

Creating Shared Value in Health Care

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Building a Culture of Health
Harvard Business School
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This presentation draws on ideas from Professor Porter's books and articles, in particular, *Competitive Strategy* (*The Free Press*, 1980); *Competitive Advantage* (*The Free Press*, 1985); "What is Strategy?" (*Harvard Business Review*, Nov/Dec 1996); *On Competition* (*Harvard Business Review*, 2008); and "Creating Shared Value" (*Harvard Business Review*, Jan 2011). 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. For further materials, see the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu, and FSG website, www.fsg.org.

The Role of Business in Society

- Only business can **create economic prosperity**, through meeting needs at a profit
- Societies everywhere are facing significant **social, environmental and economic development** challenges
 - **Health** is one of the most important issues
- Government and NGO's **lack sufficient resources, technology and capabilities** to fully meet these challenges alone
- Corporate philanthropy and corporate social responsibility programs are larger than ever, but the **legitimacy of business has fallen**



We need a **new approach**

The Role of Business in Society

Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

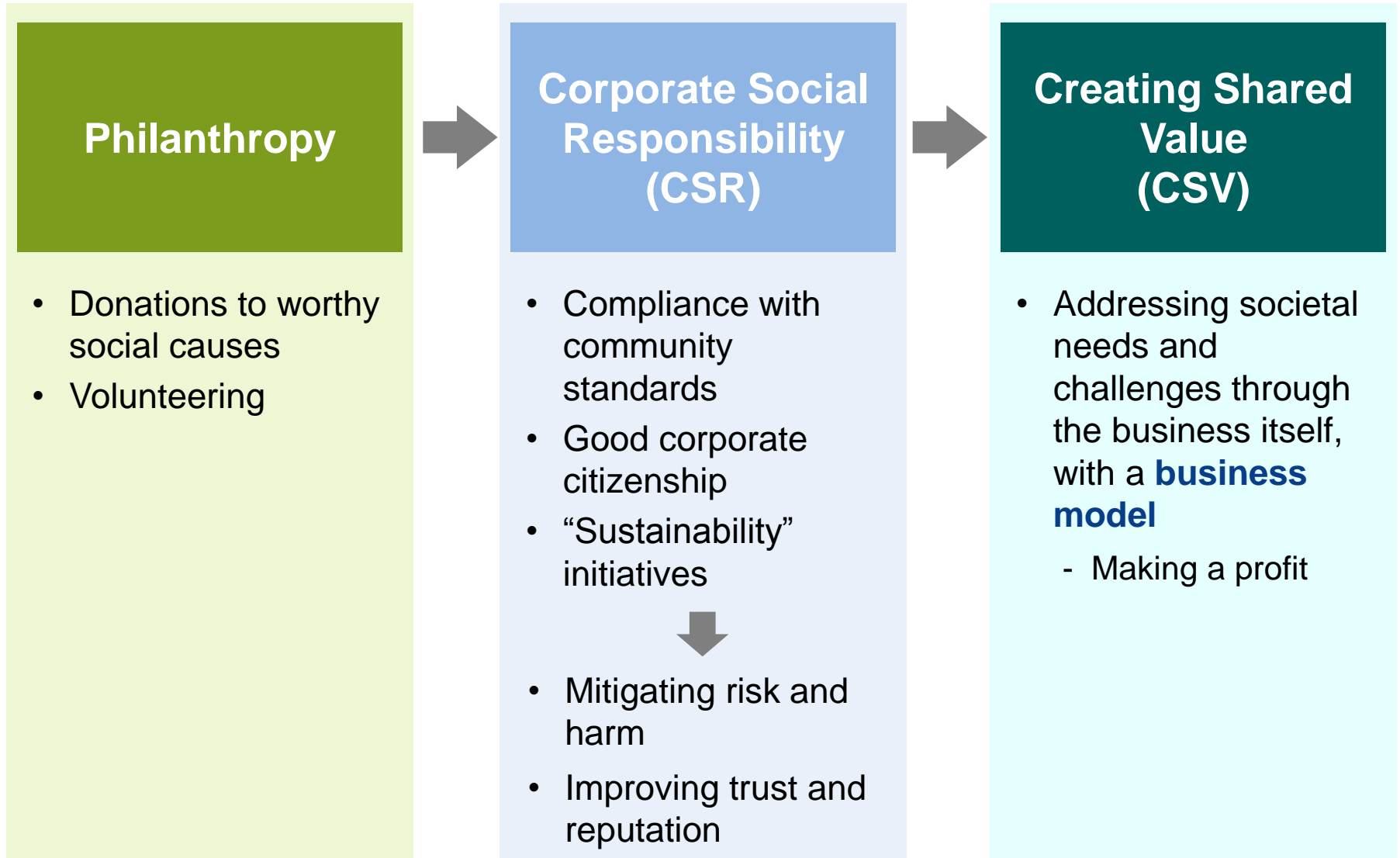
The Role of Business in Society

Evolving Approaches

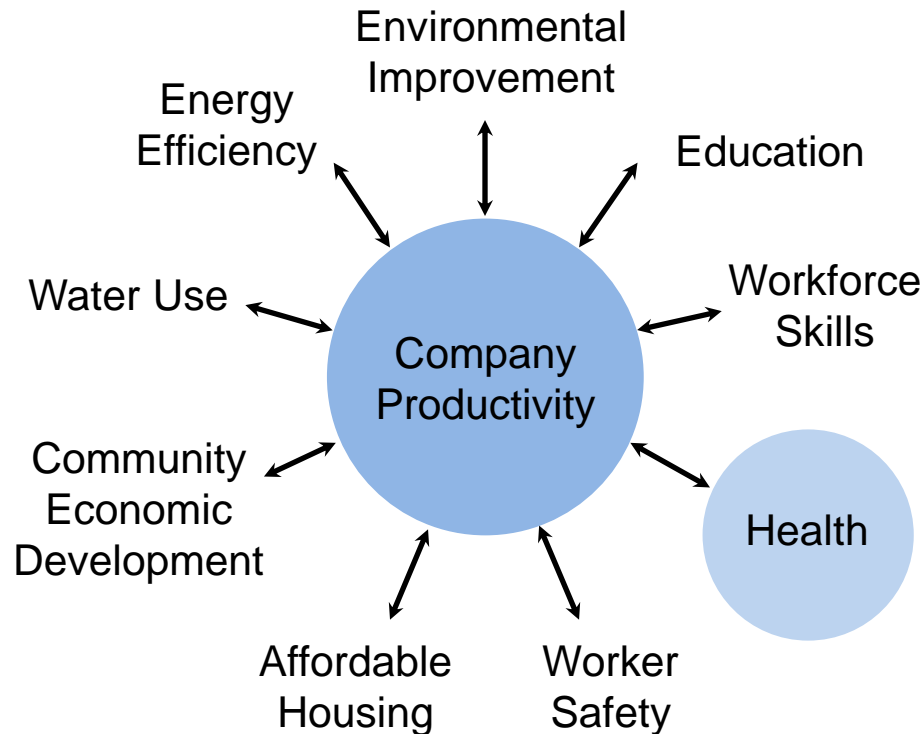


The Role of Business in Society

Evolving Approaches



The Opportunity for Shared Value



- **Societal deficits** and **environmental impact** create **economic costs** for companies
- **Community weaknesses** affect company productivity
- Social needs represent the **largest unserved market opportunities**

Moving to Shared Value in Pharmaceuticals

Novartis in Rural India

CSR

- **Donating drugs** to lower-income populations

CSV

- Implementing a new **drug business model for low-income populations** (Arogya Parivar)
- Understanding **non-traditional customer** behavior and a new business model
- New **quantity, packaging, distribution** and patient **education**
- Improvement in local **healthcare delivery infrastructure**

Levels of Shared Value

1

**Reconceiving Needs,
Products, and Customers**

2

**Redefining Productivity in
the Value Chain**

3

**Improving the Local
Business Environment**

Levels of Shared Value

1

Reconceiving Needs, Products, and Customers

- Using products and services to meet **societal needs**
- Marketing products to **unserved** or **underserved** customers and communities

Shared Value Through Products

Discovery Health



- Discovery faced **rising imitation** of its conventional health plans coupled with HSAs
- It pioneered **health plans** paired with the **Vitality Wellness Program** that rewards healthy behavior through incentives such as discounted health club memberships, discounts on healthy food purchases and travel packages, and cashback on retail purchases
- Clinical studies show that Vitality members are **healthier**, **live longer** and have **lower healthcare costs** which allows Discovery to offer health coverage at **lower premiums**



- Discovery is one of the world's **fastest growing** and **most profitable** health insurance companies

Shared Value in Products and Markets

Novo Nordisk in China



- **Product design** that reflects Chinese patient demographics and culture
- New types of **diabetes education programs for patients** focusing on prevention, lifestyle changes, and effective use of insulin products
- **Diabetes training programs for physicians** in partnership with government, NGOs, and opinion leaders to disseminate the latest thinking on diabetes prevention, screening and treatment
 - Novo Nordisk has **trained 55,000 physicians** to date



- The company's insulin market share in China increased from **0% to 59%**, and revenues reached \$1.28 billion by 2013

Levels of Shared Value

1

Reconceiving Needs, Products, and Customers

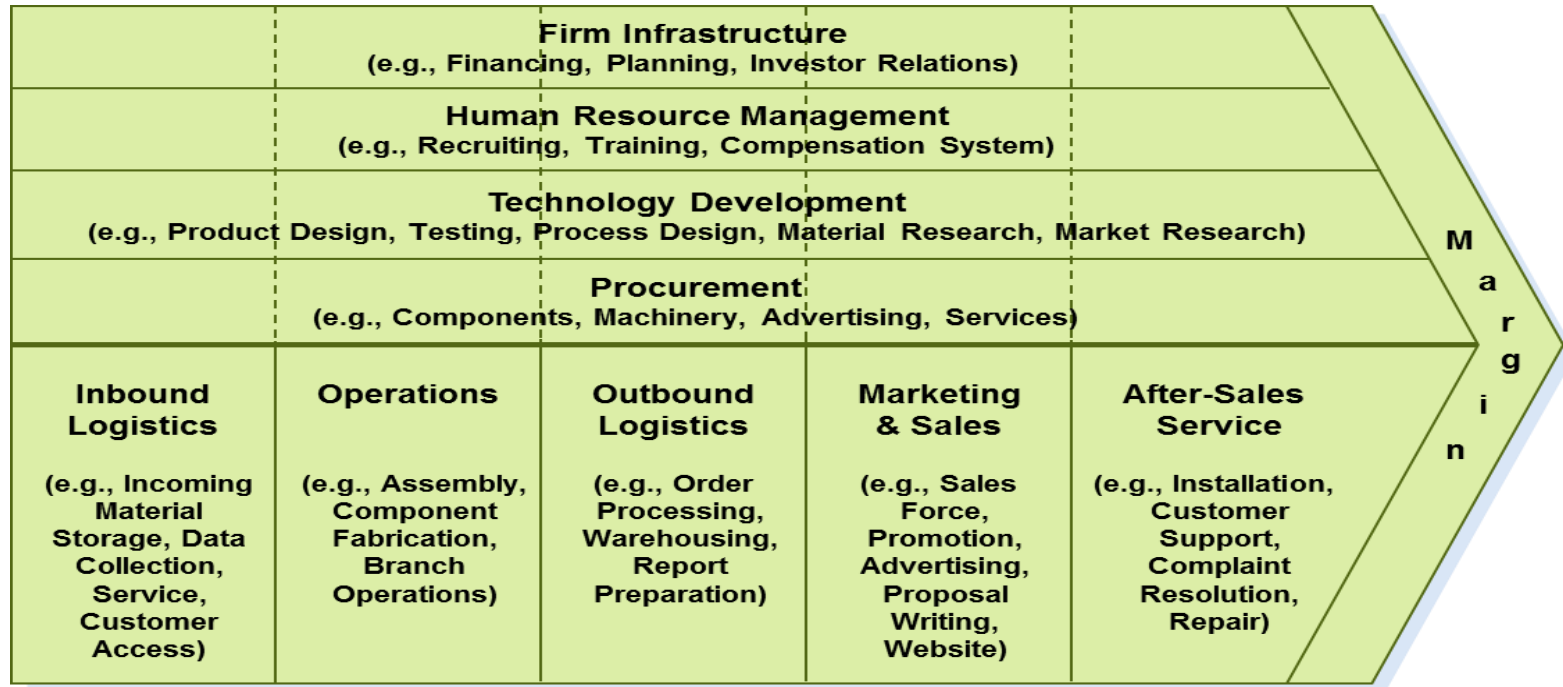
- Using products and services to meet **societal needs**
- Marketing products to **unserved** or **underserved** customers and communities

2

Redefining Productivity in the Value Chain

- Accessing and utilizing resources, energy, suppliers, logistics, and employees **differently and more productively**

Shared Value in the Value Chain



- Procurement that **enhances supplier capabilities and efficiency**
- Improving **energy, water** and **resource** efficiency across activities
- Redesigning or recycling to minimize or eliminate **waste**
- Minimizing **logistical intensity**
- Improving employee **health** and **safety**
- Enhancing productivity and retention through wages and benefits for **lower income** employees
- Recruiting to reflect the **diversity of customers** and the **communities** in which a company operates
- Others...

Shared Value in the Value Chain

Employee Health, Walmart

- Walmart's **employee health benefit program** to improve the health and productivity of its 1.1 million associates and family members
- Focus on **prevention and disease management**: Health assessment & counseling services, 100% coverage of preventative screenings, on-site fitness center, and incentives and programs to encourage employees and their families to make healthy choices and improve health literacy

Outcomes

- Substantial **health improvements** for employees (e.g. smoking cessation, lower blood pressure, and cholesterol control)
- Health care costs expected to **decrease by 16%** in 2016
- Higher employee **productivity** and **retention**



Levels of Shared Value

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Redefining Productivity in the Value Chain

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3

Improving the Local Business Environment

- Improving **skills**, local **suppliers**, **infrastructure**, and **supporting institutions** in the areas where the company operates

The 100,000 Opportunities Initiative

- Engage at least 100,000 “Opportunity Youth” age 16-24 who face **systemic barriers to jobs and education** by 2018
- **Hire, retain and advance** these youth while simultaneously meeting partner companies’ **talent acquisition and retention needs**

Corporate Coalition

Disseminate effective practices around OY recruitment, retention and advancement

Demonstration Cities

Build connections between employers and local workforce systems

Recruiting Events

Connect employers with OY talent and disseminate the message about youth potential

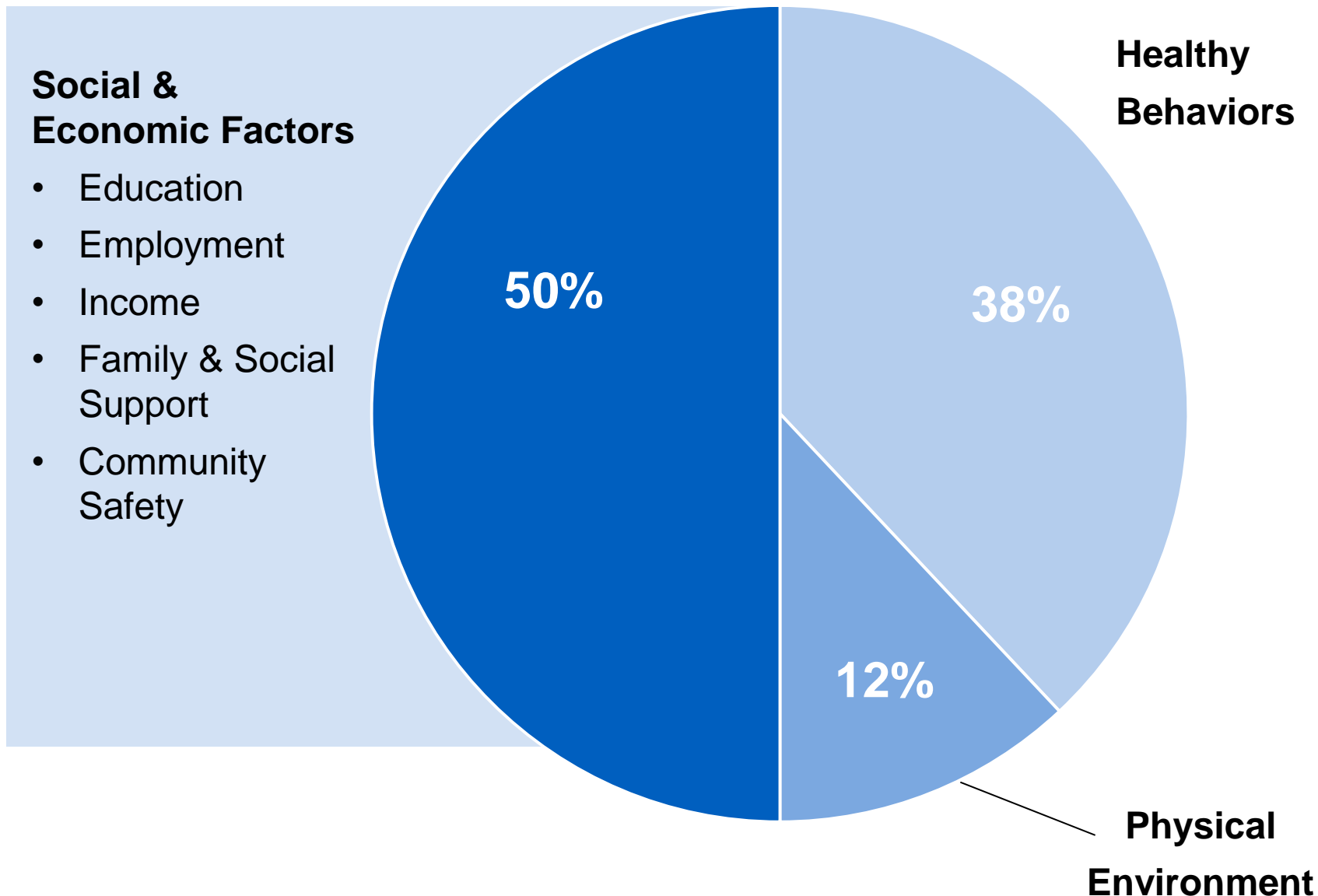
Funders

Operators

Companies



The Social Determinants of Health



Source: University of Wisconsin Population Health Institute

Shared Value in the Local Business Environment

Kaiser Permanente's Total Health Approach



- **Kaiser Permanente** is the nation's largest non-profit integrated health system
- Kaiser serves more than **10 million members**, operates **38 hospitals** and more than **600 medical offices** across the nation
- Kaiser is advancing the concept of "**total health**," an innovative framework to address the **social, economic** and **environmental factors** that contribute to poor health outcomes, shortened lives and higher costs. It includes:
 - **Workforce wellness initiatives** for its employees and customers
 - Increasing access to **healthy foods** and **physical activity** across thousands of schools
 - **Facilitating educational attainment** and **entrance to the health professions**, especially for students from disadvantaged backgrounds
 - **Reducing its carbon footprint** by spending almost \$800 million in green energy projects
 - **Supplier diversity**, purchasing more than \$1.5 billion from women and minority-owned firms in 2014 alone
 - Investing approximately **\$2 billion** in **community benefit programs** that provide for community health / safety net partnerships and medical financial assistance for **low-income people**

Connecting a Company's Social Roles



Philanthropy

- Foundational investments in **public goods** that create the potential for shared value:
 - Customer education
 - Basic research
 - Investments in enabling public infrastructure

Corporate Social Responsibility (CSR)

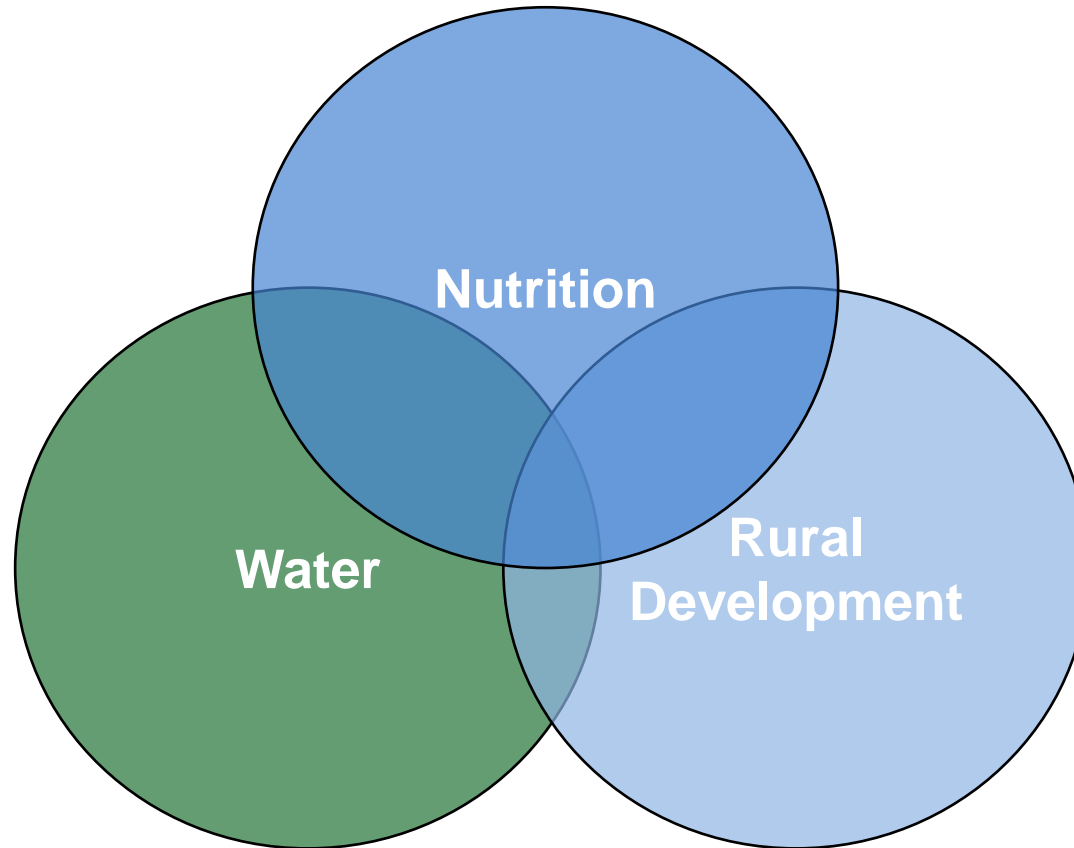
- Better **engaging stakeholders** in collaborating to grow shared value solutions

Creating Shared Value (CSV)

- Address societal needs and challenges with a **business model**

Creating Shared Value: Where is a Company's Opportunity?

Nestlé



- Opportunities to create shared value are **inevitably tied closely** to a company's particular set of businesses

Shared Value and Company Strategy

Whole Foods Markets

Value Proposition

- Natural, fresh, organic, and freshly prepared foods and health items with excellent service at premium prices
- Targets customers who seek a healthy lifestyle and are passionate about food
- Caters to customers with specialized nutritional requirements (e.g. gluten allergies, vegan, etc.) and who value community and social impacts (e.g. supporting local farmers and businesses, animal welfare)

Distinctive Activities

- Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods section. Produce section as “theater”
- Café-style seating areas with Wi-Fi for meals and gathering
- High touch in-store customer service via knowledgeable, flexible, and highly motivated personnel
- Extensive nutrition information and education
- Each store carries local produce and has the authority to contract with the local farmers. Company provides low-interest loans if needed
- Own seafood procurement and processing facilities to control quality, ensure sustainable supply, and manage cost from the boat to the counter
- Heavy emphasis on improving environmental performance across the value chain
- HR policies focus on attractive ways, incentives and benefits for front line employees



- Whole Foods has been the most **economically successful** food retailer in North America

Redefining Corporate Purpose

CVS Health



- In 2011, CVS redefined its business around **improving patient health**, not just operating convenience stores with pharmacies and some health products
- CVS was the first pharmacy to **stop selling all tobacco products** in 2014, forgoing **\$2 billion** in annual revenue, while launching a comprehensive smoking cessation program across all sites
- The role of pharmacists and nurse practitioners was expanded to work more closely with patients and health care providers to **improve health outcomes**
- CVS operates a large and growing network of **in-store clinics** as a convenient alternative to traditional doctor's offices
 - Forming partnerships with hospitals, physicians, and employers to integrate clinics into overall care

New Vision

We strive to improve the quality of human life

New Mission

Helping people on their path to better health

Solving the Health Care Problem

- The **fundamental goal and purpose** of health care is to improve value for patients
- Delivering high value health care is the **definition of success**

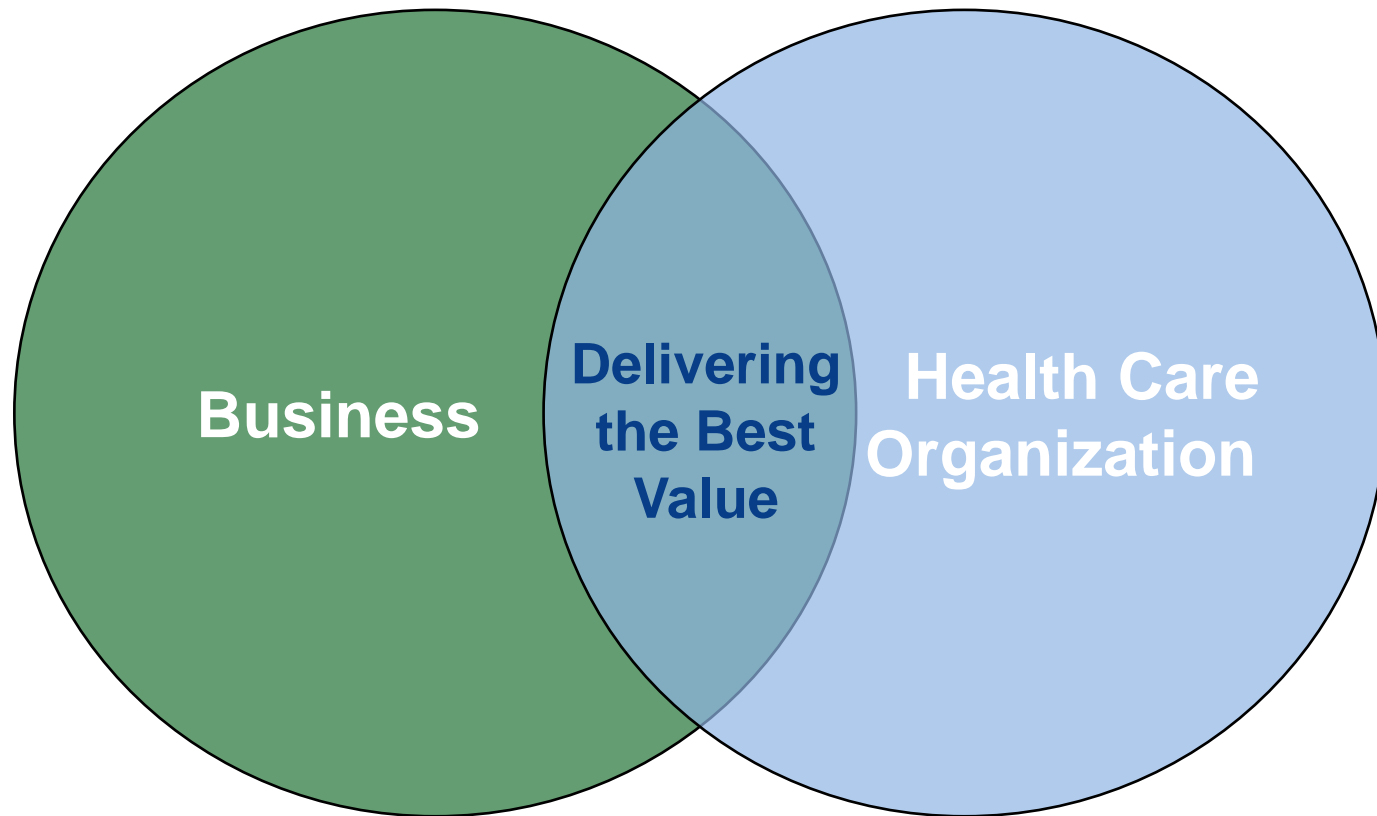
$$\text{Value} = \frac{\text{Health outcomes that matter to patients}}{\text{Costs of delivering the outcomes}}$$

- Value is the only goal that can **unite the interests** of system participants
- Improving value is the **only real solution**



- The question is how to design a health care delivery system that **substantially improves patient value**

The Role of Business in Restructuring Health Care



- Employers are **major payers for health care**, and are often self insured

The Strategic Agenda for Value-Based Health Care Delivery

The Role of Employers

1. Re-organize Care around Patient Conditions, into **Integrated Practice Units (IPUs)**
 - For primary and preventive care, IPUs serve **distinct patient segments**
2. Measure **Outcomes** and **Costs** for Every Patient
3. Move to **Bundled Payments** for Care Cycles
4. Integrate Multi-site Care Delivery **Systems**
5. Expand **Geographic Reach** to Drive Excellence
6. Build an Enabling **Information Technology Platform**

Shared Value in the Regional Business Environment

Health Transformation Alliance

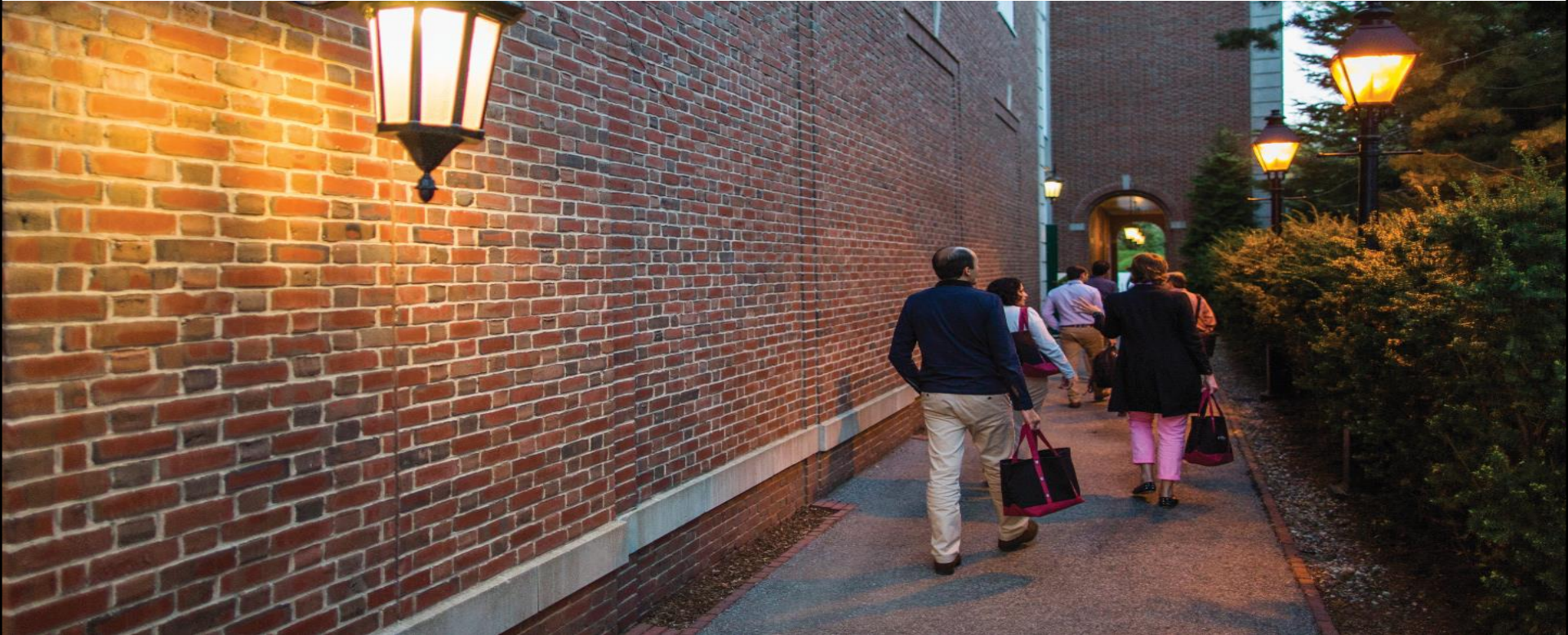
- **February 2016:** Leading US companies formed **Health Transformation Alliance (HTA)** representing a **fundamental shift** in the way that companies approach improving health of employees and community
 - **20 major U.S. based employers** with **four million employees and family members**
 - **Common goal:** “To improve the way corporations provide health care benefits in an effort to **create better health outcomes for their employees**”
 - Allows employers to take advantage of **combined market power** while **preserving corporate cultures**
 - Analysis of aggregate employee data on spending and outcomes help **reveal the best treatment options and providers**
 - **Better design plans with providers** that deliver high-value care



The Purpose of Business

- The purpose in business is to create economic value in a way that **also creates shared value for society**
- Businesses **acting as businesses**, not as charitable givers, are arguably the most powerful force for addressing many of society's pressing issues
 - Innovation and scalability
- Shared value opens up **major strategic opportunities** to create competitive advantage, while driving the next wave of **innovation, productivity, and economic growth**
- Realigning companies around shared value gives **greater purpose** to the corporation and to **capitalism itself**
- **Health** is a pressing societal need that **every business (and major organization) can affect**
- The most powerful impact of **business** is to **drive the transformation of health care delivery systems**

CSV Workshop: Economic Success and Social Impact



- **HBS executive education program on CSV:** style discussions, guest protagonists, and presentations to discuss shared value concepts and their application
- **In-depth CSV case studies:** Leading organizations that are implementing shared value approaches, among others Nestle, Discovery Health, CVS, Yara, and Novartis

**CREATING SHARED VALUE:
Economic Success and Social Impact**

➤ WWW.EXED.HBS.EDU/PROGRAMS/CSV/

Value-Based Health Care Delivery Courses

The publication of *Redefining Health Care*, by Professors Michael Porter and Elizabeth Teisberg, helped generate a movement to improve health outcomes and reduce costs through Value-Based Health Care Delivery (VBHCD) practices. Many organizations have already begun to apply these principles. Michael Porter and his colleagues have developed a curriculum to teach students, practitioners, executives, and others about the new organizational models, measurement approaches, and other key practices for driving value improvement in health care.



Value Measurement for Health Care December 12-14, 2016
Strategy for Health Care Delivery January 4-6, 2017

Leadership workshops for top management and senior physician leaders from health care organizations in the U.S. and abroad to examine new strategies, organizational models, and measurement approaches to drive value improvement in health care delivery.

Value-based Health Care Intensive Seminar January 9-13, 2017

Admission is by application only and is competitive. The application usually opens in August. Course is free of charge to those who are accepted.



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