
A System and a Disaster

Oxford Health Plans is a successful health maintenance organization (HMO) in the New York area. The firm went public in 1991, and its stock price enjoyed steady growth. In 1997, however, **problems with a new computer system led to significant losses**, \$120 million in the fourth quarter on top of \$78 million in the third quarter. When the company announced its second quarterly loss, its stock price was 75 percent lower than its previous high. It was unable to send out monthly bills for many of its customers, and the company could not track payments to hundreds of doctors and hospitals.

During the year, uncollected payments from customers rose to \$400 million, while Oxford's unpaid bills to (caregivers) rose to over \$650 million. **The problem began when Oxford started planning a system, based on the Oracle database management system, when it had a little over 200,000 members.**

By the time the system went live three years later, the HMO had 1.5 million members. The company tried to convert to the new system all at once. While the computer system laboured under the load, Oxford management continued its aggressive drive to sign up new members. **The new system was intolerant of errors that were accepted in the old one.** As a result, an account with thousands of participants might have been rejected for an error in any member's record.

Some customers refused to pay the HMO after not being billed for months so Oxford had to write off over \$ 100 million in uncollectible bills. The HMO's failure to pay its bills also angered care providers: At one point it owed Columbia University \$ 16 million and Cornell \$ 17 million for medical services. **Oxford lost track of its actual medical costs-** information a health care provider needs to set reserves and project liabilities.

While organizations have been implementing IT since the 1950s, we still seem to repeat many of the same problems. **Oxford is a clear case of a management failure** rather than a technology failure.