Redefining Health Care:
Creating Value-Based Competition on Results

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New Models of Health Care
Boston, MA
April 12th, 2005

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 health care is not focused on value for patients

• 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
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

**Surgery Metrics**
- Operative time
- Blood loss
- Devices or products used
- Length of hospital stay

**Medical Complications**
- Cardiac
  - Myocardial infarction
- Arrhythmias
- Congestive heart failure
- Vascular deep venous thrombosis
- Urinary infections
- Pneumonia
- Post-operative delirium
- Drug interactions

**Patient Outcome Measures**
*(before and after treatment, multiple times)*
- Visual Analog Scale (pain)
- Owestry Disability Index, 10 questions (functional ability)
- SF-36 Questionnaire, 36 questions (burden of disease)
- Time to return to work or normal activity

**Patient Satisfaction Metrics**
*(periodic)*
- Office visit satisfaction metrics (10 questions)
- “Would you have surgery again for the same problem?”

**Surgery Complications**
- Patient returns to the operating room
- Infection
- Nerve injury
- Sentinel events (wrong site surgeries)
- Hardware failure
The Virtuous Circle in Health Care Delivery

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

Employers

Set new expectations for health plans, including self-insured plans
• Select or specify plans that do not restrict employees’ access to excellent out-of-network providers
• Select or specify plans that help subscribers obtain and understand results information on specific conditions, in terms of treatments and providers
• Select or specify plans that ensure that patients are diagnosed and treated by experienced and excellent providers
• Select or specify plans that provide comprehensive disease and risk management services

Influence provider competition
• Expect providers to provide information about their experience, practice standards, and outcomes at the condition level
• Require one bill per hospitalization or treatment cycle
• Require a single posted fee for each service bundle
• Eliminate billing of employees by health plans or providers for any service covered by the plan, except relating to co-pays or deductibles
• Collaborate with other employers in advancing these aims

Support employees as consumers
• Provide encouragement and support in health management
• Offer independent information and advising services to employees to supplement other sources
• Enable cost-effective health plan structures and Health Savings Accounts for employees

Find ways to expand coverage and advocate reform of the insurance system
• Create vehicles to offer lower cost insurance to employees not currently part of the system
• Support reform that levels the playing field among employers
Moving to Value-Based Competition

Consumers

Participate Actively in Managing Personal Health
• Take responsibility for health care **choices**
• Manage health through lifestyle, **routine** care and testing, **compliance** with treatment protocols, and active **participation** in disease management

Expect Relevant Information and Seek Help
• Demand information on **experience**, medical **outcomes**, and **cost**
• Seek help, if necessary, to **interpret** information
• Utilize **independent** medical information companies if information and support is not provided by the health plan

Make Provider Choices Based on Excellent Results, Not Convenience or Amenities
• Choose **excellent** providers, not just local providers or past providers
• Pay attention to **costs** as part of the value equation

Choose Health Plans Based on Value Added
• Choose health plans based on their excellence in **information**, assistance in securing the **best care**, and comprehensiveness of **disease management** and **prevention programs**
• Consider **alternate plan structures** such as high-deductibles and HSAs to improve value in health care choices and safe for future health care needs

Act Responsibly
• Litigate only for **truly bad** medical practice
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.