Effective Advocacy a Must for Nonprofit Health Care Organizations:

A case study on why being and doing good isn't enough

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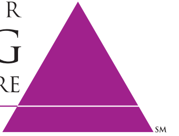
—William G. Weissert



A L L I A N C E F O R ADVANCING NONPROFIT HEALTH CARE

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This is a reprint of an Inquiry *article, Volume 43, Summer 2006, entitled "Survival Skills for the Political Environment of Health Insurance," by William G. Weissert, Ph.D., professor in the Department of Political Science and research associate in the Claude Pepper Institute on Aging and Public Policy at Florida State University. This article, presenting a case study of Blue Cross Blue Shield of Michigan's need for, and success in, public advocacy, provides important lessons for all types of nonprofit health care organizations. Having sound business operations and doing good for the community are no longer enough in an increasingly demanding, and frequently hostile, political environment. Effectively telling the organization's story is also essential.*

Blue Cross Blue Shield of Michigan asked the Michigan state government for small-group market rate reform already adopted in most other states. Officials responded with major restructuring proposals aimed specifically at the Blues. The Michigan Blues fought back with a massive lobbying campaign as vigorous as any mounted by opponents of health reform at the national level. The company was able to prevail over one of the most powerful governors in Michigan's history, whose party controlled both houses of the legislature. This amazing political victory shared much in common with the Clinton health reform's defeat by the industry and the more recent success of the prescription drug industry in shaping Medicare prescription drug reform to its liking.

The experience suggests that political savvy and lobbying skills have become core competencies in the health care industry.

Many who teach future business managers in the nation's leading business schools argue that modern American chief executive officers (CEOs) must be as adept at managing changes in nonmarket (public policy and public opinion) environments as they are at managing changes in their business environments (Barron 2000). Due to this nation's unique mix of public and private health care financing combined with a predominantly private delivery of services, health industry interests must be even better prepared to manage policy, public opinion, and market environments than their counterparts outside health care.

The experience of Blue Cross Blue Shield of Michigan (BCBSM) in small-group market insurance reform is a case in point. The Blues sought government's help to limit the small-group market behaviors of competitors by asking that regulatory controls be imposed. The Blues wanted to stop the cherry-picking of low-risk clients by commercial insurance firms, the adverse selection of high-risk clients into its own, more closely regulated insurance pool, and the dumping of high-risk clients by commercial plans when the plans discovered that they inadvertently had enrolled a high-cost beneficiary. Though the reforms the Blues sought already had been adopted by 47 other states, the policy response from the Michigan state government was not what the Blues wanted or expected. Instead, the insurer quickly found itself in a fight for survival as a nonprofit company against one of the most powerful governors in Michigan's history—one whose party controlled both houses of the legislature and the office of the state insurance commissioner.

A nonprofit corporation with annual revenues of $10 billion to $13 billion, Blue Cross Blue Shield of Michigan employs more than 7,000 staff and provides health care benefits to 4.8 million members through a variety of plans: Traditional, Blue Preferred, and Community Blue preferred provider organizations (PPOs); Blue Choice Point-of-Service; and the Blue Care Network HMO (a health maintenance organization). Blue Cross Blue Shield of Michigan and Blue Care Network are nonprofit corporations and independent licensees of the Blue Cross and Blue Shield Association. The organization also owns the workers' compensation fund formerly operated by the state.

This paper chronicles the efforts by the Blues to maintain its market position and maintain control over its nonmarket environment in the face of significant threats in both arenas. Lessons from the experience may inform both health care organizations and their would-be reformers of what a firm can do in self-defense when it has the necessary financial, organizational, and industry network resources, the political connections, and the savvy to deploy them effectively. The Blues used issue polling to identify its reputational strengths and to test issue-framing options; it framed the issue—an antagonistic reform proposal—brilliantly, and organized the provider and association relationships it had built up through years of business relationships to form an effective political coalition. The Blues aligned its cause with the political figure who at the time was challenging the candidate favored by the governor to succeed him, and hired most of the available contract lobbyists in the state, using them to augment the firm's own information-based, full-court press with the legislature. All this was coupled with a broad advertising and public relations campaign that characterized the threat to the insurer as a threat to its customers, who counted upon their Blues card to give them access to health care on demand. The company also organized its union connections to mount a grassroots campaign that culminated in a demonstration on the steps of the state capitol condemning the proposed "reform." The Blues' experience suggests that firms and potential reformers in the health care industry must develop political survival skills as a core competency if they hope to succeed in the turbulent policy environment in which health care firms do business.

The Blues soundly defeated the governor's proposal to: (1) reform the Blues' founding legislation that established it as a not-for-profit corporation; (2) place the Blues under increased control of the state insurance commissioner; and (3) reform the Blues board of directors by shrinking its size and adding gubernatorial appointees. In its stead, the company succeeded in getting its own reform plan passed, winning everything it originally sought. With great skill, alliances, resources, and determination, the Blues structured its defense as a political campaign, incorporating, as already noted, issue polling, issue framing, intense lobbying, coalition formation, grassroots mobilization, advertising, media management, and deftly placed campaign contributions. These are textbook lobbying strategies (Kollman 1998; Weissert and Weissert 2003) employed in the type of comprehensive campaign that

has proven successful in recent years in defeating a plethora of reforms directed at prescription drug makers, managed care firms, malpractice lawyers, gun manufacturers and sellers, beer wholesalers, and others. In fending off unwanted restructuring of its own board of directors by the governor and going on to win exactly the market reforms it originally had sought, the BCBSM case study illustrates the critical importance of political savvy to firms in the health care industry.

Information for this case study was gleaned from interviews and approximately 300 documents, ranging from stories in state and national newspapers and newsletters to testimony, reports, legislative bills, and scholarly journal articles. Campaign expenditure data were taken from the Michigan secretary of state's database. Interviews of approximately 90 minutes each were conducted with lobbyists, legislators, gubernatorial staff, the former insurance commissioner (since deceased), Blues executives, board members, providers, and others in Michigan, Washington, D.C., and elsewhere. Interviews were guided by a seven-page structured outline.

Background: Blues Consolidations and Conversions

Nationally, Blues plans have been disappearing at a rapid rate. In 1975, there were 114 Blues plans, all not-for-profits, according to a Michigan Blues white paper (Blue Cross Blue Shield of Michigan 2002). By 2002, the number of Blues plans in the nation had shrunk to just 44, six of which were profit making, though others had tried to become for-profit plans. Although fewer Blues plans exist today, they still wield major market power, controlling over 44 percent of the national market, according to a recent analysis of health insurance market concentration (Robinson 2004).

Following 50 years of dominance in the health insurance market, a period of turmoil began for Blue Cross and Blue Shield plans with their loss of federal tax-exempt status in 1986, bankruptcy of the West Virginia plan in 1990, and a wave of conversions to for-profit firms throughout the 1990s. The conversions culminated in the merger of two former Blues plans, Indiana and California (Kertesz 1996; Schaeffer 1996), which also had merged with plans in other states. They are all now a single profit-making plan with 28 million subscribers.

Advocates often claimed that conversion to for-profit status would lead to lower costs and premiums, greater revenues, and distribution of assets to charitable purposes (Schaeffer 1996). This theoretically would leave the communities that had given tax breaks to their nonprofit Blues plans over many decades a just compensation and a more efficient health insurance industry. In actuality, most states that saw their plans convert received charitable contributions reflecting undervaluation of the Blues' assets—that is, if a community got the assets at all (Hollis 1997; Schramm 2001)—and a for-profit managed care firm reporting to a board in another state and beholden to turn a profit for stockholders.

Research has provided evidence on the impact of hospital and HMO conversions and it generally is not favorable from a societal perspective. Converted for-profit hospitals substantially reduce their provision of uncompensated care, a measure used by the researchers as a proxy for providing care to poor patients (Thorpe, Seiber, and Florence 2001). While a converted firm's revenues tend to go up, its costs do not go down (Clement et al. 1997). HMOs get some economies of scale, but only up to 50,000 members (Christianson, Feldman, and Wholey 1997), a size already exceeded by the Michigan Blues' 500,000 members. Also, there is no evidence that HMOs became more efficient after a merger (Christianson, Feldman, and Wholey 1997). On the other hand, more competitors have led to lower premiums for some groups; however, in concentrated markets nonprofits have tended to offer lower prices than for-profits despite a recent preference among nonprofit Blues plans for accumulating larger and larger reserves rather than lowering premiums (Borsch, Ko, and Huynh 2004). States that were late to the conversion craze became more savvy and fought conversions with whatever tools they could find.

Often the tools were political. Attorneys general remonstrated and filed suits; insurance commissioners demanded external asset valuations; state legislatures threw up legislative roadblocks; everybody spun their issue in the press; and many went to court. The conversion craze slowed, at least for a time, though some speculate that it will start up again with the return of annual double-digit health insurance premium increases and employers' reactive demands for lower costs (Murdoch 2004).

Michigan's situation was different. Although at an earlier time under a different CEO, BCBSM had sought to shed its nonprofit status in favor of mutual status, the company's board and management at the time of the reform movement did *not* want to convert from not-for-profit status. (Beneficiaries of

mutual companies own the company, paying premiums to cover claims and costs while sharing surpluses and shortfalls through refunds or assessments. Nonprofit firms retain and spend their surpluses, seeking loans or gifts to cover shortfalls. Profit-making firms share their surpluses among shareholders, who own the company and raise capital to cover losses.) Company leaders said the relationships they can build with providers and others as a nonprofit insurer make the status a good business strategy. Critics said political incumbents favored the current status because it permitted them to benefit personally or to benefit the organizations that they represent. In taped interviews and on condition of anonymity, some hospital CEOs in Michigan said that while the Blues got a special tax break, it provided the hospitals little in return, not really acting like a not-for-profit. Others strongly supported the Blues. Either way, according to interviews with the Blues' CEO, chief of staff, chief financial officer (CFO), and vice president for corporate communications, the Blues managers were nearly forced to follow a path to conversion away from nonprofit status by the Michigan governor and insurance commissioner.

The Imperative of Small-Group Insurance Reform in Michigan

Small firms, which Michigan defines as having 99 or fewer employees, always have faced a difficult insurance market. With so few employees over whom to spread risks, insurers are reluctant to take on small groups as clients because one very sick employee can run up near-bankrupting health care costs. In states such as Michigan, the Blues plans were ordered by their founding legislation (Michigan Public Act 350 or PA 350) to be the insurer of last resort. All individual clients who applied had to be sold insurance by the Blues (while other firms were free to turn them down). While the law does not directly apply to business clients, the Blues tended to accept all comers. This effectively drove up costs and, in the views of Blues managers, particularly drove up costs in comparison with commercial firms that could operate without such constraints. Firms likely to experience low costs in their employees' health care use tended to seek insurance from commercial firms, leaving the Blues with sicker, costlier clients. The Blues managers feared an eventual collapse of their market as adverse selection left them with ever more costly clients.

To limit such adverse selection, for many years the Blues demanded a high level of participation among a firm's employees. If one employee wanted Blues insurance, at least 75 percent of employees in that firm had to buy it or none would be eligible. This requirement protected the Blues' risk pool. But the Michigan state insurance commissioner stopped this practice, ruling in August 1998 that minimum participation could not be enforced (Blue Cross Blue Shield of Michigan 2002).

The company also marketed its small-group products exclusively through chambers of commerce and local and statewide business and professional associations. Because the Blues demanded that its "partners" sell no other insurance company's products, this practice probably helped the Blues capture and keep market share. This assured a healthy workforce and cemented close alliances with many professional associations, which administered plans for the Blues for more than 1 million enrollees paying premiums exceeding $2.5 billion. The associations receive a fee of .25 percent to 1.5 percent of the premium in exchange for administrative services; the fee varies by how much service the association provides to its members.

Commercial insurers typically were not under any last-resort obligations, guaranteed issue, or guaranteed renewal constraints before the federal 1996 Health Insurance Portability and Accountability Act (HIPAA) imposed on them a modest set of national standards. To limit the damaging effects of cherry-picking and adverse selection, HIPAA required states to adopt small-group market reforms or a substitute approach that would accomplish the same goals; failure to comply meant federal penalties would be imposed.

By 2002, 47 states had adopted such reforms; Michigan still had not. The Michigan Blues' obligation as insurer of last resort and the fact that it operated under a guaranteed renewal requirement were offered by the state as its alternative to small-group market reform. The federal government accepted this alternative approach as being HIPAA-compliant, and thus Michigan commercial firms were not required to guarantee issue or renewal. (Critics of HIPAA maintain that HIPAA does not prevent dumping because under federal law commercial firms still can raise rates dramatically and thereby discourage renewal [Pollitz et al. 1999].) By 1996, the Michigan Blues' losses in the small-group

market were catching its managers' attention. By 1999, the losses were mounting at a rate that the Blues believed demanded change to prevent collapse of the small-group pool over time as young healthy members were siphoned off, leaving only high-risk clients for the Blues (Blue Cross Blue Shield of Michigan 2002). A survey by the Small Business Association of Michigan reported a major crisis in health care costs among its members, suggesting that many were being financially burdened, even bankrupted, by health insurance premiums (Stock 2002). To the Blues, this validated its case.

The Blues' Request to the Engler Administration

The Blues took its case to Michigan Gov. John Engler and state Financial and Insurance Services Commissioner Frank M. Fitzgerald in 2001, presented a market reform proposal, and met with them several times to urge adoption. But by the start of 2002, the Republican governor, the Republican commissioner, and the Republican-controlled House and Senate still had not agreed to small-market reform. Then, seemingly out of nowhere, the term-limited Engler began his 12th and last year in office with a State of the State address calling for small-group market reform. But he did not stop there. He also called for rewriting the basic law that had created Blue Cross Blue Shield of Michigan as a not-for-profit health insurance carrier.

The essence of the Blues' cost problems, Engler's chief health adviser Dennis Schornack later argued, was the legislatively mandated structure of the Blues board of directors and the antiquated requirements of PA 350 (Schornack 2004). He argued that the board was too big to be efficient and was dominated by members representing special interests, not the interests of the underwritten health insurance clients at the core of its "charitable and benevolent" mission. PA 350 was, Schornack said, "state-level socialized medicine" (Schornack 2004). Among other concerns, there was a particular worry about the sheer size of BCBSM. As the administration's spokesman put it:

> We were concerned about the idea of having so many eggs in one basket—one company—everybody in the state dependent upon the health of this one company. It was a scary thought. It had always been kind of a scary thought. There could be some kind of natural disaster, or other disaster; things could happen with this one company, and it could fail, and we just didn't think that failure was a choice. It had to be able to grow. And it simply could not grow in Michigan anymore. I'm still shocked that it has the market share that it does (Schornack 2004).

The Engler Administration's Response

In testimony before the House Insurance Committee, Financial and Insurance Services Commissioner Fitzgerald explained that the governor's reform package should be envisioned as a "three-legged stool." He explained that he and the governor merely wanted a process put into place that would protect the citizens of Michigan from loss of the Blues' asset value if the Blues were to convert to a profit-making enterprise. Fitzgerald said the governor wanted the Blues brought under the insurance commissioner's control to give national firms the sense that the market was fair and open to them; the governor also wanted the Michigan Blues board drastically reduced in size (Michigan Office of Financial and Insurance Services 2002).

In exchange, the commissioner offered to impose upon all small-group-market health insurance sellers in the state the same burdens borne by the Michigan Blues: guaranteed issue, guaranteed renewal, rates that could not vary too much between risk groups, and capped annual rate increases (Michigan Office of Financial and Insurance Services 2002). The Blues would also have its "minimum participation" authority restored.

Reactions to the Engler Proposal

From the Blues' perspective, this was not a fair deal. Indeed, the Blues felt that war had been declared—unprovoked, in its estimation, but a war nonetheless. A variety of motives were attributed to the governor by then-Attorney General Jennifer Granholm, newspaper editorial writers, state legislators, and a wide range of lobbyists and others interviewed for this paper. For example, Granholm, who was elected Michigan's attorney general in a race separate from that of the governor and who at the time was a front-running Democratic gubernatorial candidate to replace Engler, was among the first to suggest Engler had disguised and nefarious motives. The attorney general issued a preemptive official opinion in a letter to the newly formed Michigan House of Representatives Committee on Insurance:

> When the legislature established BCBSM as a "non-profit, charitable institution," it effectively created a charitable trust to promote public health in the state. Under current state law, the attorney general has a duty to oversee all Michigan charitable trusts to ensure that the trust is operating for the benefit of Michigan citizens (Gonwer News Service Inc. 2002).

> I agree that PA 350 may need to be updated to provide relief to small business; however, any move toward making the Blues for-profit is like euthanizing a patient who has a sprained ankle (*The Michigan FrontPageMagazine* 2002).

Governor's Motives Framed by Blues as "Profitization"

In a brilliant example of what political scientists call issue framing (Baumgartner and Jones 1993; Schneider and Ingram 1993; Weissert and Weissert 2003), the Michigan Blues charged that the governor was really calling for "profitization" (Barkholz 2002). "The Blues have no intention of selling to a for-profit entity or to go public under any circumstances. The company continues to believe that the Blues can best serve customers and providers by operating as a nonprofit insurer of last resort," a corporate senior vice president said.

At the time and in subsequent interviews, Blues executives, the attorney general, the Democratic house minority leader, and others charged that the governor's real motive was to establish a process that would lead the Blues eventually to profit-making status, though this intention was denied repeatedly by the governor and his spokespersons. Others speculated that if the Blues' assets were acquired by the state they could be used to supplement the Medicaid budget and avoid a shortfall or tax increase (Wolking 2004). Some said that the governor wanted to wrest control of the Blues board from union and Democratic dominance (Hubbard 2004), or from dominance by self-insured firms (Carr 2004) to give small business customers of the Blues better representation in management decisions.

A newspaper columnist captured the general suspicion surrounding the governor's motives: "… when Engler talks about making any group more responsive to the people of Michigan, he's usually concerned about making it more responsive to the governor's office. And so it is with Blue Cross, only a handful of whose 35 directors owe their seats to Engler" (Dickerson 2002).

State Senator John Schwarz, a physician and Republican candidate for governor (and now a member of Congress), agreed, calling the governor's proposals "a grab for money and power" (Luke 2002).

The governor himself took the unusual step of calling two news organizations to tell them the charges of a secret plan to take the Blues to for-profit status were utterly baseless. And state Republican Representative Tom George, a physician and sponsor of the governor's legislative reform package, said in an op-ed piece: "Michigan's attorney general states that there is a plan afoot to strip Blue Cross Blue Shield of Michigan of its nonprofit status. As a sponsor of the Blue Cross Blue Shield reform legislation, I write to debunk this myth" (George 2003).

George went on to cite a string of complaints about BCBSM that he said were reported by the insurance commissioner in his audit of the company: outdated information systems, inadequate investment return, cash strain, and problems with management and board structure. These, George said, were the "root cause" of the company's problems. However, these criticisms had not been included in the audit, which was very favorable to the company, as indicated by this excerpt:

> At 12/31/00 the Company remains financially stable and profitable. The Company has a Best's rating of A– (excellent). The Company maintains a leading market share in Michigan, expansive distribution channels and strong provider relationships. The Company's bottom-line earnings have remained favorable buoyed by a stable investment portfolio. The investment portfolio includes conservative debt instruments and generally well-performing subsidiary investments. The debt instruments and subsidiary investments generate investment income and dividend income, respectively, which has offset more recent unprofitable underwriting results. (Michigan Office of Financial and Insurance Services 2001).

George also complained that two-thirds of the Blue Cross small-group business was sold through trade associations that "effectively lock competitors out of the small group markets." Likewise, George said, buying and managing subsidiary organizations such as the Blues provider network had the effect of helping the Michigan Blues "further secure its position in the marketplace."

The quarterly newsletter on privatization in Michigan put out by the conservative and influential Mackinac Center for Public Policy seemed to agree with George: "It's high time for state leaders and Blue Cross and Blue Shield of Michigan to consider the private alternatives to a state-controlled virtual monopoly. They can begin now to move to an investor-owned organizational model, or they can wait until the legislature does it for them" (Webster 2002).

Well after the 2002 fight was over, Schornack, a top aide to the governor, was less guarded about the possibility of conversion and its importance in the governor's proposal. He said the Engler administration welcomed competition that might emerge from BCBSM conversion to for-profit status, though the governor felt that it was not his choice to make. "We didn't have to take a position on whether it should be a profit or nonprofit. But we were certainly not afraid of going into the for-profit realm … " Schornack said. "This unique law in Michigan kept them [the Blues] captive here. They had 70 percent of our market, and all they could do was go down. Others were coming in. Anthem had gotten a foothold in Michigan, other plans had looked at our market and found it attractive, and we thought, why don't we turn the tables and liberate the Michigan Blues so it can become a large company?" (Schornack 2004).

The possibility of a windfall to state coffers was also a consideration for the governor and his staff. "We did feel that if they [the Blues] were going to cash out, then the state should benefit rather handsomely," Schornack said. "They had benefited over many years from their nonprofit tax-exempt status but it was very hard to figure out what the charity was they were doing in return. There were some charity programs. They set up a foundation, for example, but that doesn't really constitute ongoing charity" (Schornack 2004).

Partisanship was another possible explanation for the governor's broadside attack on the Blues. Traditionally, the Michigan Blues' upper management had been dominated by Democrats—a by-product of the fact that its biggest client was always the auto unions, ever Democratic stalwarts. Out-of-office Democrats sometimes had found executive posts in the Michigan Blues organization, and some Michigan Blues managers talked openly about their fund-raising efforts on behalf of Democratic candidates. The Blues' president and CEO, Richard Whitmer, however, had worked during the 1960s for former Michigan governors George W. Romney and William G. Milliken, both Republicans from their party's liberal wing.

Actually, the Blues Political Action Committee funds both parties. In 2003–2004, the Blues PAC received close to $924,000 in political contributions, mostly from its own employees (in donations ranging from $27 a year to the maximum of $5,000). The Blues PAC gave out contributions of $40,000 each to the Michigan House and Senate Republican parties (the maximum allowed by law), $25,500 to the House Democratic Party, $30,250 to the Senate Democratic Party, and from $50 to $5,000 to candidates from both parties running for a range of offices from county commissioner to U.S. senator (Michigan Secretary of State 2003–2004).

The Blues Chief of Staff Daniel Loepp confirmed this bipartisanship in Michigan Blues giving, suggesting a target of roughly 60 percent to the majority legislative party, in this case the Republican Party (even though he himself was a former chief of staff to the Democratic house speaker). "We support both parties," Loepp said. Through its PAC, the Blues "tend to favor incumbents—of both parties," and have done so over the years, he said. "We do not get involved in any partisan way.… It's important to us to have good relations with all levels of government and both parties" (Loepp 2004).

The Board Reform Proposal

Schornack, the governor's top aide, felt most strongly that the Blues board was unrepresentative and self-interested, as illustrated in these comments:

> … first restructure the board, because the problem is right at the top: it's dominated by unions and self-insured firms. The people who are in charge don't have to worry about all the underwriting part of the business and they weren't going to be affected by or contribute to the organization's fiscal health.… We just wanted to put the right people on the board and provide the right incentives to provide leadership. We thought that should be the job of the board to sort of "right the ship."… The big winners in our plan were going to be the small and medium-sized businesses that have always known they were horribly under-represented on the board (Schornack 2004).

Echoing similar sentiments, Insurance Commissioner Fitzgerald noted that the makeup of the Blues board made it an outlier in its size compared to the boards of other Blues plans. With 35 members, it was considerably larger than the next largest Blues board, which had 27 members. It also was much larger than the average board among Blues plans and commercial insurance firms. The Michigan Blues board consisted of four gubernatorial appointees, three physicians, two hospital executives, one registered nurse, one pharmacist, one dentist, five large-business managers, four large-business labor representatives, three medium-business managers, four medium-business labor representatives, three small-business representatives, three individual customers, and the Blues CEO.

Several people interviewed by the author of this article expressed the view that the board was dominated by self-insured firms and providers, neither of which has a stake in the underwriting business at the core of health insurance. Others said the unions controlled the board. Schornack observed how difficult it was to change the board: "So you can see that when you start changing the board, every interest represented on it starts digging in their heels. The incentives were wrong. The incentives for serving on this board were *all wrong*. So all told there were maybe three people on the board who really gave a hoot about the company and its future. It is a political organization, not an insurance company" (Schornack 2004).

Blues managers disagreed vigorously. And though the board structure had been imposed by law, they defended their board. Michigan Blues President and CEO Whitmer addressed the issue in an op-ed article in the *Detroit Free Press* (Whitmer 2002). Noting that the board included seven women and six African Americans, he observed how much it differed from the boards of Enron, WorldCom, and Tyco. "The size and composition of our board alone make it invulnerable to manipulation," he wrote. He said the Blues board looked like its customers, and that was a good thing. He later noted that only eight of the 35 members represented provider interests, and each of them brought important expertise from the perspectives of hospitals, physicians, nurses, and others (Whitmer 2004). He called the board's composition "excellent" for producing "wide diversity of thought and opinion," called it "a great model for governance," and speculated that it might be a "great model for corporate America."

He did not mention that current board members would have been removed by the Engler proposal and thus may have been personally motivated to resist reform.

The Michigan Blues' Political Savvy

Detailing the campaign the Blues mounted in response to the governor's threatening proposal, the Michigan Blues Chief of Staff Loepp said, "We used all the resources we had. It was a textbook lobbying campaign. We worked every member of the legislature, and used our multiclient lobby firms to tell our story—what Blue Cross Blue Shield is all about—to the legislature: that we are the insurer of last resort. We also did significant advertising" (Loepp 2004).

For health insurers and providers, "politics is a core competency," Loepp said. "You had to view it as a political campaign, and you do all the things you'd do in a campaign. One of the first things we did was significant survey research —polling—as if you were in a campaign. And what we found is that an overwhelming majority of the public viewed the Blues in a favorable light."

He said results showed that on the frequently used candidate and issue measure of how people view things—a "hot-cold" measure—62 percent to 63 percent responded that they viewed the Blues favorably. Insurance companies came out with a 48 percent favorable rating and HMOs with a 35 percent to 37 percent favorable rating. The Blues then undertook a split-sample analysis of various "mock" campaign issues and strategies to judge reaction to various approaches. The results, Loepp said, "enabled us to sort of structure the campaign. But more than anything, it gave us the confidence to take on the issue. And we were then very aggressive in defending our mission, and what we do, and why it shouldn't be changed."

Advertising, Media, Public Relations, and Lobbying

Media purchasing records show that the Michigan Blues bought television time in May 2002 as the legislative battle was being waged, and radio time in both May and June. Air time was purchased on four to six radio stations (country, classic rock, oldies, news/talk, and adult contemporary) in major cities throughout the state (and on twice as many stations in Detroit), most major television stations in larger markets, and statewide on public radio (Blue Cross Blue

Shield of Michigan 2003). One commercial featured a nurse, patient, and businessman. Their dialogue emphasized the Michigan Blues' long-time presence in the state, its role as the safety-net insurer, and the widespread acceptance of the Blues card among providers. It ended with a tagline expressing "hope" that the Blues would always be there. A second commercial, which according to Loepp ran in the state capital markets, showed a small businessman discussing the unfair way in which the Blues' competitors cherry-picked the health insurance market. It ended with a tagline urging members of the public to call their legislators to tell them to protect the Blues. Individuals interviewed said they also had seen a commercial in which the Blues card was being cut up. That commercial actually was run by the gubernatorial campaign of Attorney General Granholm, not the Blues, but few noticed the sponsor.

The Blues also took out print ads in newspapers and organized interviews with nearly every important (and some not-so-important) media outlet in the state. Blues executives wrote op-ed pieces, testified at hearings, issued white papers, and gave presentations at what others have called "grasstops" gatherings of influentials such as the Detroit Economic Alliance. Much of the effort was directed at personal contact with legislators, Loepp said:

> We didn't hire more staff. We just used the staff we have. For example, Mark Bartlett, our CFO, we had him up there [at the legislature] for nine months straight. He's not political. He's a finance guy. But he's very articulate. You can understand him. And he was very effective for us. It just made sense for the company for Mark to be the front person. I had a staff of eight up there and we just worked it. We split it up, and made the case for what we are and what we're not.
>
> You know the Blues here have always been a pretty decent political force. Pretty aggressive politically. And the relationships we had with [legislative] leadership was key. They weren't consulted by the [Engler] administration before they came out with this proposal. We always had better relationships with the leadership than we did with the administration. I never thought there was great support to [restructure the Blues] within the legislature.
>
> It also helped that I knew a lot of these people from my days working with the legislature. Mark Cook [a Blues lobbyist] had worked with the Engler administration and knew lots of Republicans that I didn't know, and we had the multi-client firms who had their own contacts … If you can combine you're being right on the issue with your ability to get access … we blanketed the place (Loepp 2004).

Fitzgerald, the state insurance commissioner, later confirmed the success of these lobbying efforts: "If there was one single legislator who was not contacted by the Blues, I'd like to meet him" (Fitzgerald 2004).

Coalition Efforts

When the fight began, the Blues already had mounted what political scientists call an alliance or coalition strategy. Blues managers had invited representatives of 40 chambers of commerce and trade associations (many of whom were in insurance-selling-and-servicing contract relationships with the Blues) to join a coalition called "The Coalition for Health Insurance Market Reform (CHIMR)," to promote small-group-market reform. These providers and business association leaders, most of whom already had business relationships with the Blues, later would give the Blues tremendous advantages. Each had their own contacts in the legislature and also were able to contribute funds to support lobbying efforts on the Blues behalf, but under a more neutral label.

"The main goal of the meetings was to develop an inclusive, comprehensive strategy to address problems that exist in the small-group market," according to Blue Cross Blue Shield of Michigan (2002). The CHIMR group met nine times all over Michigan between October 8 and November 5, 2001, and held personal interviews with chamber and association leaders. The coalition released its report January 10, 2002, citing the need for small-group-market reform, and asserting that the market itself (not the Michigan Blues) should be the focus of reform (Coalition for Health Insurance Market Reform 2002). This group proved extremely useful in enlisting opposition to Blues reform as a condition of small-group-market reform.

Board members of other organizations also contributed, including the AFL-CIO, which called upon its unique resource —grassroots organizing—to support the coalition. Union leadership bused hundreds of union members and senior citizens to the state Capitol steps to picket and demand that the governor keep his hands off the Blues.

Grassroots Lobbying

An important result of the Blues lobbying and public relations campaigns was to split the rank and file legislators from the governor. Republican legislators, who unlike the governor were up for reelection, did not want this issue carried into the voting booth in November. On the very day of the AFL-CIO's Capitol steps appearance, both houses, within hours, quickly passed SB 749—legislation protecting the Blues—without a single dissenting vote. Moreover, Lt. Gov. Richard Posthumus (the GOP candidate for Michigan governor), who was serving as acting governor while Engler was out of the country, signed a law affirming the Blues' nonprofit status and issued a press release denying conversion plans:

> I have never said—not once—that I would make Blue Cross a for-profit company. In fact, as far as I can remember, no one has ever talked about making Blue Cross a for-profit company.
>
> Despite this fact, rumors have been spread and lies have been told, and the only losers in this political game have been the families who rely on their Blue Cross card to mean something when they walk into a hospital or doctor's office.
>
> Today, just in case there is still any confusion, I am signing into law Senate Bill 749, legislation prohibiting Blue Cross/Blue Shield from becoming a for-profit company or being taken over by an out-of-state insurance company (Resch 2002).

The language of the bill seemed unequivocal. "Sec. 218. A health care corporation shall not do any of the following: a) Take any action to change its nonprofit status. b) Dissolve, merge, consolidate, mutualize, or take any other action that results in a change in direct or indirect control of the health care corporation or sell, transfer, lease, exchange, option, or convey assets that results in a change in direct or indirect control of the health care corporation" (State of Michigan 2001).

Nonetheless, the Blues did not let up. It immediately countered that effects of the new law would be vitiated if the governor's reform proposals also passed. So key committee leadership announced that the governor's reform package would be put on hold until after the election. That effectively meant the proposal would be held over to the next legislative session and a new governor, who would turn out to be the Blues' early Democratic ally, Attorney General Granholm. The entire proposal was replaced in the next legislative session by a much more limited reform of the small-group market of the type requested by the Blues. The reform comfortably passed both houses with little fanfare and was signed into law by the new governor.

The reform package essentially adopted the model statute of the National Association of State Insurance Commissioners already operating in most states. The reforms were structured to reduce adverse selection, cherry-picking, and dumping to levels that no longer troubled or disadvantaged the Blues; the measures put Michigan's law in conformity with most of the rest of the nation and the HIPAA minimum standards for control of adverse and favorable selection. The reforms did not put into place a review process that would be invoked should the Michigan Blues ever seek legislative change permitting the company to convert to for-profit, and it did not alter the Blues board. Looking back on the proposal of the previous year, the 2003 law provided only one of the three "legs" of reform advocated by the Engler administration—the one the Blues itself had proposed. (The Blues also managed to achieve in the same legislation most of the other reforms requested in its own proposal to the governor.)

Conclusion

At least in the forseeable future, the Michigan Blues is likely to remain not-for-profit, though even Chief of Staff Loepp admitted that maintaining that status over the long term may at times require mounting a vigorous defense. "Any time you have a 50 percent market share, you are going to attract attention," the Blues CEO Whitmer noted.

With the reforms of 2003, the Michigan Blues is protected from adverse selection; it is in a position to accumulate larger reserves (which it did following the reforms), to acquire other companies, to join or acquire out-of-state companies, and to broaden its range of products while still enjoying exemption from Michigan state taxes. With a supportive governor and a neutralized or supportive state legislature carefully nurtured by a capable team of Blues lobbyists, PAC contributions, like-minded associated clients and providers, and a track record demonstrating major political prowess in its own defense,

the Michigan Blues is in good shape to maintain the status quo for many years. Having seen how perilous it can be to fall out of favor with powerful political interests, the firm is likely to make sure that it does everything it can to avoid such developments in the future. Top management likely will continue to consider political savvy as a core competency important to survival.

Two dozen other Blues plans enjoy concentrated market shares over 40 percent, with several at 50 percent or higher (Robinson 2004), suggesting that the experience of BCBSM as a big target may not be unique. When it became a target, the nonprofit insurer had the advantage of having a chief of staff with strong political acumen and extensive political campaign experience as well as a public relations vice president, Richard Cole, well versed in politics. Loepp had a staff of lobbyists with good connections and was able to hire multi-client firms with additional contacts in both political parties; by virtue of the Blues' business strategy, most professional associations in the state were the Blues' partners in selling health insurance. The Blues was able to call upon these relationships to form a powerful political coalition.

In its campaign, the Blues used most of the long list of strategies and techniques typically employed by successful lobbying campaigns against a powerful foe. These included:

- Political polling to measure public perception of the Blues' own strengths and weaknesses and then to test various strategies for framing issues to see what worked best.
- Effective issue framing, calling the Engler proposal "profitization," a term the Blues invented and that appeared in virtually every news story about the proposal.
- Building alliances through its business strategy that could then be formed into a coalition to press first for market reform, then against the governor's proposal, then again for market reform.
- Alignment with the Granholm campaign, though informally and behind the scenes, to put the Blues' message into the mouth of a seemingly independent expert.
- Television, radio, and print advertising throughout the state using professionally produced, effectively scripted dramatizations of the high stakes for Blues customers.
- Massive lobbing by the Blues' own experienced and well-connected staff, its CFO, and others from the firm itself, multi-client firms that had contacts with Republican legislators, and repeated contacts with legislators from both parties.
- "Grasstops" campaigns through presentations to civic organizations, op-ed articles by senior staff, interviews with editors and reporters from newspapers in many cities around the state, white papers, letters to the editor, press releases, and point-by-point responses to inaccurate charges leveled by its critics.
- Grassroots campaigning and Capitol-steps demonstrations by union members in support of the Blues.
- PAC contributions to key members of both parties.
- Enlisting Blues board members to contact their allies in the legislature and elsewhere.
- An overall determination to invest enough energy, funds, and organizational commitment to ensure victory and then to stick to the battle until it was completely won.

Loepp, the Blues chief of staff, had his own view of what had worked so well:

> It was the normal textbook approach to lobbying. I think we used the media well … Rick Cole [Blues senior vice president for corporate communications] did a phenomenal job on messaging about what Blue Cross is and what it means to people. It was brilliant. The other thing was the polling. Not the normal survey research approach, but rather the baseline polling: asking all the tough questions to find out where you stand. If you asked me if there was one thing that we did that made a difference, it was the polling. … It gave us confidence, it gave us information, it gave us what we needed to move the media message, it gave us a clear view of what our lobbying message was, and it gave us confidence to take on an absolutely brilliant politician—John Engler.
>
> And our board. That hadn't been done at Blue Cross before —recognizing the diversity of the board, and recognizing the political influence they represent. And the coalition, our major customers outside the board. We had tremendous help from the Grand Rapids Chamber, the auto dealers

association, the underground contractors association, the bankers association, all of whom have strong constituencies within the legislature.

So I would say it was a three-legged stool: the normal lobbying stuff, the messaging part, and the business coalition. A three-pronged approach to getting the message out (Loepp 2004).

The most important lesson from this case was that when the Blues' nonmarket environment changed, the Blues was able to respond with the appropriate set of skills and resources: a brilliantly framed, well-developed, well-funded, expertly managed lobbying and public relations campaign that used nearly every strategy available to defeat a powerful governor controlling the majority party in both houses of the legislature.

As other Blues firms and those in the health insurance and health care industries look into the future, they are likely to see a period of turmoil in which costs must come down or premiums and revenues must go up dramatically. Either strategy will be painful and disruptive. Organizations that are able to manage changes in their political environment at the same time they face challenges in their market environment will be much better off than those that ignore the policy environment in which health policy exists. An organization has a good chance of getting what it wants and defeating what it does not want if it has the savvy, resources, and strategies in place ahead of time. These include cultivating associates who can become a coalition, developing political allies who can be enlisted in its cause, and garnering resources to invest in lobbying and public relations campaigns. Many firms are successful at what is called "negative blocking activities" at the legislative committee level as they work through their lobbyists to monitor and defeat proposals that would affect them adversely. Legislative fragmentation helps firms because reforms can be defeated at any of the many gatekeeper points. But far fewer firms are prepared for a major lobbying and public relations campaign against a powerful and popular public official who pushes an important reform. Yet health reform tends to be led by such powerful figures. That the Michigan Blues was able to put a campaign in place quickly and comprehensively was clearly the key to its success.

The experience is also instructive from the reform perspective. Policy entrepreneurs who would reform the health insurance industry need to learn ahead of time what political endowments their opposition is likely to marshal, and be ready to garner support to nullify what likely would be a negative framing effort by the industry. At times a campaign may be necessary to win support for the reform in the media, with the public at the grassroots and grasstops levels, and with members of the legislature, much as the Michigan Blues did. Opposition ads framing any proposed health reform as risky, bureaucratic, and politically motivated seem an obvious way to make beneficiaries uncertain as to whether the juice will be worth the squeeze, thereby putting reformers on the defensive.

Another approach for reformers is early compromise. In the prescription drug reform effort, GOP House and Senate leadership neutralized their principal opponents—the Pharmaceutical Research and Manufacturers Association and AARP (the American Association for Retired Persons)—by writing into or out of the bill provisions demanded or opposed by these groups (Weissert and Miller 2005). While critics say these interest group concessions greatly weakened the reform and left drug prices uncontrolled, the bill became law. This outcome would not have been achieved without placating the well-endowed opposition, which was fully capable of mounting campaigns even more comprehensive than the one led by the Blues. Health policy has become a battleground where those who prevail are politically better skilled, better resourced, and better prepared.

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According to the March 18, 2004, Scope of Work #12303 between Blue Cross and Blue Shield of Michigan, an independent licensee of the Blue Cross and Blue Shield Association, and Florida State University Research Foundation, Inc., Blue Cross and Blue Shield managers and staff "leave final judgments as to findings of the study and content of any written products entirely to the discretion of the authors. This is to be an independent, scholarly study."

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