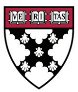

Value-Based Health Care Delivery

- Moderator: **Michael E. Porter**, *Bishop William Lawrence University Professor*
- Panelist: **Ranch C. Kimball**, *President and CEO, Joslin Diabetes Center*

Overview

Transforming the U.S. health care system requires a shift to value-based competition where providers compete to deliver the best value to patients. This entails restructuring how health care is delivered so that delivery is organized around specific medical conditions. Providers that focus on specific conditions will develop more integrated care. Through volume and experience, they will deliver better outcomes at lower cost.

Joslin Diabetes Center epitomizes the delivery of value-based health care. This organization focuses solely on caring for patients with diabetes. They have coordinated and streamlined care and in doing so have dramatically improved outcomes and lowered costs. This represents the future of health care delivery in the United States.

Context

Professor Porter, who in recent years has focused much of his energy on improving health care in the United States, described the fundamental changes needed to the U.S. health care system. Mr. Kimball discussed the innovation taking place in delivering valuable care at Joslin Diabetes Center.

Key Takeaways

- **Many ideas aimed at improving health care fail to deal with improving the value of health care delivered.**

  There is general agreement that the cost of health care in the United States is high and that health outcomes are disappointing. This has led to many proposals for reform, the most common of which are:

  — *A single payer system.* Such a system would lack competition and would not provide a solution.

  — *Electronic medical records.* Technology advancements are an important part of improving health care, but this simply automates the current system; it doesn't fundamentally change it.

  — *Pay for performance.* This provides a bonus to providers for following processes and guidelines. But improving quality requires focusing on outcomes. Just providing a bonus for following a guideline won't necessarily deliver quality and won't fundamentally improve health care.

  — *Consumer-driven health care*. The idea is that by making consumers pay more they will force changes in the health care system. But consumers alone cannot fix the dysfunctional structure of the current system.

  Professor Porter sees all of these proposals as "the side show" and argues that they don't address the key issue. In his view, the core issue in health care is the value of health care delivered. Value is defined as patient health outcomes per dollar spent.

> *"The fundamental problem is the value of care being delivered."*
> — Michael E. Porter

- **Significant improvement in value requires fundamental restructuring of health care delivery.**

  Much of what has been tried in health care has not created value. Simply squeezing the reimbursement for care has failed to contain costs, and various initiatives focused on improving safety or processes are not sufficient to substantially improve value.

  Further, while competition can be a powerful force that results in creation of value, this has not been the case in health care. In health care, an organization can have financial success without creating value for patients. This is because the type of competition that has existed—zero-sum "bad" competition—is not aligned with value. Competition has focused on shifting costs, increasing bargaining power, and restricting patient choice and services.

> *"Today, 21st-century medical technology is delivered with 19th-century organization structures, management practices, and pricing models."*
> — Michael E. Porter

The solution: value-based health care delivery, based on the following principles:

1. *The goal must be value for patients, not lowering costs.* The discussion is often about lowering costs, but the best way to contain costs and improve value is to improve quality. This is because better health is inherently less expensive. The goal is not more treatment; it is better health. This principle means there should be more emphasis on prevention, early detection, making the right diagnosis, avoiding complications, and other actions that improve health.
2. *To deliver value, health care must be reorganized around medical conditions over the full cycle of care.* Providers should compete for patients based on value. Today, all community hospitals provide essentially the same wide array of services. These services are organized by specialty (such as cardiology) and by the discrete service offered (such as imaging). Services are typically delivered in a sequential, uncoordinated way with no regard for value.

   To deliver value, care should be organized around a patient's medical condition. Providers wouldn't treat all conditions; they would focus on and compete on the value created in caring for patients regarding a specific set of medical conditions. They would develop deep

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expertise in that condition and coordinate all services relevant to that particular condition, throughout the complete cycle of care for that condition. And, based on the amount of focus and the volume, they would likely deliver higher-quality and lower-cost care.

The example was shared of the West German Headache Center which focuses solely on patients with headaches. All of the experts and equipment a patient needs are in one location, making the entire treatment process more efficient, less costly, and of greater value for the patient.

3. *Value is driven by provider experience, scale, and learning at the medical condition level*. Experience, scale, and learning matter greatly. Focused teams that do the same thing over and over deliver better, faster care. Some excellent providers would expand to deliver care across facilities and regions.
4. *Value must be universally measured and reported*. Today when measurement does occur, what is being measured are the processes, not the outcomes. Measuring outcomes is difficult but essential. In particular, results must be measured at the level at which value is delivered for patients.

> *"If you don't measure outcomes you can't determine value."*
> — Michael E. Porter

5. *Reimbursement should be aligned with value and should reward innovation*. Today, payment in health care is for discrete treatments and services. Payment should be changed to pay providers for value. This means paying a bundled amount for the entire pay cycle, which incents providers to innovate to deliver the most effective, efficient care. Without a bundled payment, providers are incented to do more so they can be paid more. This bundled payment amount can be adjusted for patient complexity. In addition, providers need to be reimbursed for managing chronic conditions and for prevention and screening, not just for treatment.
6. *Information technology will enable restructuring of health care delivery, but is not a solution by itself*. Creation of a patient-centered database and other uses of information technology will enable the delivery of coordinated care, yet without changing how care is delivered, information technology alone won't solve the problems that exist.

- **Joslin Diabetes Center provides an example both of coordinated care and of the difficulty of changing reimbursement models.**

Diabetes is an epidemic in the United States. Currently 24 million people in the United States have diabetes; this is double the number from ten years ago, and the number of people with diabetes is growing at 8% per year. The total cost of diabetes is $170 billion, which represents 10% of health care costs in the United States. The cost of caring for a person with diabetes averages almost $12,000 per year, which is more than four times the cost of caring for a person without diabetes. And, diabetes leads to kidney failure, cardiovascular disease, and blindness, all of which have a major human and financial cost. One year of dialysis costs $36,000 and care for a heart attack costs about $60,000.

Joslin Diabetes Center focuses on one thing: providing outstanding coordinated care for 24,000 patients with diabetes. Following the principles of the Toyota production flow, Joslin has created a streamlined treatment system. Every patient visit at Joslin entail nine stops; five are value added, two deal with quality control, and two are administrative. Electronic medical records are used for each patient and these records keep track of quality results.

This delivery model works. Joslin's care results in dramatically improved outcomes results. One example: early intervention decreases late-stage blindness from 60% to just about 1%. Regarding costs, on average, patients cared for at Joslin incur $1,465 less in total health care costs each year. This represents an evolution from acute to chronic care; from care delivered in an isolated way to coordinated care; and from care delivered reactively at high cost to care delivered proactively and preventatively which reduces longer-term costly complications.

> *"The delivery model works."*
> — Ranch C. Kimball

However, one of the key challenges that Joslin faces is that the current reimbursement model doesn't compensate Joslin for all of the care it delivers. In fact, 39% of the care delivered is not reimbursed—this despite the per-year savings generated and the downstream savings from reduced dialysis, heart attacks, and blindness. Joslin raises money from donors to cover this shortfall, but long term to make this sort of treatment model a scalable solution, the reimbursement model must change.

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Speaker Biographies

Michael E. Porter, MBA 1971, Ph.D. BE 1973 (Moderator)
Bishop William Lawrence University Professor

Michael Porter is the Bishop William Lawrence University Professor, based at HBS. The author of 17 books and over 125 articles, he is a leading authority on competitive strategy; the competitiveness and economic development of nations, states, and regions; and the application of competitive principles to social problems such as health care, the environment, and corporate responsibility. In 2001 HBS and Harvard University jointly created the Institute for Strategy and Competitiveness, dedicated to furthering his work. Porter teaches the MBA elective Microeconomics of Competitiveness, open to graduate student from all parts of the University. He also created and chairs the New CEO Workshop, an HBS program for newly appointed CEOs of the largest corporations.

Competitive strategy is the main focus of Porter's research. His first book, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (1980), has been translated into 19 languages. *Competitive Advantage: Creating and Sustaining Superior Performance* (1985) is in its 38th printing. *On Competition* (1998) includes a series of articles on strategy and competition, including his 1996 award-winning *Harvard Business Review* article "What Is Strategy?"

Porter's second major focus addresses the competitiveness and economic development of nations, regions, and cities. *The Competitive Advantage of Nations* (1990) presents a new theory of how nations compete and their sources of economic prosperity. He has also published books about national competitiveness in New Zealand, Canada, Sweden, Switzerland, and Japan.

Porter's third main research focus is the relationship between competition and society. He has conducted extensive research on economic development in America's inner-city neighborhoods, beginning with the 1995 *Harvard Business Review* article "The Competitive Advantage of the Inner City." He founded and chairs the Initiative for a Competitive Inner City, a nonprofit, private-sector organization that works to catalyze inner-city business development across the country.

Since 2001, Porter has devoted much attention to a fourth research area, competition in the health care system. His work, with Elizabeth Teisberg, is helping to catalyze health care reform in the United States, Holland, Germany, and the United Kingdom. Their 2006 book, *Redefining Health Care: Creating Value-Based Competition on Results*, received the American College of Healthcare Executives James A. Hamilton award for the outstanding health care book in 2007.

Porter received a BSE with high honors from Princeton University in 1969, an MBA with high distinction (Baker Scholar) from HBS in 1971, and a Ph.D. in business economics from Harvard University in 1973.

Ranch C. Kimball
President and CEO, Joslin Diabetes Center

Ranch Kimball is president and CEO of the Joslin Diabetes Center, the world's preeminent diabetes research and clinical-care organization. As Joslin's seventh president and first business executive to hold these roles, Kimball sets Joslin's strategic direction and is focused on expanding its impact on the health care epidemic of our time.

Kimball joined Joslin in 2007 after serving as secretary of economic development under Massachusetts Governor Mitt Romney. In this role he oversaw 22 agencies, four cabinet secretaries, 2,500-plus employees, and a $2 billion budget.

Kimball has spent 25 years in the private sector helping businesses grow and is widely respected in the business community. A member of the board of the Massachusetts Business Roundtable, he ran a private-equity firm for Kissinger McLarty Associates and was a partner at the Boston Consulting Group, working extensively with technology, telecommunications, manufacturing, media, and health care companies.

In state government, Kimball led major reforms in improving Massachusetts's economic development and achieved a long record of legislative success. He created the Business Resource Team (BRT), the model for businesses seeking to grow in Massachusetts. In June 2006, the BRT celebrated its most significant victory, bringing Bristol-Myers Squibb's billion-dollar biomanufacturing plant to Fort Devens. Kimball also helped write the governor's economic stimulus bill and took a role in promoting the governor's health care reform package.

Kimball has a demonstrated ability to build strong connections between state government and business and academic organizations for the purpose of finding new and innovative support for biomedical research. In 2006 Kimball received the Biotech Industry Organization's award for top state executive in the nation. The Massachusetts Network Communications Council named Kimball one of its policymakers of the year for 2005.

Kimball is chair of MassDevelopment, the state's finance authority, and a board member of Massport, the public authority that develops, promotes, and manages the airports, seaport, and transportation infrastructure in Massachusetts. He serves on the boards of the John Adams Innovation Institute, the Boston History & Innovation Collaborative, Boston's Museum of Fine Arts, WGBH-TV, the Museum of Science, Wheelock College, and Volunteers of America.

Kimball received a BA in economics from Princeton University and lives in Brookline, Massachusetts, with his wife and two sons.

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