Redefining Health Care: Creating Value-Based Competition on Results

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This presentation draws on a forthcoming book with Elizabeth Olmsted Teisberg (Redefining Health Care: Creating Value-Based Competition on Results, 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.
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
- Services are restricted and fall well short of recommended care
- In other services, there is overuse of care
- Standards of care often lag or do not follow accepted benchmarks
- Preventable treatment errors are common
- 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?
Issues in Health Care Reform

Health Insurance and Access

Structure of Competition in Health Care Delivery

What Care Should Be Covered?
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 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 result in inappropriate **cross subsidies** in the system
  – These types of competition **slow innovation**
  – Adversarial competition proliferates **lawsuits**, with huge direct and indirect costs
The Root Causes

• Competition in health care is not aligned with **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/provider groups, and 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 do not address quality directly, but process compliance
Why Competition Went Wrong?

- **Wrong definition of the product:** health care as a commodity, health care as discrete interventions/treatments
- **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 regional consolidation, but highly fragmented at the service level
- **Wrong information:** patient satisfaction and (recently) process compliance, not prices and results
- **Wrong patient attitudes and incentives:** little responsibility
- **Wrong health plan strategies and incentives:** the culture of denial
- **Wrong incentives for providers:** get big, pay to treat, reward invasive care
- **Employers went along:** discount, minimize annual cost increases, push costs to employees
The Evolution of Reform Models

**Past**
- **Focus on Cost Control, Bargaining, and Rationing**
  - Limiting provider compensation
  - Medical arms race
  - Managed care
  - Clinton Plan

**Present**
- **Focus on Recourse/Regulation**
  - "Patients’ rights"
- **Focus on Consumer Responsibility and Health Plan Choice**
  - "Consumer-driven health care"

**Future**
- **Focus on Provider / Hospital Practices**
  - "Quality" and "Pay for performance"
  - IT as the silver bullet (EMR, CPOE, genetics, decision support)
  - "Value-based competition"
- **Focus on the Nature of Competition**
  - Specific medical conditions
  - Patient-centric
  - Information on results
Principles of Positive Sum Competition

• The focus should be on **value for patients**, not just lowering costs.
  – Improving quality in health care usually **also** 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 or condition level.

• Competition should be **regional** and **national**, not just local.

• Results and price **information** to support value-based competition must be collected and made widely available.

• **Innovations** that increase value must be actively encouraged and strongly rewarded
Value-Based Competition: Issues for Providers

• Many providers see themselves in the wrong business

• Provider strategies, organizational structures, and management practices are not well aligned with delivering value for patients

• Providers lack the most important information to manage their practices
The Virtuous Circle in Health Care Delivery

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

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Moving to Value-Based Competition

**Providers**

1. Redefine the business around *medical conditions*
2. Choose the *range and types of services provided* based on excellence in value, both within and across locations
   - Deliver care at the *right* location
   - *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 *care delivery value chains* that enable these strategies and continually improve them
6. Collect comprehensive information on *results, methods, experience,* and *patient attributes* for each practice area, covering the *complete care cycle*
7. *Accumulate costs* by practice area and value chain activity over the care cycle
8. Build the capability for *single billing for cycles of care,* and *bundled pricing*
9. *Market* services based on excellence, uniqueness, and results at the practice area level
10. Grow in *areas of strength* both locally and geographically, using a medically integrated care delivery approach
What Business Are We In?

Nephrology practice

- Chronic Kidney Disease
- End-Stage Renal Disease
- Kidney Transplants
- Hypertension Management
Moving to Value-Based Competition Providers

1. Redefine the business around medical conditions
2. Choose the range and types of services provided based on excellence in value, both within and across locations
   - Deliver care at the right place
   - Separate providers and health plans
3. Organize and manage around medically integrated practice areas
Organ Transplant Care Cycle

- Evaluation
- Waiting for a Donor
- Transplant Surgery

Immediate Convalescence
- Addressing organ rejection
- Fine tuning the drug regimen

Long Term Convalescence
- Adjustment and monitoring
Moving to Value-Based Competition Providers

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The Care Delivery Value Chain for a Practice Area

ADMINISTERING
(e.g. General management, budgeting, procurement, facilities management, managing insurance reimbursement)

INFORMING
(e.g. Patient education, patient counseling, pre-procedure educational programs, encouraging patient compliance)

PRESCRIBING
(e.g. Drugs, supplies, devices equipment)

MEASURING
(e.g. Tests, imaging, patient data accumulation)

PATIENT ACCESSING
(e.g. Hospital visits, office visits, lab visits, patient transport, visiting nurses, remote consultation)

MONITORING/PREVENTING
• e.g. Medical history
• Screening
• Prevention programs

DIAGNOSING
• e.g. Medical history
• Specifying and organizing tests
• Interpreting data
• Consultation with experts
• Identifying risk factors

PREPARING
• e.g., Determining an appropriate course of treatment
• Choosing the physician/team
• Pre-procedure preparations
• Tracking disease progression

TREATING
• e.g., Administering drug therapy
• Scheduling procedures
• Performing procedures
• Psychiatric therapy

REHABING/RECOVERING
• e.g., In-patient recovery
• In-patient and outpatient rehab
• Discharge plan
• Lifestyle modification
• Therapy fine-tuning

MONITORING/MANAGING
• e.g., Monitoring patient medical condition
• Monitoring compliance with therapy
• Monitoring lifestyle modification

(PATIENT VALUE)
(Health results per unit of cost)

Longer Term/Chronic
The Care Delivery Value Chain
Chronic Kidney Disease

INFORMING

- Lifestyle
- Explanation of diagnosis and implications
- Medication counseling and compliance follow-up
- Medication counseling and compliance follow-up

PRESCRIBING

- Creatinine
- Glomerular filtration rate (GFR)
- Protein in urine
- Renal ultrasound
- Renal artery angiography
- Kidney biopsy
- Procedure-specific measurements
- Kidney function tests
- Kidney function tests
- ACE Inhibitors
- ARBs

MEASURING

- Office visits
- Lab visits
- Office visits
- Lab visits
- Various
- Office visits
- Hospital visits
- Office visits
- Lab visits
- Telephone/Internet interaction
- Office visits
- Lab visits
- Telephone/Internet interaction

PATIENT ACCESSING

- Office visits
- Lab visits
- Renal ultrasound
- Renal artery angiography
- Kidney biopsy
- Medication counseling and compliance follow-up
- Medication counseling and compliance follow-up

MONITORING/PREVENTING

- Monitoring renal function (at least annually)
- Monitoring and addressing risk factors (e.g., blood pressure)
- Early nephrologist referral for abnormal kidney function
- Medical and family history
- Directed advanced testing
- Data integration
- Formal diagnosis
- Formulate treatment plan
- Procedure-specific preparation
- Vascular access graft (fistula) for serious cases
- Pharmaceutical
- Kidney function
- Blood pressure
- Procedures
- Renal artery angioplasty
- Urological (if needed)
- Endocrinological (if needed)
- Lifestyle/Nutrition

DIAGNOSIS

- Kidney function tests
- Bone metabolism
- Anemia

PREPARATION

- Kidney function tests
- Bone metabolism
- Anemia

TREATMENT

- Kidney function tests
- Bone metabolism
- Anemia

REHABING/RECOVERING

- Fine-tuning drug regimen
- Nutritional modification to decrease kidney workload
- Monitoring renal function
- Monitoring potential side effects

MONITORING/MANAGING

- Kidney function tests
- Bone metabolism
- Anemia

(Health results per unit of cost)
Analyzing Care Delivery Activities and the Entire Chain

1. What technology/process?
   - Process definition

2. What set of skills?

3. What location/facilities?

4. What information?

5. What forms of coordination and integration upstream and downstream?

6. What organizational and institutional boundaries?
   - What entities do what?
   - Is the division of labor efficient?

7. How are boundaries best managed?
   - Where are organizational boundaries best set?
   - How should hand-offs be managed?
Moving to Value-Based Competition

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Boston Spine Group
Clinical and Outcome Information Collected and Analyzed

Patient Outcomes
(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)
Length of hospital stay
Time to return to work or normal activity

Service Satisfaction
(periodic)
Office visit satisfaction metrics (10 questions)

Overall medical satisfaction
(“Would you have surgery again for the same problem?”)

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

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

RESULTS

METHODS

Surgery Complications
Patient returns to the operating room
Infection
Nerve injury
Sentinel events (wrong site surgeries)
Hardware failure
Moving to Value-Based Competition
Providers

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The Virtuous Circle in Health Care Delivery

Deeper Penetration (and Geographic Expansion) in Areas of Excellence

Improved Reputation

Better Results, Adjusted for Risk

Faster Innovation

Rising Capacity for Sub-Specialization

Greater Leverage in Purchasing

Rapidly Accumulating Experience

Rising Efficiency

Better Information/ Clinical Data

More Fully Dedicated Teams

More Tailored Facilities
Overcoming Barriers to Value-Based Competition

Providers

External
- Health plan practices
- Supplier mindsets
- Medicare practices
- Regulations
- Lack of relevant information

Internal
- Assumptions, mindsets, and attitudes
- Governance structures
- Management expertise
- Medical education
- The structure of physician practice
- Lack of relevant information

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

**Old Role**

- 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 minimizing premium increases

**New Role**

- Enable informed patient and physician choice and patient 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
Moving to Value-Based Competition

Health Plans

Health Information and Patient Support
1. Organize around medical conditions, not administrative functions
2. Develop measures 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 disease management and prevention services to all subscribers, even healthy ones

Restructure the Health Plan-Provider Relationship
6. Transform the nature of information sharing
7. Negotiate prices that reward provider excellence and value-enhancing innovation for patients

Redefine Contracting, Transactions, Billing, and Pricing
8. Move to expect single bills for episodes and cycles of care, and single prices
9. Simplify, standardize, and eliminate paperwork and transactions
10. Move to multi-year subscriber contracts with gainsharing, and assist subscribers in plan contracting
11. End cost shifting practices, such as re-underwriting ill subscribers, that erode trust in health plans and breed cynicism
Moving to Value-Based Competition
Health Plans (continued)

Patient Medical Records

12. Provide the service (or access to an independent service) of aggregating, updating and verifying patients’ complete medical records under strict standards of privacy and patient control.
Moving to Value-Based Competition

Employers

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

2. Set new expectations for health plans, including self-insured plans
   - Select or specify plans that help subscribers obtain and understand results information on specific conditions
   - Select or specify plans that ensure that patients are diagnosed and treated by experienced and excellent providers
   - Select or specify plans that provide access to excellent out-of-network providers, at reasonable cost
   - Select or specify plans that provide comprehensive disease management and prevention services
   - One-stop shopping for health plans is usually inadvisable

3. Provide for health plan continuity for employees, not plan churning
Moving to Value-Based Competition

Employers (continued)

4. Support employees as consumers and in managing their health
   – Offer encouragement and support for employees in managing their health
   – Provide independent information and advising services to employees to supplement other sources
   – Enable cost-effective health plan cost sharing structures and Health Savings Accounts

5. Find ways to expand insurance 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

6. Measure the company’s health value received, and make a senior manager accountable for it
Moving to Value-Based Competition

Consumers

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

Expect Relevant Information and Seek Help
- Expect transparent information on provider medical results, experience, and cost from any provider that is considered
- Seek help, if necessary, to interpret information
- Utilize independent medical information companies if information and support are not offered by the health plan

Make Provider Choices Based on Excellent Results in Addressing Particular Medical Condition, Not Overall Reputation, Convenience, or Amenities
- Choose excellent providers, not just local providers or past providers
- Pay attention to costs as part of the value equation

Choose a Health Plan Based on Value Added
- Choose health plans based on their excellence in information, advice, assistance in securing the best care, and the comprehensiveness of disease management and prevention programs
- Consider alternate health plan structures such as high-deductible plans and HSAs to improve value and save for future health care needs

Build a Long-term Relationship with an Excellent Health Plan

Act Responsibly
- Provide for one’s own health care
- 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**
- **Mandate** universal health coverage
  - Assigned risk pools
- Move to **equalize taxation** of individual and employer purchased health coverage
- Make **HSAs** available to all Americans
- **Level the playing field** among employers in terms of the burden of health coverage

Coverage

- Establish a **national standard** for required coverage
- 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
- Modify the Stark Law to encourage productive practice area integration
- 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, experience, and prices at the medical condition level
- Require mandatory reporting of results information as a condition to practice
- Designate a quasi-public entity to oversee information collection and dissemination
- 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 bundled prices that aggregate charges for episodes of care
• Limit or eliminate 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** irrespective of other changes.
- 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.