

Redefining Health Care: Creating Value-Based Competition on Results

Professor Michael E. Porter
Harvard Business School

*IHI IMPACT Spring Leadership Meeting
Boston, MA
June 27-28, 2005*

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

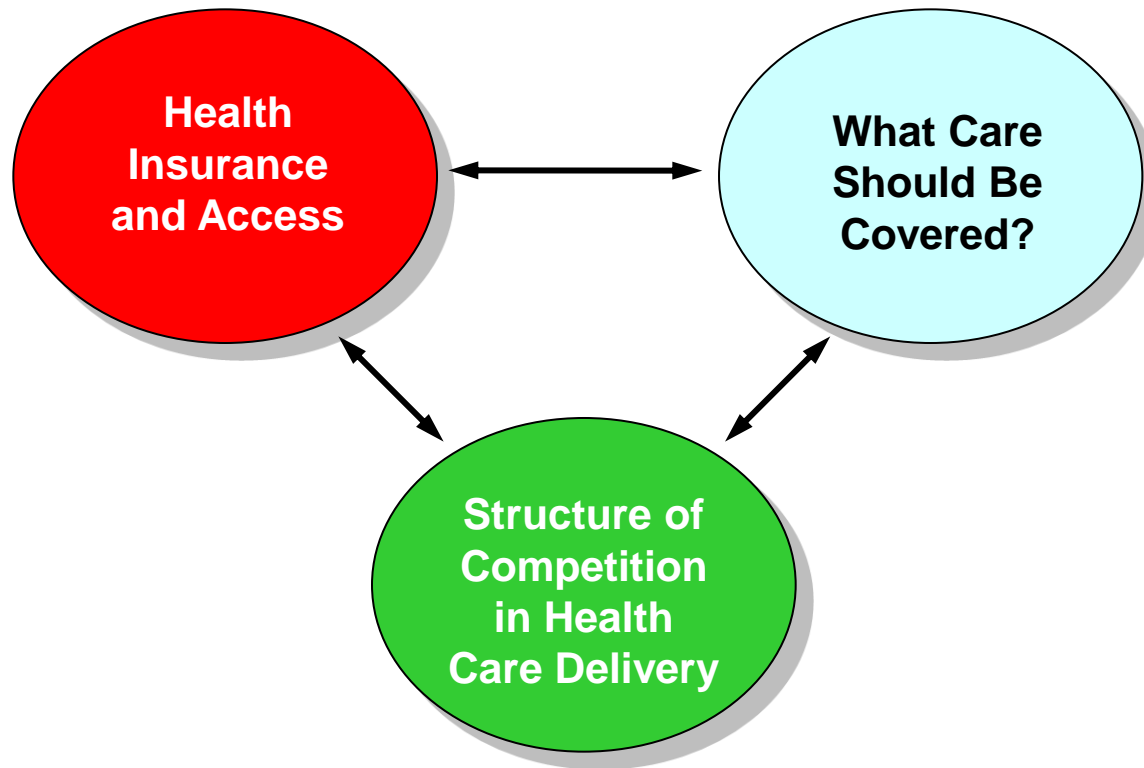
BUT

- 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



Zero-Sum Competition in Health Care

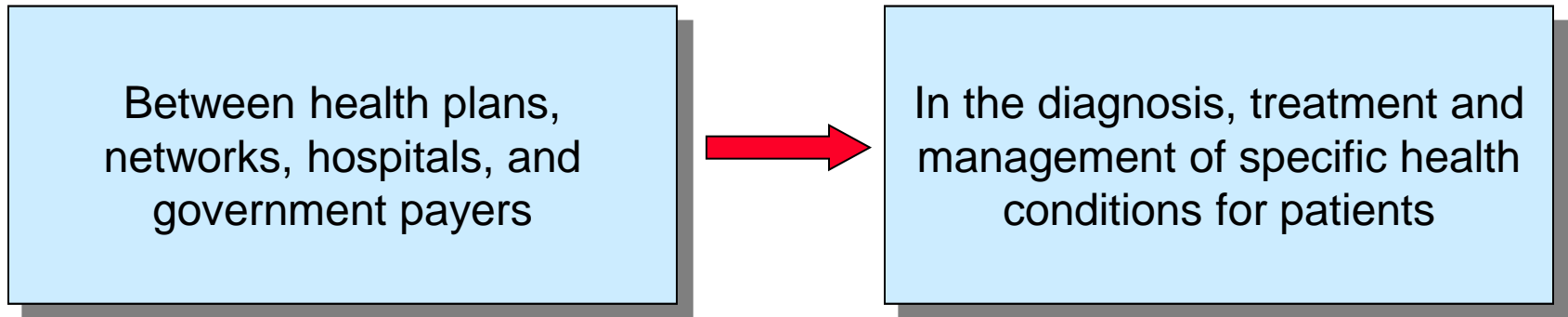
- Competition to **shift costs**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to reduce costs by **restricting services**



- 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**

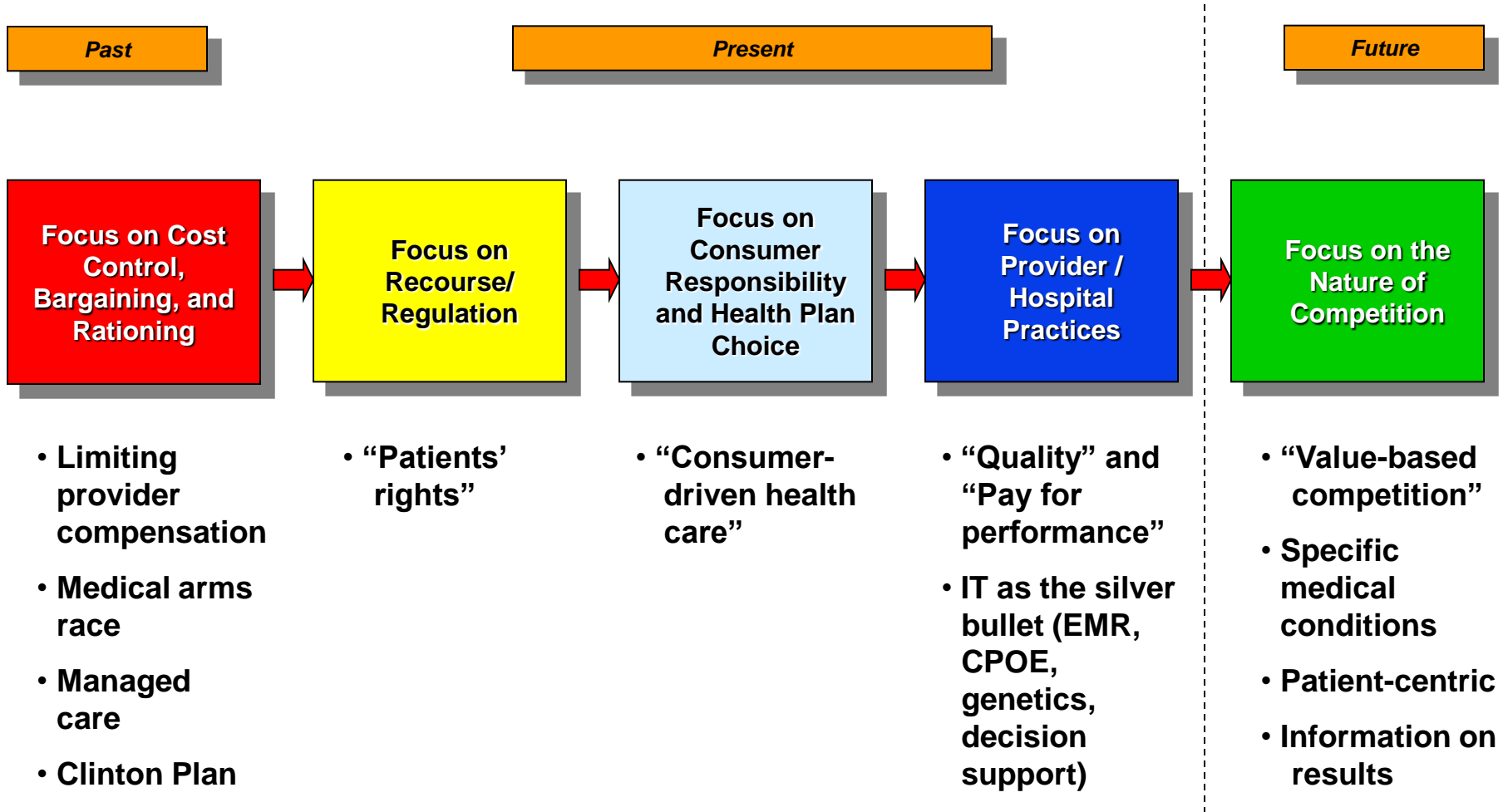


- Competition at the right level has been **reduced** or **eliminated** by health plans, by providers/provider groups, and by default
- Efforts to improve health care delivery have sought to **micromanage providers** and **level the playing field** rather than foster provider competition based on **results**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



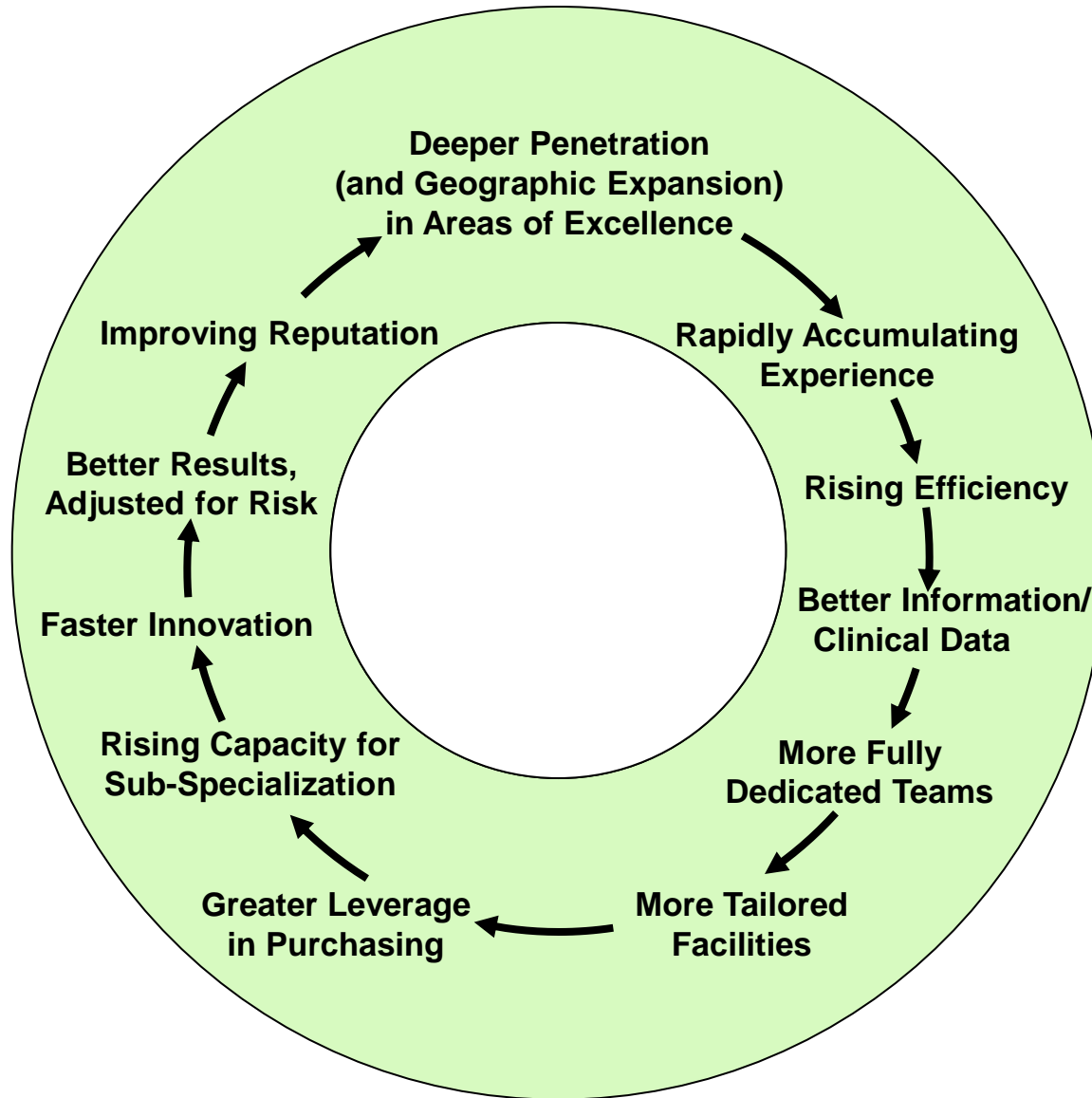
Principles of Positive Sum Competition

- 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



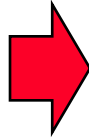
Moving to Value-Based Competition

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



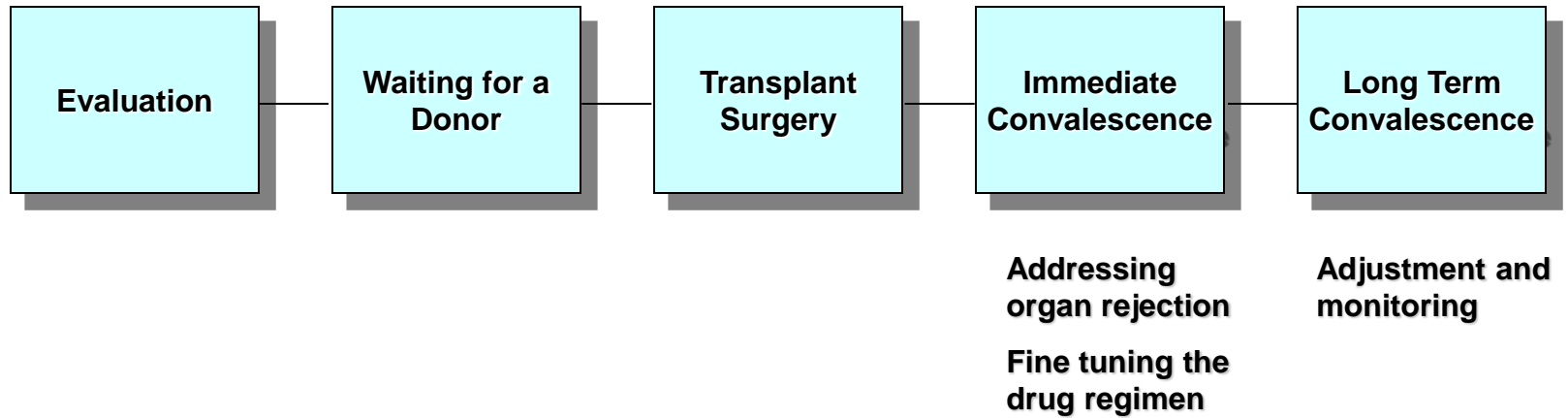
- Chronic Kidney Disease
- End-Stage Renal Disease
- Kidney Transplants
- Hypertension Management

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

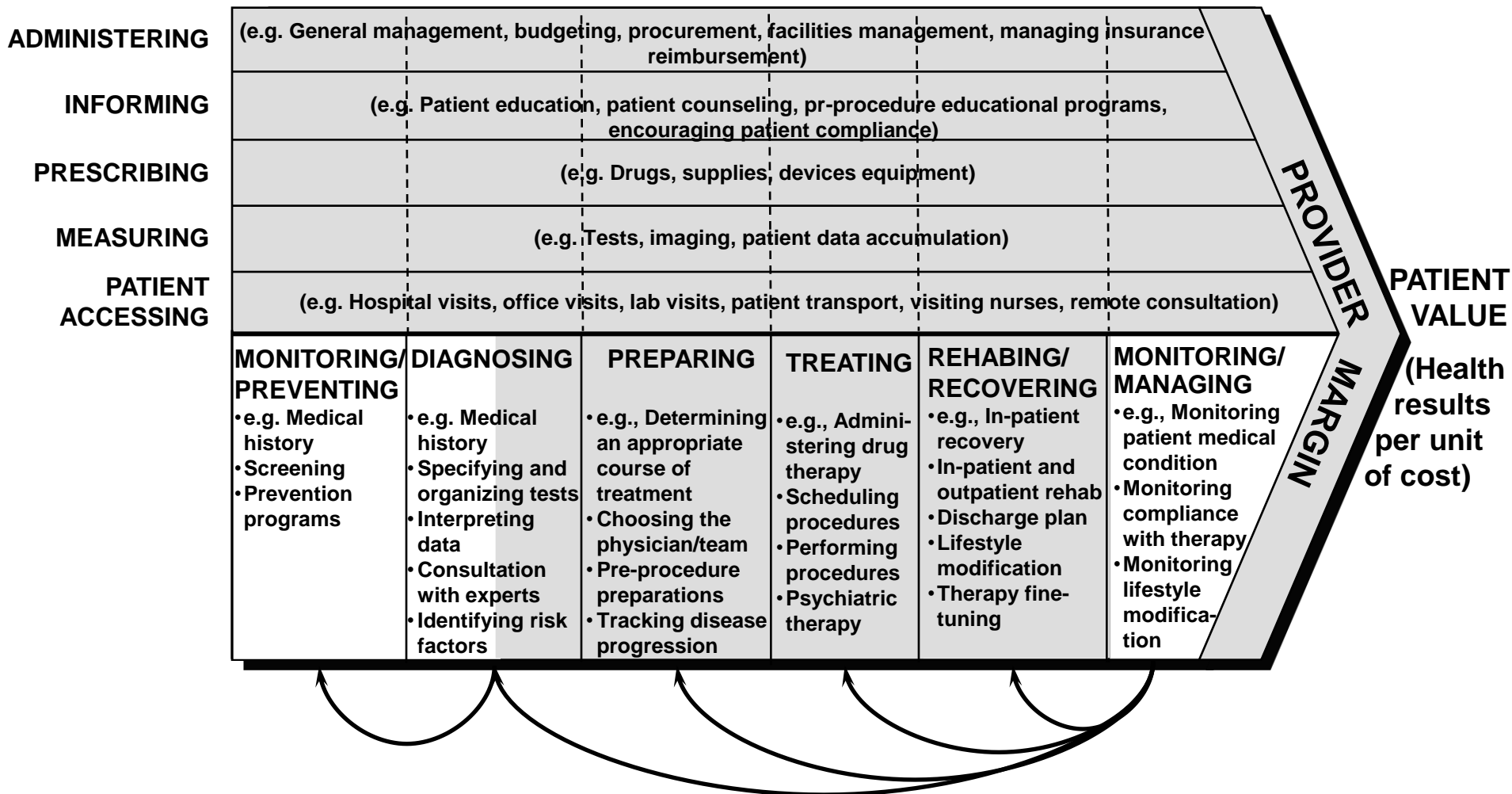


Moving to Value-Based Competition

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**
4. Create a **distinctive strategy** in each practice area
5. Design **care delivery value chains** that enable these strategies and continually improve them

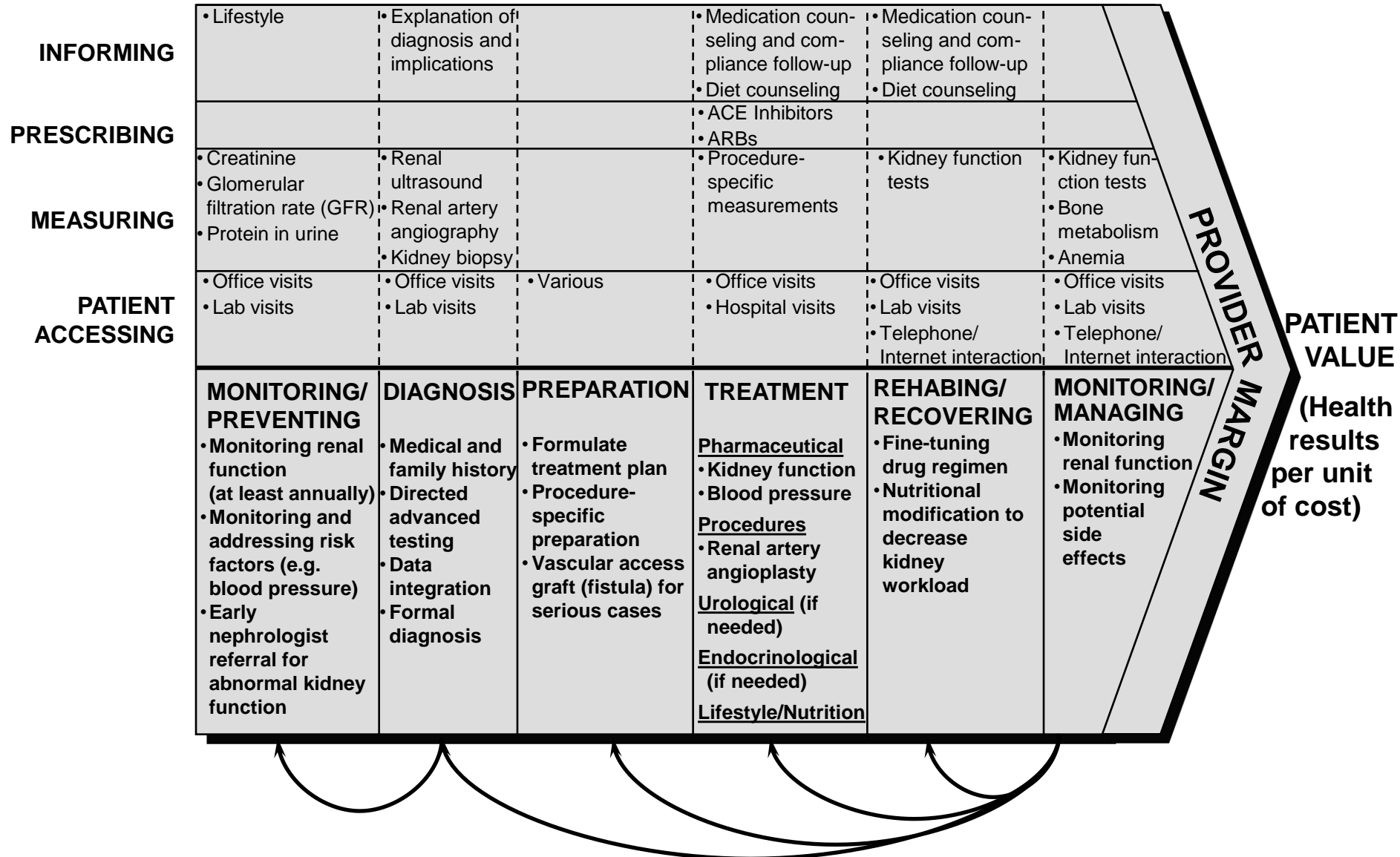
The Care Delivery Value Chain for a Practice Area



Longer Term/Chronic

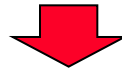
The Care Delivery Value Chain

Chronic Kidney Disease



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?



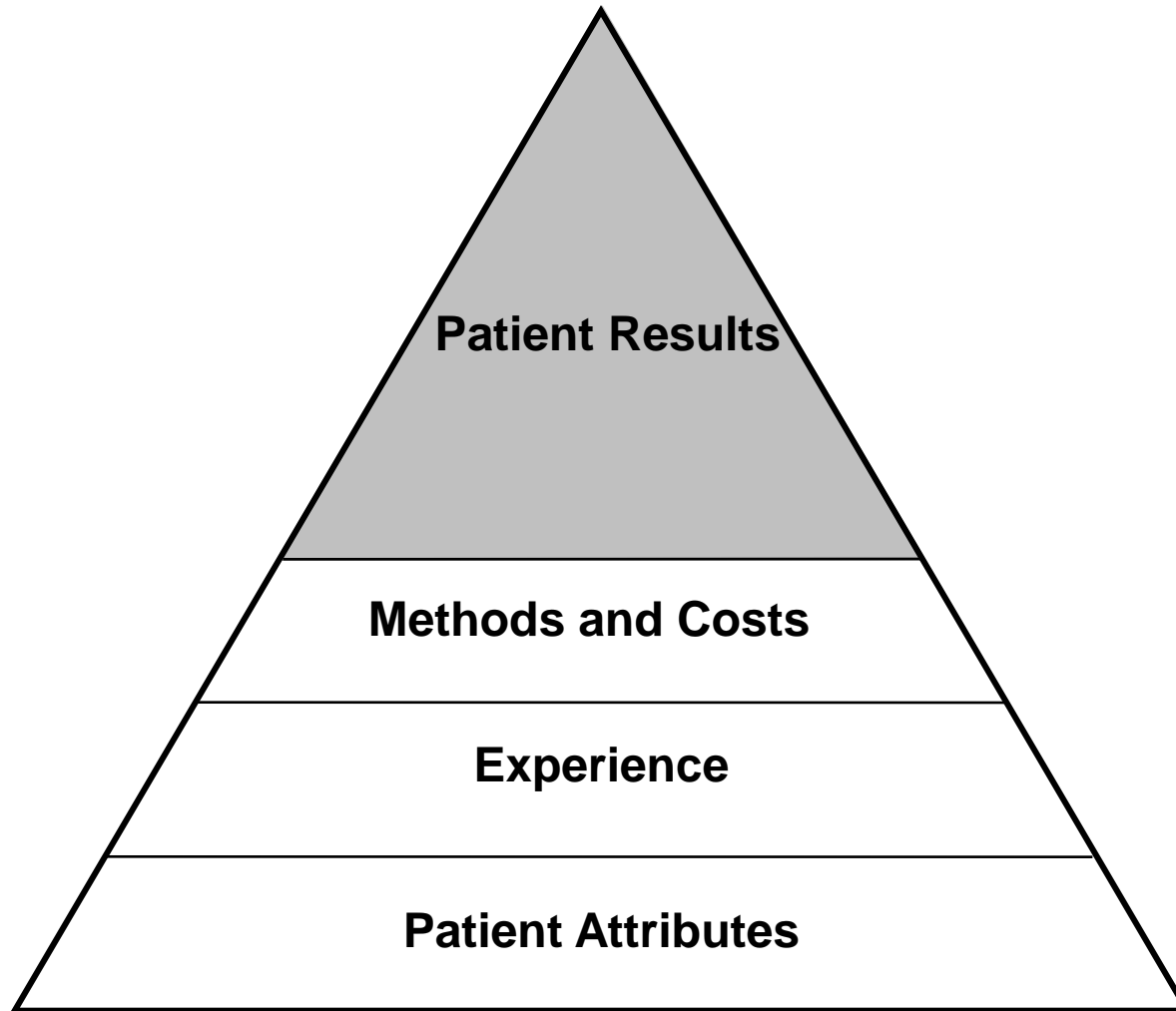
6. What organizational and institutional boundaries?
 - What entities do what?
 - Is the division of labor efficient?
7. How are boundaries best managed?
 - Where are organizational boundaries best set?
 - How should hand-offs be managed?

Moving to Value-Based Competition

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**
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**

Information Hierarchy



Boston Spine Group

Clinical and Outcome Information Collected and Analyzed

RESULTS

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 Complications

Patient returns to the operating room

Infection

Nerve injury

Sentinel events (wrong site surgeries)

Hardware failure

METHODS

Surgery Process Metrics

Operative time

Blood loss

Devices or products used

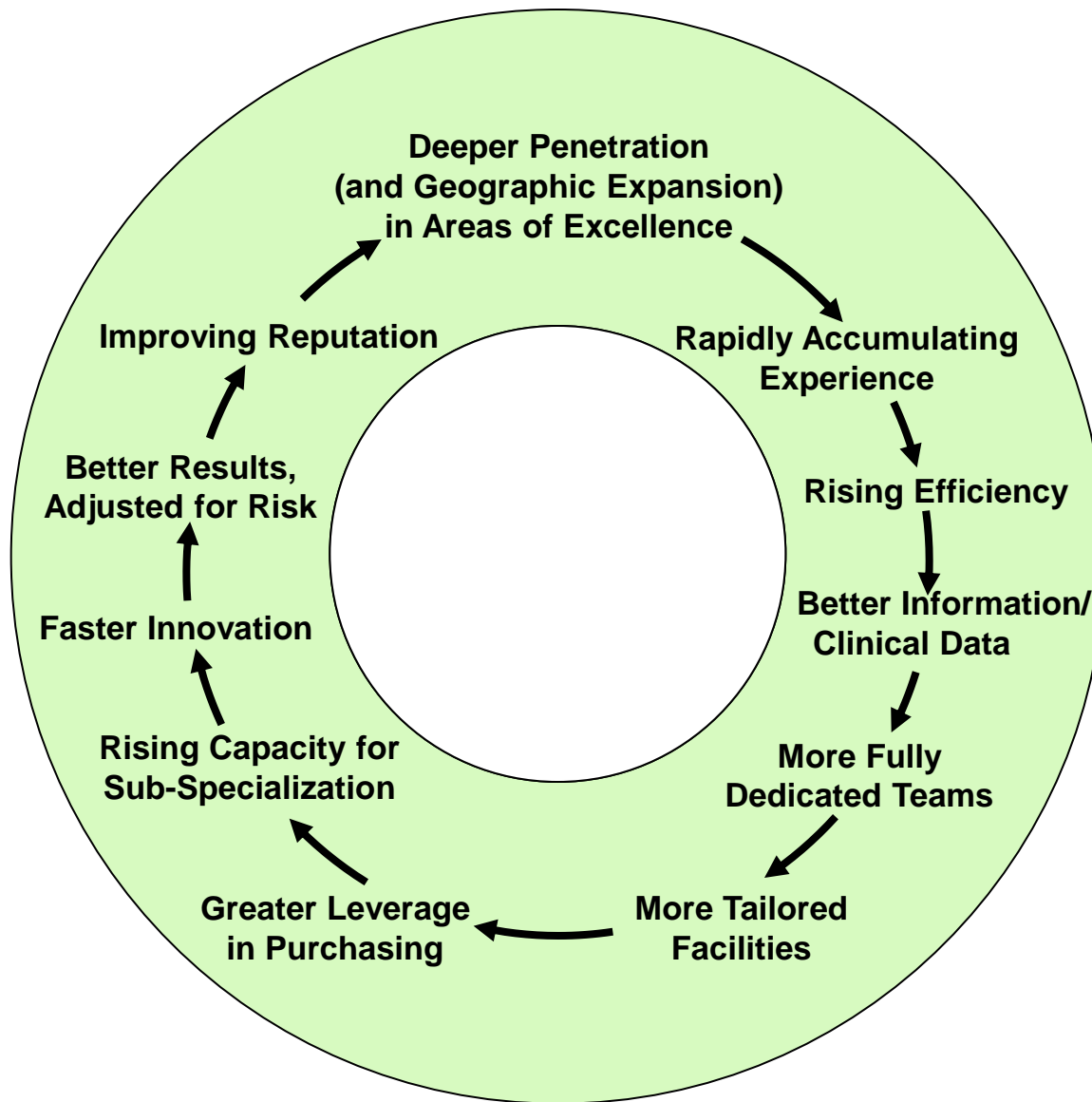
Length of hospital stay

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**
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

The Virtuous Circle in Health Care Delivery



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

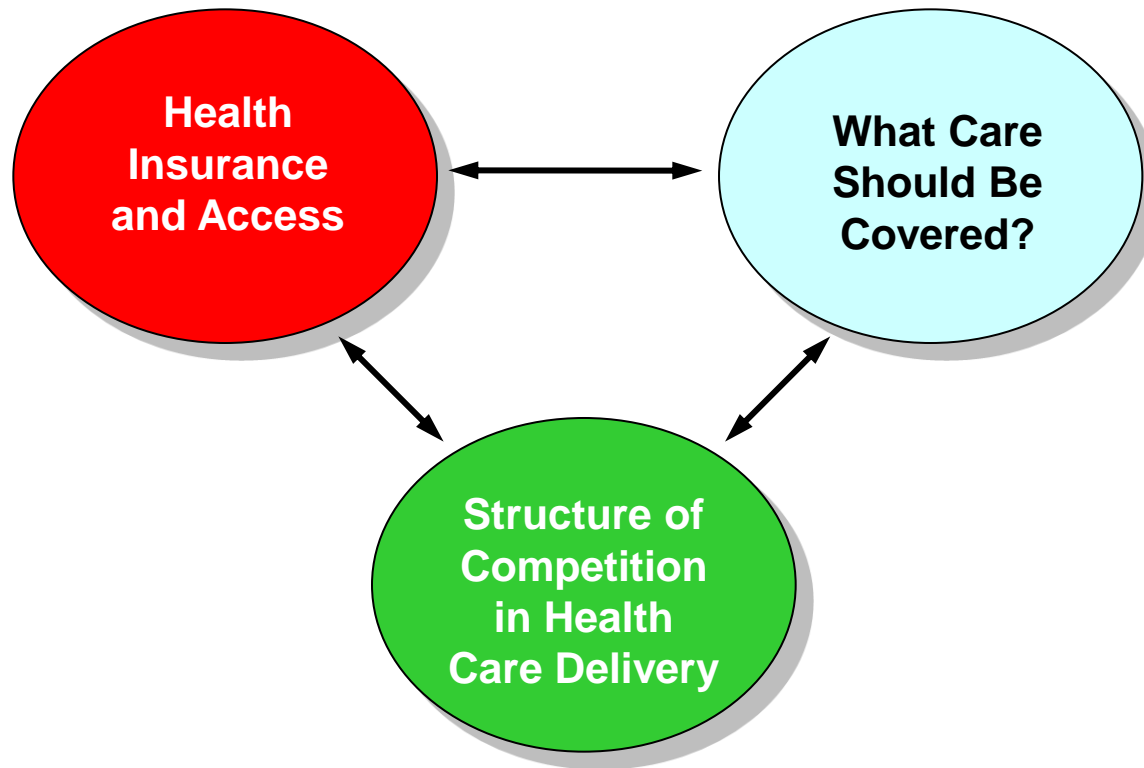
- Choose health plans based on their excellence in **information, advice, assistance** in securing the best care, and the comprehensiveness of **disease management** and **prevention** programs
- Consider **alternate health plan structures** such as high-deductible plans and HSAs to improve value and 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



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.