

# Redefining Health Care: Creating Value-Based Competition on Results

Presentation by  
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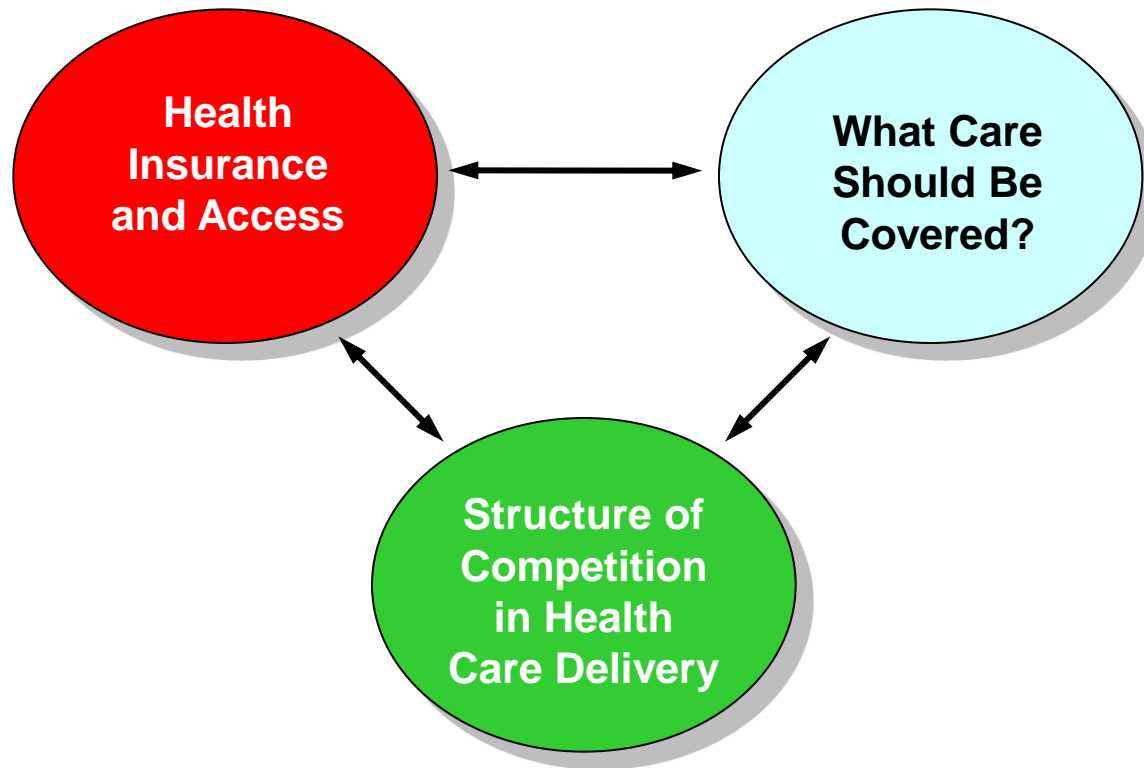
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This presentation draws on a forthcoming book with Elizabeth Olmsted Teisberg ([Redefining Health Care: Creating Positive-Sum Competition to Deliver Value](#), Harvard Business School Press). Earlier publications about the work include the *Harvard 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.

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# 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

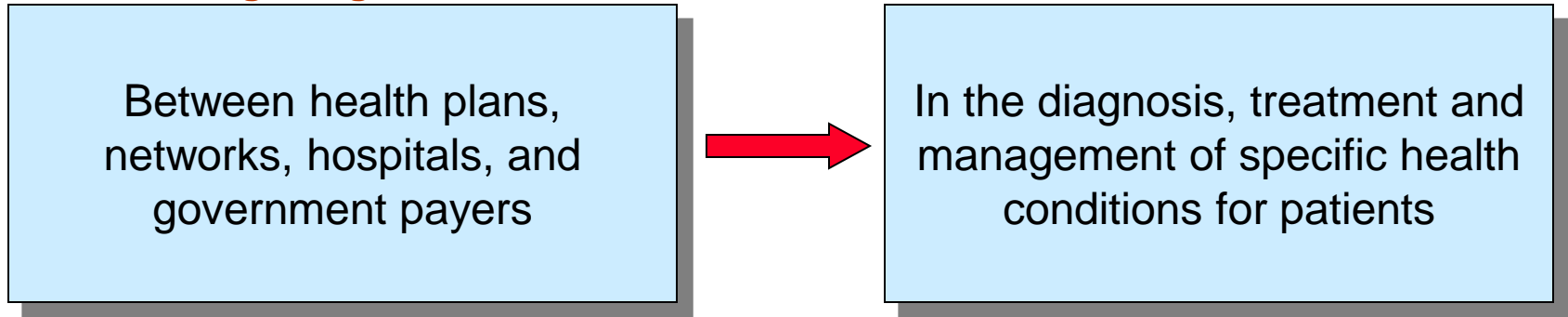
- Competition to **shift costs**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to reduce costs by **restricting services**



- 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 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**



- 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

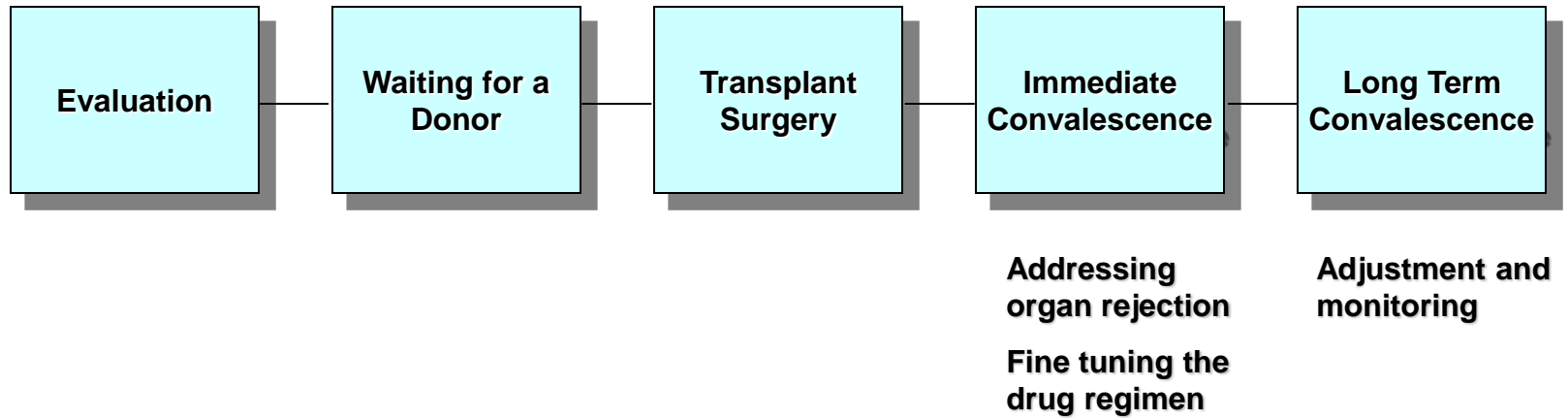
# Moving to Value-Based Competition

## 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



# 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

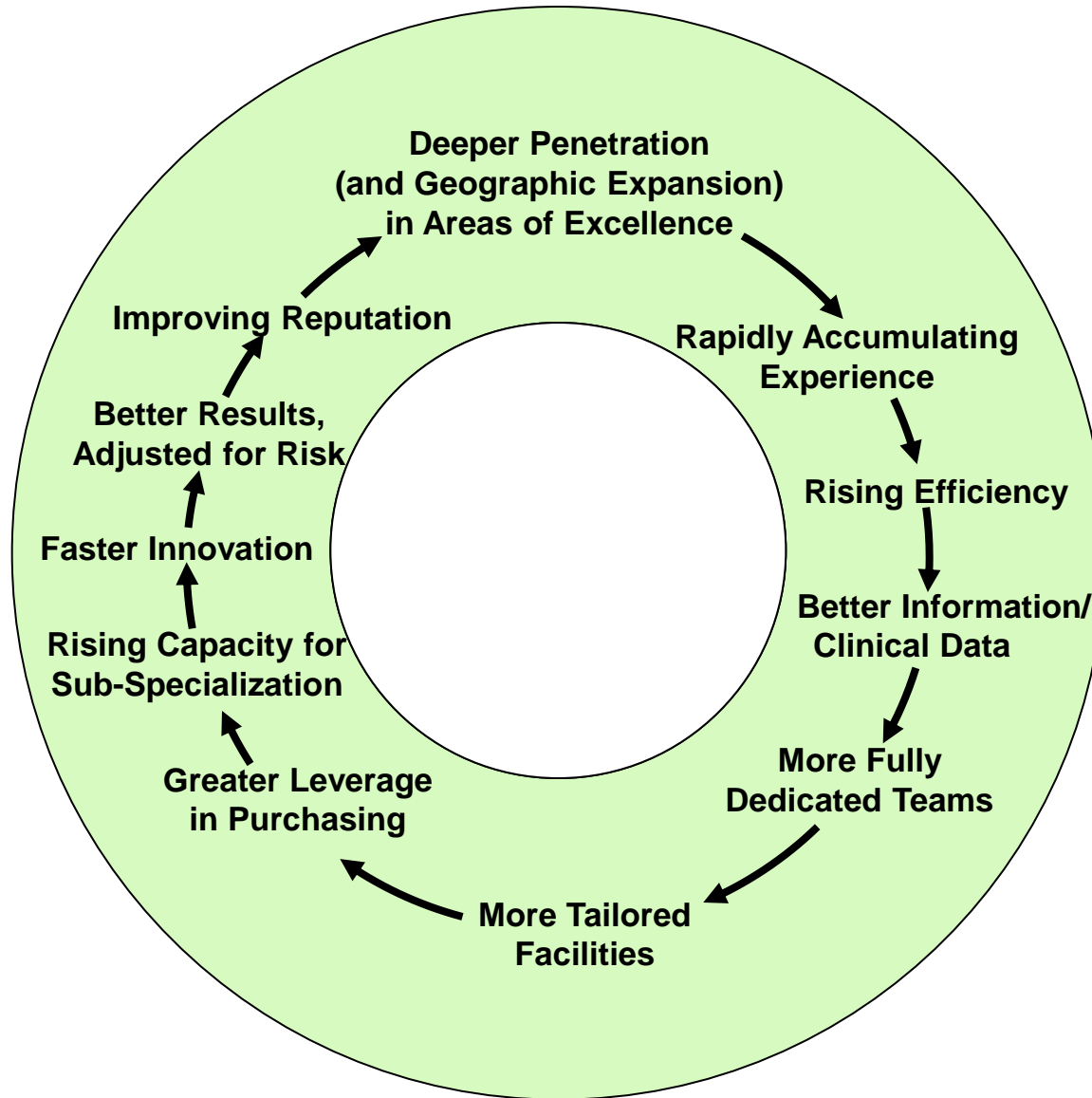
### Patient Outcome Measures

*(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



# 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

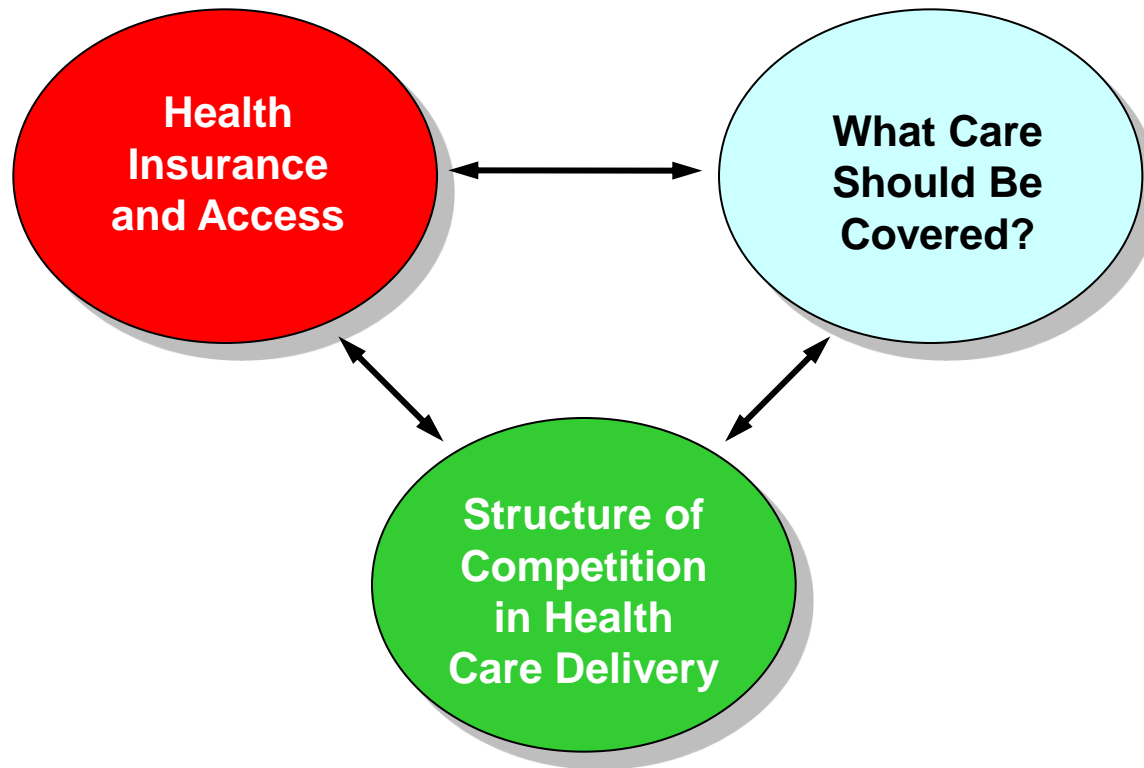
### Choose Health Plans Based on Value Added

- 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



# 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.