Redefining Health Care:
Creating Positive-Sum Competition to Deliver Value

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This presentation draws on a forthcoming book with Elizabeth Olmsted Teisberg (Redefining Health Care: Creating Positive-Sum Competition to Deliver Value, Harvard Business School Press). Earlier publications about the work include the Harvard Business Review article “Redefining Competition in Health Care” and the associated Harvard Business Review Research Report “Fixing Competition in U.S. Health Care” (June 2004). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means — electronic, mechanical, photocopying, recording, or otherwise — without the permission of Michael E. Porter and Elizabeth Olmsted Teisberg.
Issues in Health Care Reform

Health Insurance and Access

Structure of Competition in Health Care Delivery

What Care Should Be Covered?
The Paradox of U.S. Health Care

• The United States has **more competition** than virtually any other health care system in the world

  **BUT**

• Costs are **high** and **rising** without delivering higher quality
• Services are **restricted** and fall far short of recommended care
• Standards of care often **lag** accepted benchmarks and preventable treatment errors **persist**
• In many cases, **overuse** of care occurs
• Huge **quality** and **cost differences** persist across **providers**
• Huge **quality** and **cost differences** persist across **geographic areas**
• Best practices are **slow** to spread
• Innovation is **resisted**

How is this state of affairs possible?
Zero-Sum Competition in Health Care

- Competition to **shift costs**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to reduce costs by **restricting services**

- None of these forms of competition **increase health care value for patients**
  - Gains of one system participant come **at the expense** of others
  - These types of competition **reduce value** through added administrative costs
  - These types of competition **slow innovation**
  - These types of competition result in major **cross subsidies** in the system
  - Adversarial competition proliferates **lawsuits**, with huge direct and indirect costs for the system
The Root Cause

• Competition in the health care system takes place at the **wrong level** on the **wrong things**

  Between health plans, networks, hospitals, and government payers

  In the diagnosis, treatment and management of specific health conditions for patients

• Competition at the right level has been **reduced** or **eliminated** by health plans, by providers/groups, or by default

• Efforts to improve health care delivery have sought to **micromanage providers** and **level the playing field** rather than foster provider competition based on **results**
  
  – Recent quality and pay for performance initiatives focus on process compliance, not quality itself
Why Competition Went Wrong?

- **Wrong definition of the product**: health care as a commodity, health care as discrete interventions

- **Wrong objective**: reduce costs (vs. increase value)
  - Piecemeal view of costs

- **Wrong geographic market**: local

- **Wrong provider strategies**: breadth, convenience and forming large groups

- **Wrong industry structure**: mergers and consolidation in regions, but highly fragmented at the service level

- **Wrong information**: patient satisfaction and (recently) provider processes, not results

- **Wrong patient attitudes and incentives**: little responsibility

- **Wrong health plan strategies and incentives**: the culture of denial

- **Wrong incentives for providers**: pay to treat, reward invasive care

- **Employers went along**: discounts and pushing costs to employees
The Evolution of Reform Models

Past

Focus on Cost Control, Bargaining, and Rationing
- Limiting provider compensation
- Managing care

Present

Focus on Recourse/Regulation
- “Patients’ rights”

Focus on Health Plan Choice
- “Consumer-driven health care”

Focus on Provider/Hospital Practices
- “Quality” and “Pay for performance”
- IT as the silver bullet (EMR, CPOE, genetics, decision support)

Future

Focus on the Nature of Competition
- “Value-based competition on results”
- Specific medical conditions
- Patient-centric
- Results information

Focus on Cost Control, Bargaining, and Rationing

Focus on Recourse/Regulation

Focus on Health Plan Choice

Focus on Provider/Hospital Practices

Focus on the Nature of Competition
Principles of Positive Sum Competition

• The focus should be on value for patients, not just lowering costs.
  – Quality in health care usually lowers cost
• There must be unrestricted competition based on results.
• Competition should center on medical conditions over the full cycle of care.
• Value is driven by provider experience, expertise, and uniqueness at the disease level.
• Competition should be regional and national, not just local.
• The information to support value-based competition must be collected and made widely available.
• Innovations that increase value must be actively encouraged and strongly rewarded
Moving to Value-Based Competition

Providers

1. Redefine the business around sets of **medical conditions**
2. Choose the range and types of services provided based on **excellence** in value, both within and across locations
   - **Separate** providers and health plans
3. Organize and manage around **medically integrated practice areas**
4. Create a distinctive strategy in each **practice area**
5. Design and implement **processes** and **facilities** that enable these strategies, and systematic methods to improve them
6. Collect comprehensive **results** and **process information** in each practice area, covering the **complete care cycle**
7. **Accumulate costs** by practice area and activity over the care cycle
8. Build capability for **single billing for cycles of care**, and **bundled approaches to pricing**
9. **Market** services based on excellence, uniqueness, and results
10. Grow locally and geographically in **areas of strength**, using a medically integrated care delivery approach
Organ Transplant Care Cycle

Evaluation → Waiting for a Donor → Transplant Surgery → Immediate Convalescence → Long Term Convalescence

- Addressing organ rejection
- Fine tuning the drug regimen
- Adjustment and monitoring
## Boston Spine Group

**Clinical and Outcome Information Collected and Analyzed**

<table>
<thead>
<tr>
<th>Surgery Metrics</th>
<th>Medical Complications</th>
<th>Patient Outcome Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operative time</td>
<td>Cardiac</td>
<td><em>(before and after treatment, multiple times)</em></td>
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<tr>
<td>Blood loss</td>
<td>Cardiac</td>
<td>Visual Analog Scale (pain)</td>
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<td>Devices or products used</td>
<td>Myocardial infarction</td>
<td>Owestry Disability Index, 10 questions (functional ability)</td>
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<td>Length of hospital stay</td>
<td>Arrhythmias</td>
<td>SF-36 Questionnaire, 36 questions (burden of disease)</td>
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<td>Congestive heart failure</td>
<td>Time to return to work or normal activity</td>
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<td>Vascular deep venous thrombosis</td>
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<td>Urinary infections</td>
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<td>Pneumonia</td>
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<td>Post-operative delirium</td>
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<td>Drug interactions</td>
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<td><strong>Surgery Complications</strong></td>
<td><strong>Medical Complications</strong></td>
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<tr>
<td>Patient returns to the operating</td>
<td>Patient returns to the operating</td>
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<td>room</td>
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<td>Infection</td>
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<td>Nerve injury</td>
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<td>Sentinel events (wrong site surgeries)</td>
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<td>Hardware failure</td>
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<tr>
<td><strong>Patient Satisfaction Metrics</strong></td>
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<td><em>(periodic)</em></td>
<td><em>(periodic)</em></td>
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<tr>
<td>Office visit satisfaction metrics</td>
<td>Office visit satisfaction metrics</td>
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<tr>
<td><em>(10 questions)</em></td>
<td><em>(10 questions)</em></td>
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<tr>
<td>“Would you have surgery again for the same problem?”</td>
<td>“Would you have surgery again for the same problem?”</td>
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The Virtuous Circle in Health Care Delivery

- Deeper Penetration (and Geographic Expansion) in Areas of Excellence
- Improving Reputation
- Better Results, Adjusted for Risk
- Faster Innovation
- Rising Capacity for Sub-Specialization
- Greater Leverage in Purchasing
- More Tailored Facilities
- More Fully Dedicated Teams
- Rising Efficiency
- Better Information/ Clinical Data
- Rapidly Accumulating Experience

Better Innovation
Barriers to Value-Based Strategies

Providers

External
- Health plan practices
- Medicare practices
- Regulations

Internal
- The structure of physician practice
- Governance structures
- Assumptions, mindsets, and attitudes
- Management expertise

• Providers who have made progress towards value-based competition have often been ones who face fewer barriers
  - e.g. Cleveland clinic (all physicians salaried), Intermountain (integrated with a health plan), the Veterans Administration Hospitals (a single health plan).
Transforming the Roles of Health Plans

**Old Role**

- Monitor and restrict patient choice of providers and treatment
- Micromanage provider processes and choices
- Minimize the cost of each service or treatment
- Engage in complex paperwork and administrative transactions with providers and subscribers to control costs and settle bills
- Compete on cost

**New Role**

- Enable **patient choice and management** of their health
- Measure and reward providers based on **results**
- Maximize the value of care over the **full care cycle**
- **Simplify** payments dramatically, and **minimize** the need for administrative transactions in the first place
- Compete on subscriber **health results** relative to premiums
Moving to Value-Based Competition
Health Plans

Health Information and Patient Support
1. Organize around **medical conditions**, not administrative functions
2. Develop and assemble **information** on providers and treatments
3. Actively **support patient choice** with information and unbiased counseling. Reward excellent providers with patients.
4. Organize patient information and interaction around **full cycles of care**
5. Provide comprehensive **disease management** and **prevention** services to subscribers, even healthy ones

Streamline Contracting, Transactions, Billing, and Pricing
6. Set **reimbursement** to reward provider excellence and value-enhancing innovation for patients
7. Move to **single bills** for episodes and cycles of care, and **single prices**
8. Simplify, standardize, and eliminate **paperwork** and **transactions**
9. Move to **multi-year subscriber contracts** with gainsharing, and modify the process of plan contracting
10. **End cost shifting practices**, such as re-underwriting ill subscribers, that breed cynicism and erode trust in health plans
Moving to Value-Based Competition
Health Plans (Continued)

Patient Medical Records
11. Provide the service of aggregating, aggregating, updating and verifying patients’ complete medical records under strict standards of privacy and patient control.
Barriers to Value-Based Strategies

**Health Plans**

**External**
- Medicare practices
- Lack of information on results and costs

**Internal**
- Information technology
- Medical expertise
- Trust
- Mindsets
- Culture and values

- Health plans that are **integrated** with a provider network have had advantages in moving in these directions in the current system, but **independent** health plans offer greater potential to support value-based competition
Issues in Health Care Reform

Health Insurance and Access

What Care Should Be Covered?

Structure of Competition in Health Care Delivery
What Government Can Do: Policies to Improve Health Insurance, Access, and Coverage

Insurance and Access
• Enable value based competition among health plans, rather than move to a single payer system
• Ban re-underwriting where it remains legal
• Assign full legal responsibility for medical bills to health plans – except in cases of fraud or breaches of important plan conditions
• Prohibit balance billing
• Make HSAs available to all Americans
• Mandate universal health coverage
  – Assigned risk pools
• Equalize taxation of individual and employer purchased health coverage
• Level the playing field among employers in terms of the burden of health coverage

Coverage
• A national standard for minimum required coverage needs to be established
• The Federal Employees Health Benefit Plan (FEHBP) as a starting point
What Government Can Do: Policies to Improve the Structure of Health Care Delivery

Open Up Competition at the Right Level
- Enforce antitrust laws
- Eliminate network restrictions
- Prohibit conflicts of interest such as self referrals or referrals to an affiliated organization without a results justification
- End restrictions on specialty hospitals
- Establish reciprocal state licensing
- Require periodic renewal of licenses based on results
- Revise tax treatment for medical travel expenses
- Curtail anticompetitive buying group practices

Promote the Right Information
- Establish common national standards and metrics for reporting on results, processes, and experience at the medical condition level
- Mandatory reporting of results information as a condition to practice
- Designate a quasi-public entity to oversee information collection and dissemination
- Promote collective approaches to information collection
- Encourage private efforts to analyze and build upon mandatory data
What Government Can Do: Policies to Improve the Structure of Health Care Delivery (Continued)

Require Better Pricing Practices
- Require **transparent prices** for health care services
- Over time, require transparent **bundled prices** that aggregate charges for episodes of care
- **Limit price discrimination** based solely on plan or group membership

Reform the Malpractice System
- Allow lawsuits only for **truly negligent** medical practice

Redesign Medicare Policies and Practices
- Medicare should act like a **health plan, not just a payer**
- Medicare should set pricing, information, and other practices to enable **value-based competition** at the condition level
- Medicare should **outsource health plan roles** it is not equipped to play itself
- Recent promising Medicare experiments need to be **improved** and **rolled-out**

Redesign Medicaid Policies and Practices
- Medicaid policy should move from state-federal cost shifting to supporting **value-based competition**
- Medicaid should provide for the value-adding roles of **health plans**

Invest in Technology and Innovation
- Continue support for **basic life science** and **medical research**
- Create an **adoption of innovation fund**
How Will Redefining Health Care Begin?

• It is **already happening**!

• Each **system** participant can take **voluntary** steps in these directions, and will **benefit**.

• The changes are **mutually reinforcing**.

• Once competition begins working, value improvement will **no longer be discretionary** or **optional**

• Those organizations that **move early** will gain major benefits.