

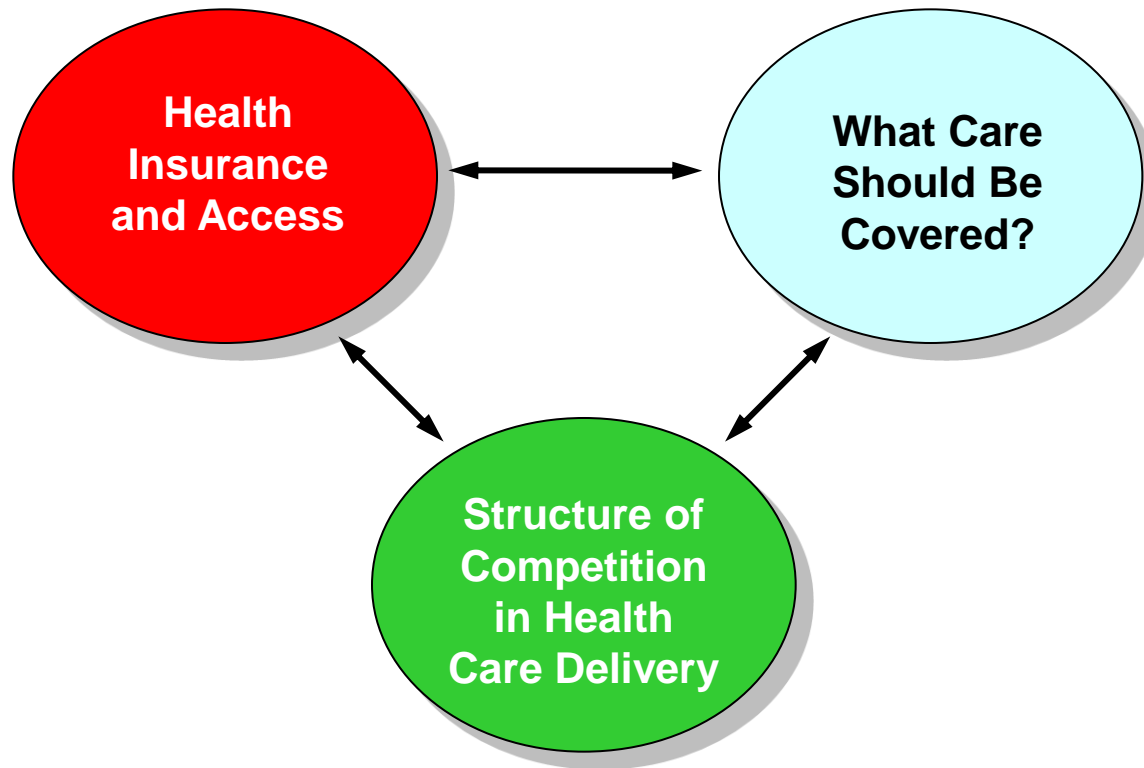
Redefining Health Care: Creating Positive-Sum Competition to Deliver Value

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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



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

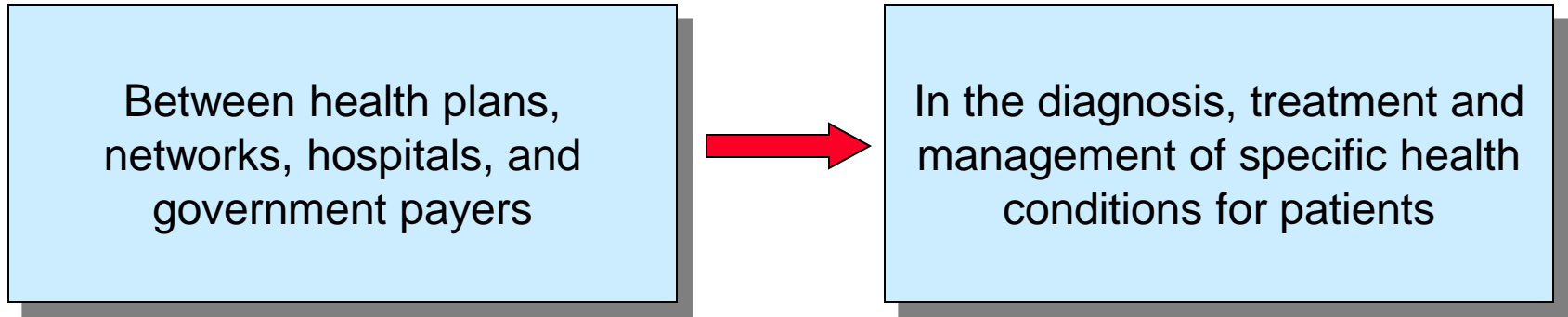
- Competition to **shift costs**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to reduce costs by **restricting services**



- 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**

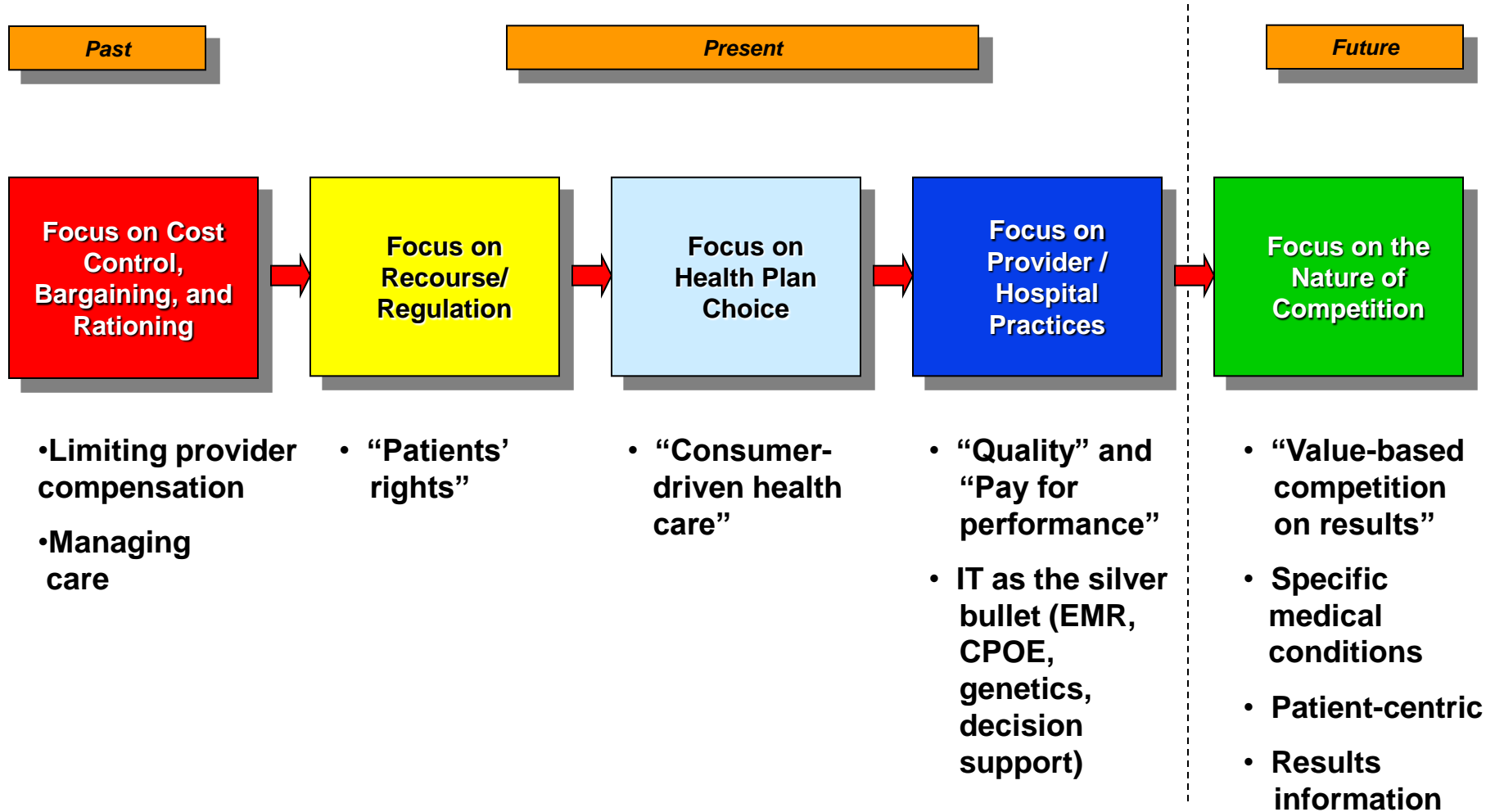


- Competition at the right level has been **reduced** or **eliminated** by health plans, by providers/groups, or by default
- Efforts to improve health care delivery have sought to **micromanage providers** and **level the playing field** rather than foster provider competition based on **results**
 - 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



Principles of Positive Sum Competition

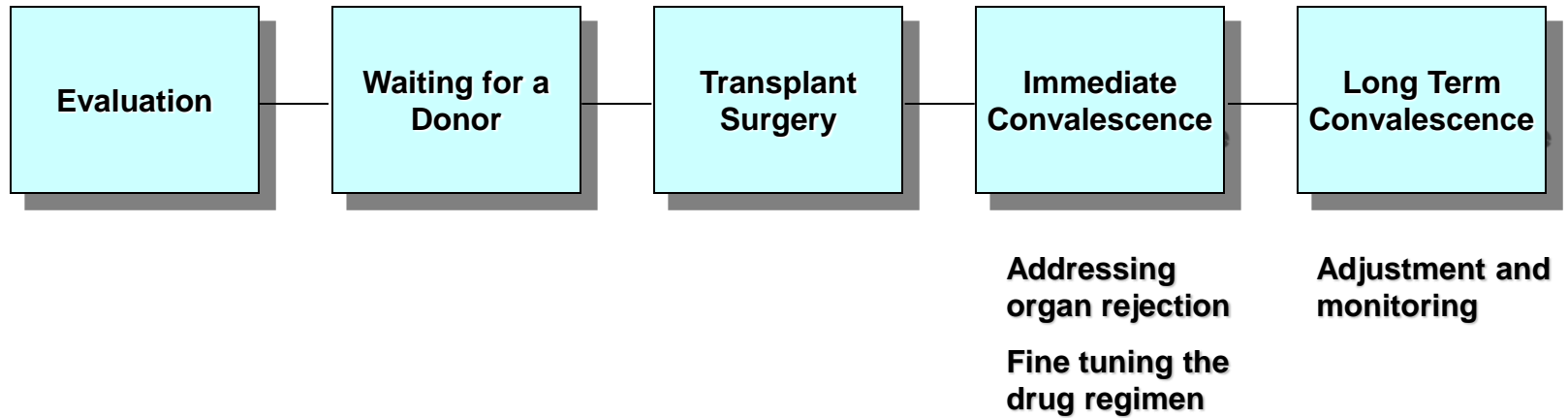
- The focus should be on **value** for patients, not just lowering costs.
 - Quality in health care usually lowers cost
- There must be **unrestricted competition** based on **results**.
- Competition should **center on medical conditions** over the **full cycle of care**.
- Value is driven by **provider 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



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

Surgery Complications

Patient returns to the operating room
Infection
Nerve injury
Sentinel events (wrong site surgeries)
Hardware failure

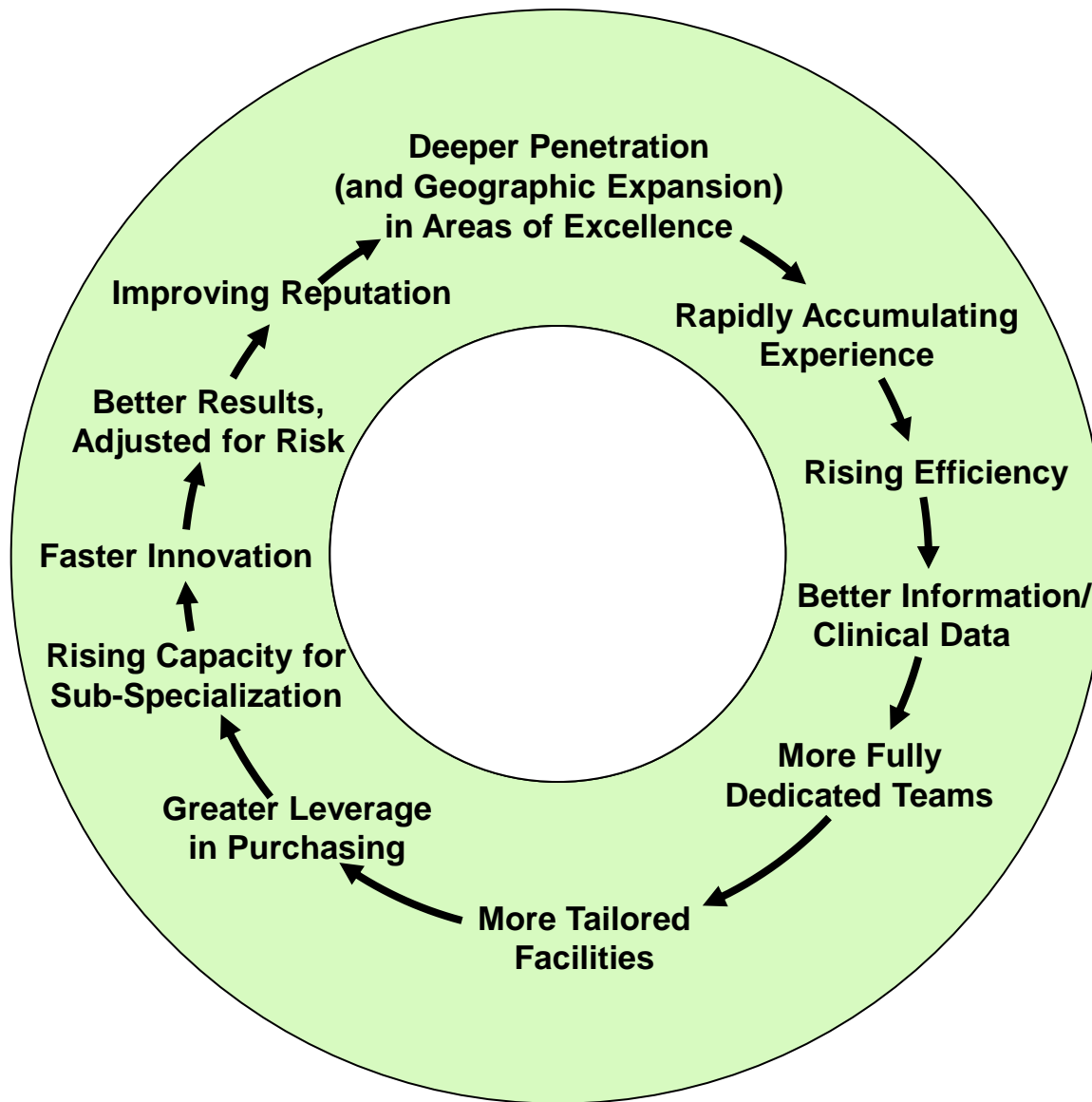
Patient Outcome Measures

(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?”

The Virtuous Circle in Health Care Delivery



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

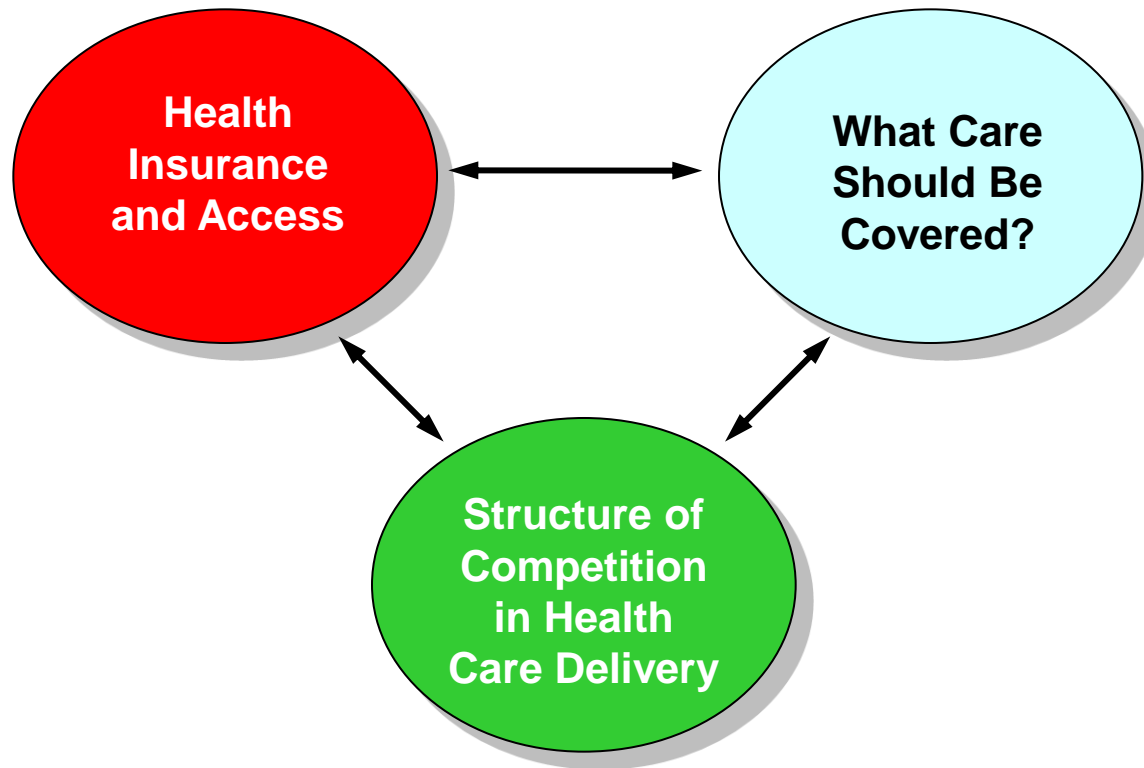
Internal

- 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



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.