healthcare finance. It is based on his presentation to The Employment Roundtable—a group of government and business leaders founded by the Five O'Clock Club to examine issues of importance to working men and women.

Just a reminder: don't believe all the doom and gloom headlines. In the last few months we've seen an upswing in the number of the Five O'Clock Club Clubbers landing full-time positions and

consulting jobs. Our next issue will be devoted to the stories of successful job hunters. It's never too early for optimism—things are improving.

So work the method and keep the faith.

Cheers,
Kate Wendleton,
President and Editor-in-Chief



THE FIVE O'CLOCK NEWS

from America's Premier Career-Coaching Network

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outflows that can be the most difficult to control: compensation, benefits and pensions. More than one CFO has sought to gain control of HR only to be defeated by the complexities of the people aspect of the function.

But the evolution of HR in the direction of a full business partner is not a given, nor is it necessarily welcomed even by many HR professionals themselves. Whether deservedly or not, HR is commonly viewed as one of the most conservative and risk-adverse areas of an organization. It is, after all, custodian of the corporate rules and is usually concerned that everything be done by the book. One HR consultant estimates that “80 percent of HR professionals are not bold, not courageous, proactive, or anticipatory—they’re not any of these things. They’re always looking for affirmation.”

“Business as usual” isn’t good enough for anyone who wants to play a role in the organization’s survival.

However, as we move toward the middle years of this troubled decade, the opportunities for HR are probably unprecedented. For one thing, business as usual isn’t really good enough for any corporation or organization—for any department that wants to play role in the company’s survival. There’s too much pressure on the bottom line everywhere. Companies need all the wisdom and all the help that they can get in fashioning strategies to weather the bear market and the sluggish economy.

Can’t HR step up to the plate and be part of the team seeking to make a difference? Also, the legislative climate certainly is working in HR’s favor. The requirements of the Sarbanes-Oxley Act of 2002, in terms of mandating the right talent for the right jobs, mean that companies will need HR as a fully functioning business partner. (Note: Sarbanes-Oxley will be covered in a later issue of *The Five O’Clock News*.) It’s not as if the infrastructure were missing: HR now touches all departments and divisions of any company—everything from sales and manufacturing to IT and auditing. It recruits for all, handles the benefits, com-

penensation and performance evaluations for all. What may be missing to move HR to the next level of power and influence are ambition, insight and the will on the part of HR people themselves. They need to break the predominant mold, and *become* bold, courageous, proactive and anticipatory.

You Know You’re at the Table If ...

What does it mean for HR to be a true business partner, and occupy a place at the table? It was perhaps stated best by a new CEO who had fired the resident HR manager whom he characterized as an administrator. He called in an HR headhunter with the mandate: “Find me an HR manager who is involved in the business, who is pushing the business forward and is challenging everyone at the table.”

This CEO’s *modus operandi* includes having an HR manager who sits on the board of directors and key executive committees in an advocacy role, helping to create, review and execute corporate strategy. This assumes that the HR officer will know a lot about the business—more about that later—but also that the HR officer will always have one foot planted firmly in the HR realm. No matter how much the HR manager may be valued for her big-picture perspective and grasp of strategies, she will also be master of her own domain. As one high profile HR manager put it: “No plan is approved without my signoff that the people resources are there and at the appropriate levels.”

The HR manager as full business partner will also be viewed by the CEO or CFO as an advisor and resource. According to one HR specialist, “You’re ‘at the table’ if you’re sitting at the right hand of the CEO, helping to grapple with the relevant issues surrounding performance and rewards, and looking at accountability within the organization.” And this will be the perception throughout the organization. It’s one thing for the HR department to get calls about benefits or retirement plan options, but if the phone isn’t ringing as well for advice on policy and strategy, chances are the HR department hasn’t broken out of its traditional role—and hasn’t really earned the confidence of the CEO, let alone a place at the table. HR has reached a different level of credibility and trust when the

operations VP asks for a meeting to review strategies for enhancing productivity.

How to Earn Your Place at the Table

One authority on the evolving role of HR states the case bluntly: “How do you seize the power? You seize it by earning it—there’s no other way.” Earning it requires a combination of knowledge, positioning and determination.

The following would appear to be some of the basics for establishing HR as a business partner.

Start with What You Know

Employees think that they’ve been going through the perfect storm in recent years because raises and bonuses have been minimal, and retirement accounts have eroded dramatically—they are getting squeezed at both ends. But if they’re feeling bad, and the CFO and CEO are feeling even worse, they might be tempted to blame—or even shoot—the messenger. As mentioned earlier, the HR department is sometimes viewed with suspicion and resentment because, as the custodian of payroll, benefits, retirement plans and pensions, money seems to hemorrhage from this department.

If your phone isn’t ringing for advice on policy and strategy, you are not a player.

HR managers can’t change the market or the condition of the economy, but they can become masters of the areas they’re supposed to know—and help senior management address the crises that the economy has spawned. HR can become a business partner in the struggle for bottom-line stability. HR officers should make it their business to help create solutions—don’t assume that “it’s the CEO’s job.” There are conferences that offer presentations on topics such as “HR by the Numbers: Getting Maximum Return on Investments,” and “Communicating Effectively with Your CEO.” Such seminars should be part of your continuing education.

As one HR consultant put it: “Your

job is to understand how the areas over which you have responsibility ultimately impact the bottom line. You have to be a very effective communicator in order to get the message across, to speak the language of the CFO and CEO. You don't want surprises. CFOs and CEOs don't like surprises." In other words, be on the lookout for ways to deepen your knowledge and understanding of benefits, and find out how other organizations are coping. HR must take the lead in helping senior management design ways to cope with the ongoing benefits/retirement funding nightmare.

A proactive, bottom-line conscious HR officer will work by the numbers in analyzing all departments, trying to enhance revenues simply by implementing sound policies that are considered HR's realm in the first place. One senior HR officer undertook a careful analysis of payroll patterns in a retail sales environment. He found that there were 30 percent more sales during one period of the day, and budgeted more payroll dollars for those hours—while cutting back on others. This turned out to save the company \$900,000 during the next six months—creating a happy surprise for the CEO, without cutting staff. The department manager hadn't been on the ball to catch the drain on the corporate treasury, but the HR manager was a payroll specialist, and used his knowledge to make a difference and strengthen his own standing.

The aggressive, business-partner role for HR will be a foreign concept for some CEOs and CFOs. One consultant estimates that 25 percent of these officers "just don't get it, and probably never will. Of course there are the 25 percent who do get it"—the CEO who fired the traditional HR administrator comes to mind. "So the 50 percent in the middle are your challenge. You can educate these leaders about the role that HR should play in contributing to corporate strategy."

Tune in to the daily reading routines of your corporate leaders. Follow their lead.

Build on What You Know

Another key factor in earning your place at the table is expanding your hori-

zons. A recent Society of Human Resource Management (SHRM) catalogue included 53 pages of books on human resources, including *Human Resources Kit for Dummies*. There's no argument with the need to keep up in your field, but to move into a business-partner role, you also should be reading what the CEOs and CFOs are reading—and, chances are, their reading list won't be found in the SHRM catalogue.

It's a given that executives read the *Wall Street Journal* and *The New York Times*, no matter where they live. They also read the *Harvard Business Review* and *CFO* magazine. And if they travel a lot they read *USA Today*.

It's a good idea for HR officers to tune in to the daily reading routines of their corporate leaders, and follow their lead. One website that will serve you well in this respect is www.ceoexpress.com. On the homepage you'll find dozens of links organized by categories, e.g., Daily News, Business News, International News, Business Magazines, Business Knowledge, Newsfeeds, Online Television News, and many more. Both www.cfo.com and www.knowledge@Wharton.com have Human Resources as a category.

It's impossible for anyone to take all of this in, of course, but www.ceoexpress.com is a good way to make a quick daily survey of the information streams that business leaders rely on. It's hazardous to your health if you miss things—and at least a cursory glance at some of the news and information links can be invaluable. If you're focused primarily on HR journals and just a few major newspapers, you can be blindsided by articles noticed by your CEO. A search on the *Inc.* magazine website reveals that it carries a lot of HR related articles. For example, "Benefits: Taming the Health Care Monster." You'll have more credibility with your CEO if you know about this article before she brings it to you attention.

It is the responsibility of the CEO and CFO to know the big picture for your industry and the economy in general—that's why they read as widely as they do. Your goal is to achieve some understanding of the big picture as well. The Department of Labor has been predicting for some time that the current rate of high

unemployment is not a predictor for the remainder of the decade. The war for talent will heat up again as jobs are created in the years ahead—creating a labor shortfall. Keeping a watchful eye on the big picture will be vital for HR managers whose CEOs will rely upon them for imaginative recruiting, retention and succession planning. When someday the executive committee becomes obsessed about the war for talent, HR should have the strategies and options in place.

Look at www.ceoexpress.com. Make a quick daily survey of the information streams business leaders rely on. Otherwise, it's hazardous to your health.

Which also brings us back to a point made earlier: If you have shown leadership and mastery in the fight to keep benefits costs in check, management is more likely to pay attention to HR when the war for talent has resumed. HR will need to be able to strongly defend those programs and initiatives that attract and retain the right people. According to one expert: "The most valuable asset any company has is its people—they provide the intellectual capital. If we skimp on benefits, how can we be competitive in the market place? We must be able to bring qualified, motivated, competent people to the office every day."

Keeping an eye on the big picture also means the big picture internally. HR people are not expected, of course, to be accountants, marketing specialists or IT experts. But HR managers who aspire to the business partner role must be conversant in finance, sales, marketing, manufacturing, distribution—in order words, in all of the key areas of that support the goals of the business. This can require taking survey courses in all the vital disciplines, volunteering for projects in business areas such as finance and IT, and sitting in on management meetings. One HR officer with a sound understanding of sales and compensation strategies was able to rescue a sales team that appeared hat-in-hand before the CEO, hard pressed to explain a year in the doldrums. With

the help of the HR manager, the team worked out a sales incentive formula that ended up driving both revenue and market share. The more an HR manager can distance himself from the common assumption that “HR’s business is HR,” the more likely he will be seen as having a place at the table.

Making It Happen—from the Start

If you’re asking yourself the first day on a new job, “What do I have to do to take my seat at the table?” you’re probably too late. Any HR leader with a business-partner frame-of-mind will begin the process of moving into a power position *during the interview process*. Of course, a clear picture about politics and personalities will emerge when you’re on the job. But a tremendous amount can be learned about any organization and its power players before you show up for the first interview. If you have been interviewing extensively within the industry you will probably know a lot about competitors and the major issues facing everyone. A key to being perceived as an insider and as a potential power player yourself is being able to demonstrate an awesome knowledge of the company, its products and services, its problems, challenges and successes—and how it stacks up in the industry. You will come across as a strategic thinker who doesn’t have to be taught about bottom-line accountability.

Demonstrate an awesome knowledge of the company, its products and services, its problems, challenges and successes.

But once you’re in the door—that first day on the new job (or soon thereafter)—you can make moves to demonstrate that tending to human resources does not define your role. Of course you’ve read the wonderful things the company says about itself on its website, and you’ve probably spent hours during the interviews talking about company goals and visions. But early on a new HR manager should huddle with the CEO, to review the company mission statement and to firm up a to-do list: as the person responsible for the human capital in the

organization, what steps can you take to maximize that capital? Your understanding of your role should reflect GE’s Jack Welch’s philosophy: “If human capital is the most important product in a company, then why isn’t human resources the most important discipline within the business?”

Partnering with department heads is also a vital move. Attend operational meetings across the organization to get a feel for what’s happening in all departments and divisions, but also meet privately with heads of manufacturing, marketing, finance, sales, operations, IT, and so on. One senior HR officer has made this a practice: “I grew up in HR, I made sure I had those meetings. I was out with the sales force. I did things that connected me to the business. I do that with my team as well. I make sure they’re taking rotations in other departments—they’re on projects with other parts of the business. My CEO didn’t say, ‘Go spend time there.’ I have to find ways for connecting with whatever parts of the business I need to, and I make sure my junior staff members are getting that exposure, so that they can come to the business of doing the business and have the HR skill as the biggest one in the toolkit.”

Speak the language of the CFO and CEO. And remember that they don’t like surprises.

You need to find out what the various department heads want from you—you need to let them know what kinds of help you’re prepared to offer them, beyond routine HR matters. You need to find out what kinds of problems they might have had with HR in the past. There might be festering grievances that you would do well to uncover and address. Active listening skills can help to build important partnerships with the department heads. With a lot of peers on your side, respecting your help and input, you will be building the political capital for securing a place at the table.

Be aware that, as good as you may be, you might encounter obstacles and challenges that would swamp lesser mortals. There may be troubled political

waters, or problems that you’ve never encountered before. Avoiding setbacks or defeat may simply be a matter of getting help. Hire an HR consultant for 5 or 10 hours to help you brainstorm solutions, even if you have to foot the bill yourself. There are seasoned executive coaches who have seen it all, done it all—treat yourself to their expertise.

A Checklist of Questions for Anyone

If your goal is winning a place at the table, if you want to have impact on the bottom line and play a role in the formulation of strategy, you need to take inventory on a regular basis—the inventory of your skills, accomplishments and techniques for fashioning the HR role as you want it to be. The following questions can help you gauge the impact of your policies and personality. But no matter what your role, function or department—you don’t have to be in HR to ask most of the following questions—and boost your status and influence.

Help senior management address the crises that the economy has spawned.

My Performance

- ◆ How well am I performing? And how do I know how I’m doing?
- ◆ What do the board, the executive committee and my peers say about me?
- ◆ How do I *test* how I stand in my organization? Do I really want to know how I stand?

Get help. Hire a consultant for 5 or 10 hours.

Education

- ◆ How do I keep myself informed about new business ideas relevant to the business?
- ◆ How do I maintain knowledge about my organization and its competitors?
- ◆ How well do I and my staff keep informed about what’s going on in our company?
- ◆ Do I acquire and demonstrate knowledge of customers? What contact do I have with customer needs and issues?

Recruiting

- ◆ What am I doing to bring in the brightest and the best? How do I measure and calibrate talent?
- ◆ Am I helping the Board of Directors identify appropriate talent for the Board?

Attend meetings across the organization to get a feel for what's going on: manufacturing, marketing, finance, sales, operations, IT, and so on.

Leadership

- ◆ Do I foster teamwork and facilitate conflict resolution?
- ◆ Am I making proactive decisions in a timely manner?
- ◆ Am I exhibiting visionary leadership? Am I creating and communicating a clear and compelling view of the future of the business?
- ◆ Am I delegating properly and empowering my staff locally and globally? Am I supporting my people?
- ◆ Do I create buy-in for new initiatives? Do I encourage open discussions of new ideas?
- ◆ How well do I recognize developmental needs, to coach for improving performance?
- ◆ Do I demonstrate confidence in myself, especially during challenging times when HR might face criticism and be assigned blame?
- ◆ How do I align myself with my peers up and down across the organization?
- ◆ If I'm in a power position, what kind of power is it?

Setting an Example

- ◆ Am I exhibiting moral and ethical leadership that promotes exemplary behavior? What do I look like to the rest of the organization?
- ◆ Am I seen as fair and upright?

Strategy

- ◆ Is my phone ringing, not just about benefits, but about strategic issues?
- ◆ How well do I recognize trends and events outside my organization that impact its performance?
- ◆ Do I think critically and quantitatively about business problems?
- ◆ How do I remain on the forefront of innovation?
- ◆ How much time do I devote to building positive business relationships, and enhancing personal and business success?
- ◆ Do I use new information to enhance my organization's performance?
- ◆ Do I demonstrate knowledge of customers? What contact do I have with customer needs and issues? Without customers, there is no business.

The Best Offense is the Best Defense

The HR officer who manages to earn a place at the table is, in fact, establishing a solid foundation for his or her own career. Earlier we alluded to the CEO who asked an HR headhunter to find someone "who is involved in the business, who is pushing the business forward and challenging everyone at the table." And, presumably, the headhunter began the search for an HR officer with the right résumé. *You want to be one of people that the headhunter calls.* Whether or not you're interested in a new opportunity is beside the point. The point is you want to get those calls. Any career-minded professional in any field is always concerned about staying marketable, is always concerned to stay at the top of his game and be recognized as a leader and mentor—as a sought-after resource. To be seen as a business partner, fully involved in corporate policy and strategy, is your own best defense in the game of career management. ●

briefings for the informed professional

For HR Executives:

Below are the panelists who spoke at the HR Network in New York on *The Changing Role of Human Resources: How You Can Get More Power*

Eric Jacobson, CEBS, is a Senior Vice President for Marsh. He is the New York Office Leader for the Marsh Advantage business segment. Eric has observed that HR has to interact — or even report to — the financial person more and more. Information is taking on a different dynamic.



Steve Atamanchuk, VP, Human Resources for Sithe Energies, has over 25 years of HR experience within various industries. He told how he turned the HR role from one of personnel to that of business partner.



Wendy Murphy, Partner and Global HR Practice Head for Heidrick and Struggles, told what companies say they are looking for when they are hiring today's HR executive. Experience, expertise and most important of all — innovation.



Healthcare for Americans *Looking Back and Thinking Ahead*

by Pat Oden of The Employment Roundtable

with David Madison



Why is the American healthcare system such a mess? We have the most expensive healthcare system in the world and no one seems happy. Thousands of experts have offered hundreds of solutions, but the philosophy of “ready, fire, aim” seems an appropriate characterization of the American healthcare system. My intention in this article is to describe:

- ♦ how the initial legislation set the course for our current system
- ♦ efforts to control subsequent run-away costs
- ♦ the unintended side-effects

I will also offer some thoughts on future incremental steps that could make the American healthcare system more productive.

Today's Healthcare System

In most of the industrialized world healthcare is viewed as a legal right and is funded either through taxes or a variety of contributory systems. We are the only country in the world that has an employee-based insurance formula (*i.e.*, you must have a job to be covered), supplemented by a government safety net for the elderly (Medicare) and the poor (Medicaid). The insurance providers for the American people can be summarized as follows:

- ♦ Managed Care including HMOs (Health Management Organizations) and PPOs (Preferred Provider Organizations)
- ♦ Indemnity plans paid for by employers (traditional fee for service)
- ♦ Medicare and Medicaid

Healthcare, of course, is big business, and it gets bigger every year. The aging population is one of the reasons, but the increasing sophistication of disease-treating technology is another. And the U.S. has more specialists than any other country. In 2000, healthcare

accounted for 13.1 percent of our gross domestic product, with \$1.3 trillion being spent in this sector. By 2010, this will rise to 16 percent and \$2.6 trillion. Money spent in hospitals during 2000 was the primary expenditure, at \$416 billion. There are about 5,000 not-for-profit hospitals, 56 percent of which are in urban areas. These not-for-profit institutions account for 61 percent of all U.S. hospitals: About 15 percent are for-profit and 24 percent are public hospitals.

We are the only country with an employee-based insurance formula (*i.e.*, you must have a job to be covered).

Where It All Began

Watershed events in the history of U.S. healthcare occurred with the implementation of Medicare (1966), a federally funded program to provide for the elderly, and Medicaid (1967), a federal and state-funded program to help the poor. Initially, there was huge resistance to these programs from the American Hospital Association and the American Medical Association. The AHA feared for the financial health of hospitals and the AMA was concerned that this was the first step toward socialized medicine. But the legislation actually worked very much in favor of both.

The law stipulated that the government would reimburse hospitals “on a cost plus basis” and physicians for “customary and reasonable costs.” In other words, doctors and hospitals could set their own prices. Signs went up in doctors’ offices throughout the land, “We Treat Medicare Patients Here,” and between 1966 and 1969 doctors’ average incomes *doubled*. Just as someone walking into a barbershop and asks for a trim is not told, “No, you don’t need a haircut,” people who showed up at the doc-

tor’s office—even with a minor complaint—were not going to be turned away. The response was, “Of course we need to look into that.” The new laws skewed the incentives toward treatment of healthcare episodes—at the expense of preventive care.

It turned out that business boomed not just for the doctors. Medicare also underwrote the interest on hospital construction debt, and covered depreciation costs, as well as most in-patient costs. This led to an explosive hospital expansion in the 1970s. The system paid to keep patients in hospitals and paid the doctors for their bedside visits. The average length of hospital stays grew dramatically.

Signs went up in doctors’ offices throughout the land: “We Treat Medicare Patients Here,” and between 1966 and 1969 doctors’ average incomes *doubled*.

Indemnity plans soon followed the pattern of expanding insurance coverage that resulted in more doctor visits and longer hospital stays. The cost of expanded coverage was passed on to corporations who then passed it on to the consumers by increasing their cost of goods and services. Americans healthcare expectations were set, namely access to physicians and hospitals on demand and treatment for the asking. Preventive healthcare was a low priority; very few office visits included significant time talking about strategies to stay healthy. Americans shifted responsibility for their own health to the user-friendly doctor.

Thus began a healthcare system that placed financial incentives on treating patients only when they’re ill, rather than investing significantly in healthcare prevention. *This has been the nation’s most*

costly healthcare decision, the effects of which are still with us today.

Americans expect access to physicians and hospitals on demand and treatment for the asking.

Expectations of the American People

“Why should I give up smoking?” the 19-year old asked. “By the time I get lung cancer, they’ll have a cure for it.” There seemed to be a high level of naiveté about the reality of fighting a painful disease, but there was also an assumption that the anticipated cure would be available simply for the asking—whenever it might be needed. 19-year olds rarely ask, “Who’s going to pay for it,” “Will I be able to afford it?,” or “Will I have to be on a waiting list to get the medical attention I need?”

We want every possible treatment and we want somebody else to pay for it.

The expectations of the 19-year old appear to be pervasive. We hear about dramatic advances and breakthroughs in healthcare on the evening news and conjure a vision of how healthcare ought to be. If we had our way, in ‘the best of all possible worlds,’ healthcare would include: having a personal trainer to put us through our paces every morning; a nutritionist to prepare our breakfast; an acupuncturist to relieve aches and pains during the work day; an internist to check us out in the evening—with various specialists on hand in case anything doesn’t look quite right; and a therapist to help us get along better with spouses and children. This is the healthcare version of the American dream: “I want everything I’ve ever seen in the movies.” We demand the best care and the most advanced high-tech diagnostic equipment. We want every possible treatment and procedure that can extend life. And we want somebody else to pay for it.

Efforts to Put on the Brakes

The full impact of escalating

Medicare and Medicaid costs eventually sank in: we were paying for, and getting more than we needed. Supply far exceeded demand, in terms of hospital beds per capita in this country. Of course, this trend could not continue—and didn’t need to. A federal Certificate of Need Law established local agencies to oversee and limit government-reimbursed capital projects. The legislation funded local offices to review and approve every project over \$600,000. Hospital construction slowed, but even today we have four hospital beds per thousand people in the United States, while we need only 1.2 and even that number is declining.

Today we have four hospital beds per thousand people in the U.S., but need only 1.2.

The drop in bed need is attributed to dramatic developments in technology and more importantly, to Reagan’s 1984 reforms enacted to reverse the trend of runaway healthcare costs. Two programs played a role here: the Prospective Payment System (PPS) and Diagnostic Related Groups (DRG). These established definitions and limitations for episodes and treatments, effectively putting caps on payments for each procedure. A system of payments for outpatient services was also phased in over a twenty-year period. This has driven the movement of treatment out of hospitals—with the result that far more procedures are now done in day surgeries and clinics—the range and variety of which would have been unpredictable and unimaginable a few decades ago.

Initially the PPS legislation promised an incentive-based system that would reward productivity: If your hospital could provide a procedure at a cost lower than the DRG rate, the hospital got to keep the difference. Unfortunately, the government limited annual reimbursement increases to rates that were far below the healthcare inflation rate. Medicare reimbursement became a loss item on the hospital’s income statement. The hospitals responded to the losses by shifting the losses on Medicare / Medicaid care to the private insurance

sector. As a result, corporate America absorbed double-digit annual rate increases.

Since closing a hospital is about as easy as closing a military base, there was a major trend toward hospital mergers.

In light of these developments, it obviously became harder for individual hospitals to turn a profit. Since closing a hospital is about as easy as closing a military base, there was a major trend toward hospital mergers. Catholic hospitals led the way, combining into large healthcare systems with revenues measured in billions of dollars.

The Insurance Environment for Employers

Although federal guidelines were in place for costs for Medicare and Medicaid reimbursements, *i.e.*, what could be billed for reasonable and necessary costs, employee-based insurance coverage did not operate under the same restraints. The costs for procedures were simply passed on to corporations footing the bill for employee coverage, in the form of increased premiums. In a strong economy when everyone is flush this is not so much of a burden, but when times are tough, corporate America suffers because it’s harder to come up with the cash—requiring a much larger outlay for healthcare. Hence, Lee Iacocca’s remark: “There’s more healthcare in this car than there is steel.”

Putting on the Brakes Part 2

President Clinton put healthcare reform at the top of the agenda when he came into office in 1993. Responding to a chorus of complaints from corporations, to the double-digit health-care inflation—and to a fear that the drain on public and private treasuries would become unmanageable—Clinton initiated a legislative reform that would restructure the entire healthcare system. Hillary Clinton’s task force spent \$14 million on

studying options and came up with a proposal for universal healthcare for everyone. This plan was based initially on the concept “Managed Competition,” an idea developed by the Jackson Hole Group, a think tank that met in Wyoming. The Group advocated a system that would control costs through competition and expand the number of Americans covered by insurance.

In tough times, corporate America suffers from the cash required for healthcare: “There’s more healthcare in this car than there is steel.”

As the legislation progressed, the proposal included the blueprint for a major new bureaucracy and not much competition. The budget estimates for the new system shot the lights out. Proponents underestimated political and economic obstacles. Perhaps with the exception of the defense industry, there is no other industry that touches every American as much as healthcare, so everyone had an opinion and a vested interest—and there was little chance for a consensus. The plan was dead on arrival, and turned out to be a political disaster for Clinton.

The Clinton legislation included the blueprint for a major new bureaucracy. The budget estimates shot the lights out.

The Emergence of Managed Care

1993 was also the year that corporate America began to turn in a major way to HMO plans as a more effective option to reduce healthcare costs. HMO or managed care plans reversed the incentives from a system of over-treatment to an approach that seeks to limit treatment. The original plans were very restrictive. A member had to use the plan’s doctors and in some cases its hospitals. It is easy to understand the outcry of an American public that was used to service on demand and by a physician population used to setting prices.

While previous incentives favored over-treatment, the intent of the HMOs was to scrutinize and trim, and impose rules for what physicians could or could not treat—relying on bureaucrats to second-guess the doctors. But costs did come down, especially with respect to payments to costly specialists. The U.S. has four times more specialists than any other country in the world, and, of course, the HMO gatekeepers did their best to curtail referrals to specialists. Doctors developed hostility to the HMO bureaucrats, who, after all, don’t have the medical competence possessed by physicians. Patients deeply resented not being able to choose their doctors.

News headlines and even movies portrayed managed care organizations as potentially dangerous to patient health and primarily driven by corporate greed.

Despite such accusations, most managed care organizations were actually losing money. In response to the criticism, the managed care industry has introduced more flexible plans, including options that allow patients to select out-of-plan physicians. managed care responded to dropping profits by consolidating into a smaller number of managed care companies. These larger managed care companies were successful in driving higher rate increases. The combination of less competition among managed care organizations and more flexible and more costly managed care plans has resulted in a resumption of escalating costs.

Managed care is a key driver in collecting information that is transforming medical knowledge.

The Knowledge Bonanza

On the plus side, managed care is the key driver in collecting information that is transforming medical knowledge. managed care organizations collect and review an enormous amount of information on medical histories, explanations of treatments and treatment results. The new regime has produced unprecedented data. Prior to managed care, tens of thousands of doctors, operating as independent business owners, kept scribbled notes on hundreds of patients in their own file

cabinets. Now there is a much better system for tracking trends and establishing best-treatment protocols. Couple this development with the advance in communication technology (*e.g.*, the Internet), and we’re set up for the bigger picture on how to treat people with asthma, diabetes and other chronic diseases. We now know, for example, that there is no reason for asthma-sufferers to be hospitalized, and a lot of data on the treatment of diabetes have translated into making lives better for those with the disease.

Today managed care programs are responsible for the healthcare of approximately 80% of Americans insured by the private sector.

Because of the centralized nature of managed care, we’re set up with the big picture on how to treat people with asthma, diabetes and other chronic diseases.

Major Initiative to Reign in Cost and Resulting Side-Effects

In 1997, Congress passed the Balanced Budget Act of 1997 (BBA97), which set the stage for the largest attempt to reform Medicare and Medicaid since its inception in 1966. The result was not reform, but a mammoth and often arbitrary reduction in spending. Originally estimated cost reductions of \$103 billion ballooned into \$227 billion, creating a major crisis in the financial health of the industry. Hospital bankruptcies occurred in unprecedented numbers. In 1999, Congress passed legislation that restored \$17 billion, \$8.4 billion of which went to hospitals. In 2000, Congress approved an additional \$38 billion over five years. Hospitals will receive \$11.5 billion. These amounts helped, but the financial health of American hospitals is still fragile. Coping strategies put in effect to deal with the effects of BBA97 have led to numerous side effects including nursing shortages and physician discontent.

Where Have All The Nurses Gone?

The average age of the registered nurse in the US today is 46. Only 10 percent of registered nurses are 30 or

younger. Studies have shown that patients get better faster when under the watchful eye of a registered nurse—indeed, nurses almost count for more in this respect than doctors. So it's not a plus for healthcare that registered nurses are an endangered species.

Not too many years ago nursing was one of the few professions thought to be appropriate for women—typically women opted to be nurses, schoolteachers, librarians or secretaries. Of course there were exceptions, but most 'male' professions were largely off-limits to all but the most determined women. While there are still glass ceilings, we now assume that every calling is open to women, including doctor, lawyer, astronomer and astronaut. Which leaves nursing as one of the least attractive possibilities.

Cost cutting efforts to deal with the effects of BBA97 have led to significant staff reductions, an increase in the number of lower cost non-registered medical assistants, long hours, and pay that is not really competitive. A love for the calling really must be a factor in choosing nursing for a career. Competition for hospital nurses is also coming from the home healthcare sector. Home healthcare agencies can employ nurses who want more control over their lives and welcome the idea of visiting six homes in a day rather than putting up with the night shift at a hospital.

Doctors may be pushed out of the profession simply because it doesn't make sense financially to stay in. In 2002, doctors paid \$6.3 billion for malpractice insurance premiums.

Will We Lose Doctors Too?

There's no doubt that it's a lot more complicated to be a doctor now than 20 or 30 years ago. There's more to learn, there's more specialization—and there's more litigation. These days doctors may be pushed out of the profession simply because it doesn't make sense financially to stay in. In 2002 doctors paid \$6.3 billion dollars for malpractice insurance

premiums, and, with litigation simply a feature of the healthcare landscape today, there's a tendency to over-treat. Under the old reimbursement system, for usual and necessary procedures, the motivation for over-treatment guaranteed attractive physician incomes.

Now over-treatment is a defensive strategy. Testing and procedures are done in excess to avoid missing a disease or condition: "God forbid I overlook something and get in a lawsuit. I could lose a lot of money." Hence we see the indirect costs of the malpractice environment, which are measured in the tens of billions of dollars for the federal government. No one has devised a formula to get a handle on this cost factor, which will no doubt remain part of the scene as long as malpractice litigation does. Efforts to place caps on malpractice awards are continually undermined by a political process that recycles certain portions of legal settlement dollars into campaign contributions.

The Outlook: Things Will Probably Get Worse Before They Get Better

Many Americans Have No Coverage

As was mentioned earlier, even with about one and a half trillions dollars spent on healthcare annually in this country, 41 million people are not covered. These Americans do not qualify for Medicare because they are too young and don't qualify for Medicaid because their incomes are too high. One reason for this is the shift from a manufacturing economy to a service economy, which includes a large number of small businesses that simply cannot afford healthcare insurance. Another is higher unemployment brought on by the sluggish economy. Some states have experimented with plans that would expand the definition of Medicaid eligibility to include large numbers of uninsured. This has proven a costly experiment for state treasuries as they are now in the midst of dealing with record deficits. Unfortunately, there seems to be no comprehensive solutions in the near future.

Age Wave: the Upcoming Tsunami

As baby-boomers become Medicare eligible, the strains on the healthcare sys-

tem will be enormous. A smaller workforce (in comparison to the post-retirement population) will be obliged to fund the entitlements of the growing number of elderly Americans. Unlike previous generations, the baby boomers have high expectations and enjoy more wealth and power than any other generation in American history. Americans over 50 control a majority of the nation's wealth and turn out to vote in large numbers. AARP is often named as Washington's most powerful lobbying group. It is difficult to imagine that baby-boomers will support reductions in healthcare dollars as they need more healthcare. And, by the way, they will live longer, raising the total entitlement bill substantially. By 2030, we're facing an amazing ratio: there will be only 1.5 people working and paying taxes for every person on entitlements. Great measures of political wisdom will be needed to make our way through this demographic nightmare.

Americans over 50 control a majority of the nation's wealth and turn out to vote in large numbers.

Reigning in costs is a continual challenge. In addition to the baby-boomers, costly high tech treatments are welcomed and expected by everyone. It will take vigilance, ingenuity—and probably new legislation—to keep the 2010 healthcare tab from going beyond the projected \$2.6 trillion. When have healthcare cost projections ever turned out to be wrong, erring on the side of being too low? The baby boomer challenge is an even larger concern in most other industrialized countries. Their immigration policies are more restrictive (keeping out workers), their birth rates are lower (Italy has zero population growth) and their citizens typically live longer.

A Paradox

Does our high priced healthcare get us to where we want to be in terms of longer, healthier lives? With healthcare spending at 13 percent of our gross domestic product and likely to be at 16 percent by the end of the decade, we

might expect that we would lead the world in longevity. In Europe, after all, the spending rate is in single digits—6.7 to about 10 percent of GDP—but Europeans live longer! There's a lot of speculation about why this is so, including our diet, pervasive obesity and sedentary lifestyle. American teenagers, for example, would appear to log more TV hours per week than kids anywhere elsewhere.

Immigration is viewed by some as one the culprits in reducing American longevity. This is not because immigrants are sicker, but because they—the illegal ones particularly—don't visit doctors early enough to address problems. By the time they get to the emergency room, it's too late for practicing economies.

Europeans live longer than Americans—perhaps because of our diet, pervasive obesity & sedentary lifestyle.

What's Next?

Many Americans believe that we should have a universal healthcare system using the European healthcare model. But it's worth noting that every industrialized country that has struggled to get it right—i.e., universal healthcare—has fallen short of the ideal, both in terms of keeping costs under control and delivering healthcare efficiently and equitably. We may cast an envious eye on European systems that are not employment based, but our envy should be tempered by the fact that in many cases less is covered than in the America. Europe has significantly less medical diagnostic technology per capita. Europeans have to queue for treatment to a degree that Americans would find unacceptable. In England, for example, 38 percent of people needing elective surgeries have to wait four months or more (in the U.S., it's 6 percent). We get medicine on demand; in Europe they get on line and wait their turn.

At the present time there seems to be no national movement toward universal healthcare—memories of the Clinton debacle remain fresh, and there are trends that don't bode well for things getting better anytime soon.

Looking forward, expect more tinkering, more experimentation, and more

legislative surgeries in our continuous effort to get it right. The current strategy is less global and consists of a series of small steps that will improve productivity and reduce costs, which in the aggregate could have a large impact on total healthcare costs.

Help from the Private Sector

One example of an incremental approach is being promoted by The Leapfrog Group, the Business Roundtable's healthcare think tank organization based in Washington, DC. The Leapfrog Group is a coalition of 140 public and private organizations created: 1) to help save lives and reduce preventable medical mistakes; 2) to initiate breakthrough improvements in the safety of healthcare; and 3) to give consumers information that will encourage more informed hospital choices.

According to the Institute of Medicine, up to 98,000 Americans die from preventable mistakes during hospitalizations. In addition to death, preventable medical mistakes cause other problems as well. They can lead to permanent disabilities, extended hospital stays, longer recoveries and additional treatments. In response to this problem the Leap Frog Group is promoting three initiatives.

First, a Computer Physician Order Entry that computerizes all hospital prescriptions, and then automatically checks a prescription to see if it would interact badly with another drug. The system also reduces mistakes from sloppy handwriting.

ICU Physician Staffing is another initiative. Mistakes in emergency rooms, typically staffed by low-level and under-trained personnel, can mean the difference between life and death, or the difference between between two weeks in hospital instead of two days—and all of the resulting costs including possible litigation. Studies reveal that hospitals staffed with physicians specially trained for critically ill patients would reduce the risk of dying in the ICU by 10%.

The third initiative, Evidenced-Based Hospital Referral, recommends selecting hospitals with proven outcomes or extensive experience with high-risk procedures. High-risk procedures include coronary bypass and angioplasty, aortic

aneurysms, esophageal cancer and high-risk deliveries.

An independent study projected that if these three procedures were implemented, 53,850 lives would be saved and 522,000 serious medical errors would be avoided. The economic benefit would be significant.

According to the Institute of Medicine, up to 98,000 Americans die from preventable mistakes during hospitalizations.

Parting Thoughts

There is really no solution on the horizon for effective management of healthcare costs. Americans have an unlimited appetite for healthcare services, which puts chronic pressure on healthcare costs. Breakthroughs in medical technology and drugs will be continuous and costly. Baby steps that increase productivity and reduce cost will be helpful but will not solve the problem.

On a more hopeful note, Americans' expectations are changing. They are taking a more active role in managing their own healthcare. Individuals' out-of-pocket healthcare expenses are going up as insurers shift more of their costs to their insured patients. The result is that people are becoming more prudent buyers of healthcare services. They are better informed and have access to more information.

Another positive sign is the recent response of the nation's food companies to class-action legislation alleging an absence of nutritional information, particularly relating to fat content. Recent headlines describe new initiatives by the major fast-food companies to provide more nutritional information and reduce the fat content of their food products. In terms of preventive healthcare, these are hopeful signs that corporate America is becoming part of the solution rather than part of the problem.

Progress will be slow, but the overall direction is constructive. Increasing costs are forcing Americans to become more informed and take more responsibility for their own healthcare. ●