

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 a largely private system and **more competition** than virtually any other health care system in the world

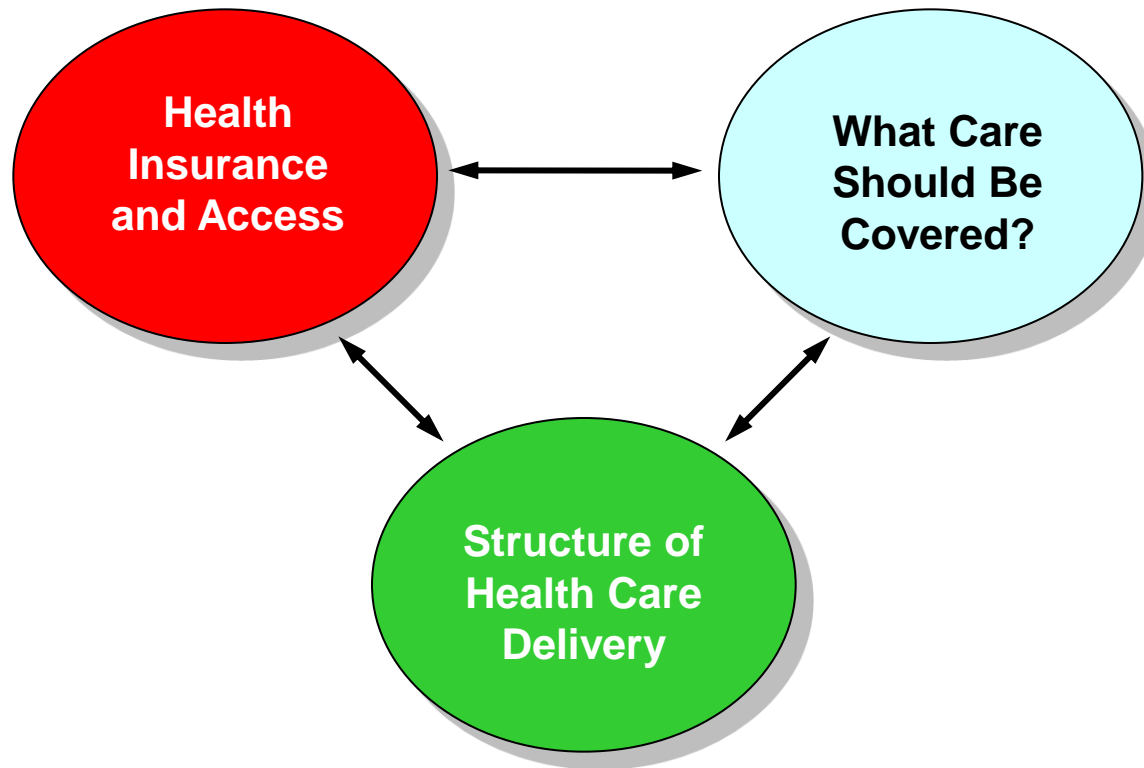
BUT

- 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** and fail to follow accepted benchmarks
- **Diagnosis errors** are common
- 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

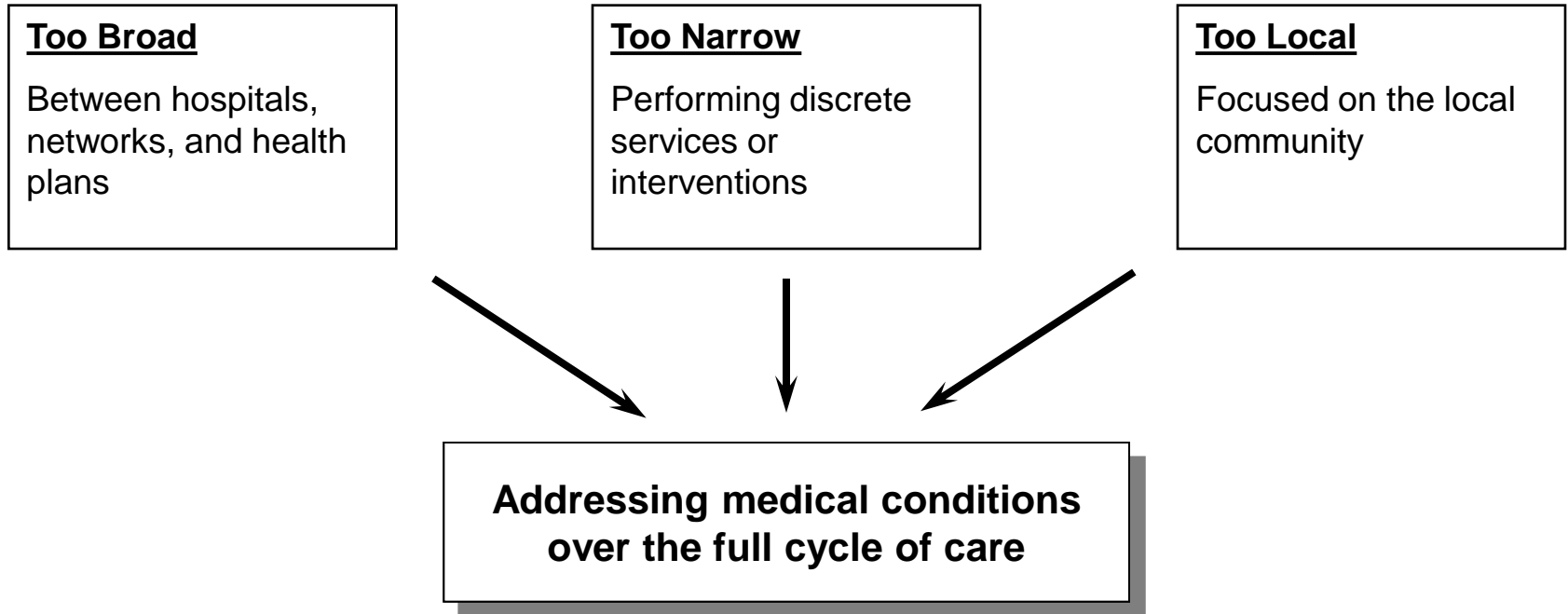
- Competition to **shift costs**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to reduce costs by **restricting services**



- None of these forms of competition **increase value for patients**

Root Causes

- Competition in the health care system takes place at the **wrong level** on the **wrong things**

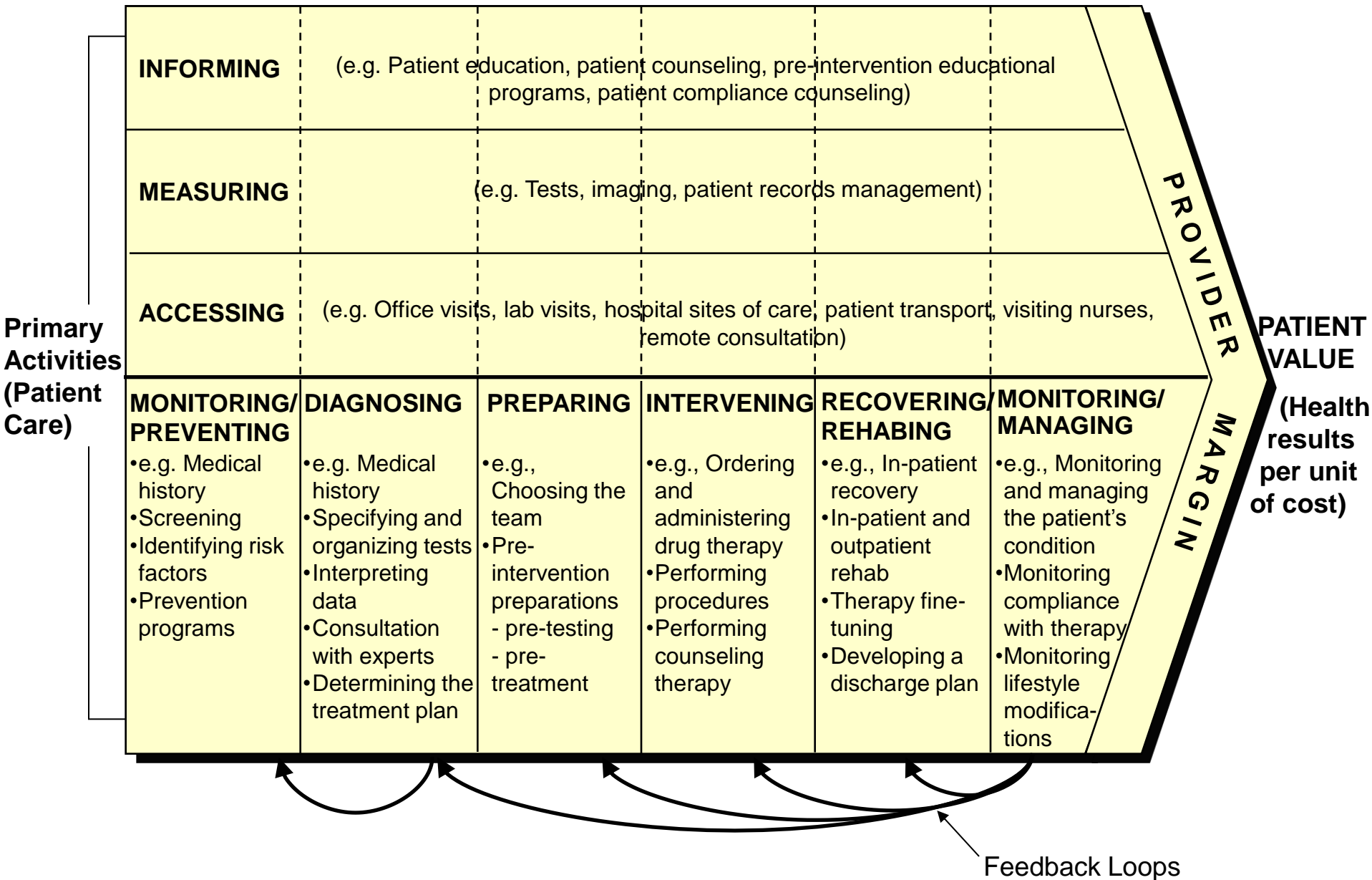


- Competition at the right level has been **reduced** or **eliminated**
- Efforts to improve health care delivery have sought to **micromanage providers** and **“lift all boats”**
- Consumer-driven health care alone will **not** work

Principles of Positive Sum Competition

- The focus should be on **value for patients**, not just lowering costs.
- There must be **unrestricted competition** based on **results**.
- Competition should **center on medical conditions** over the **full cycle of care**.

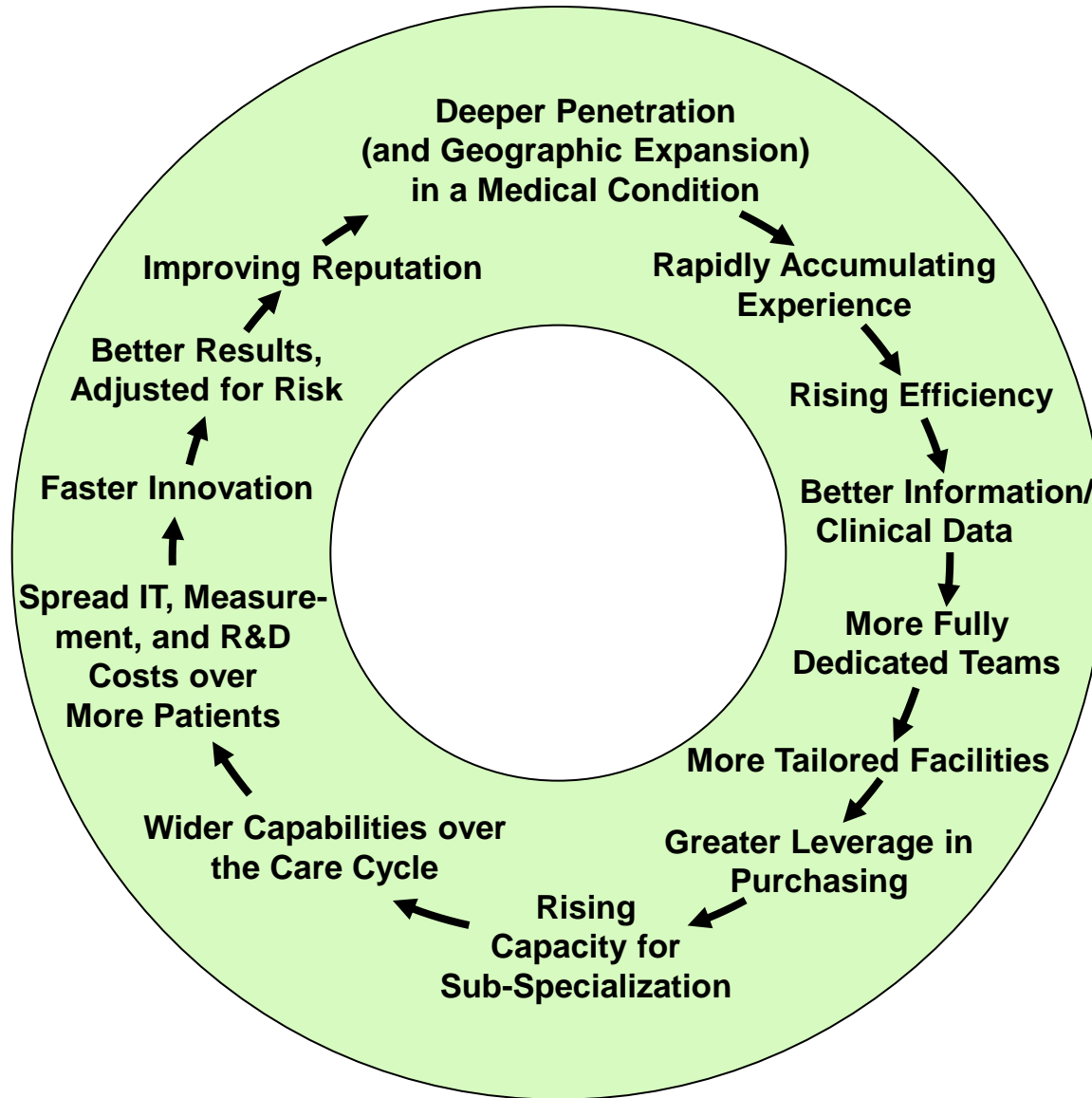
The Care Delivery Value Chain for a Medical Condition



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- Value is driven by **provider experience**, **scale**, and **learning** at the medical condition level.

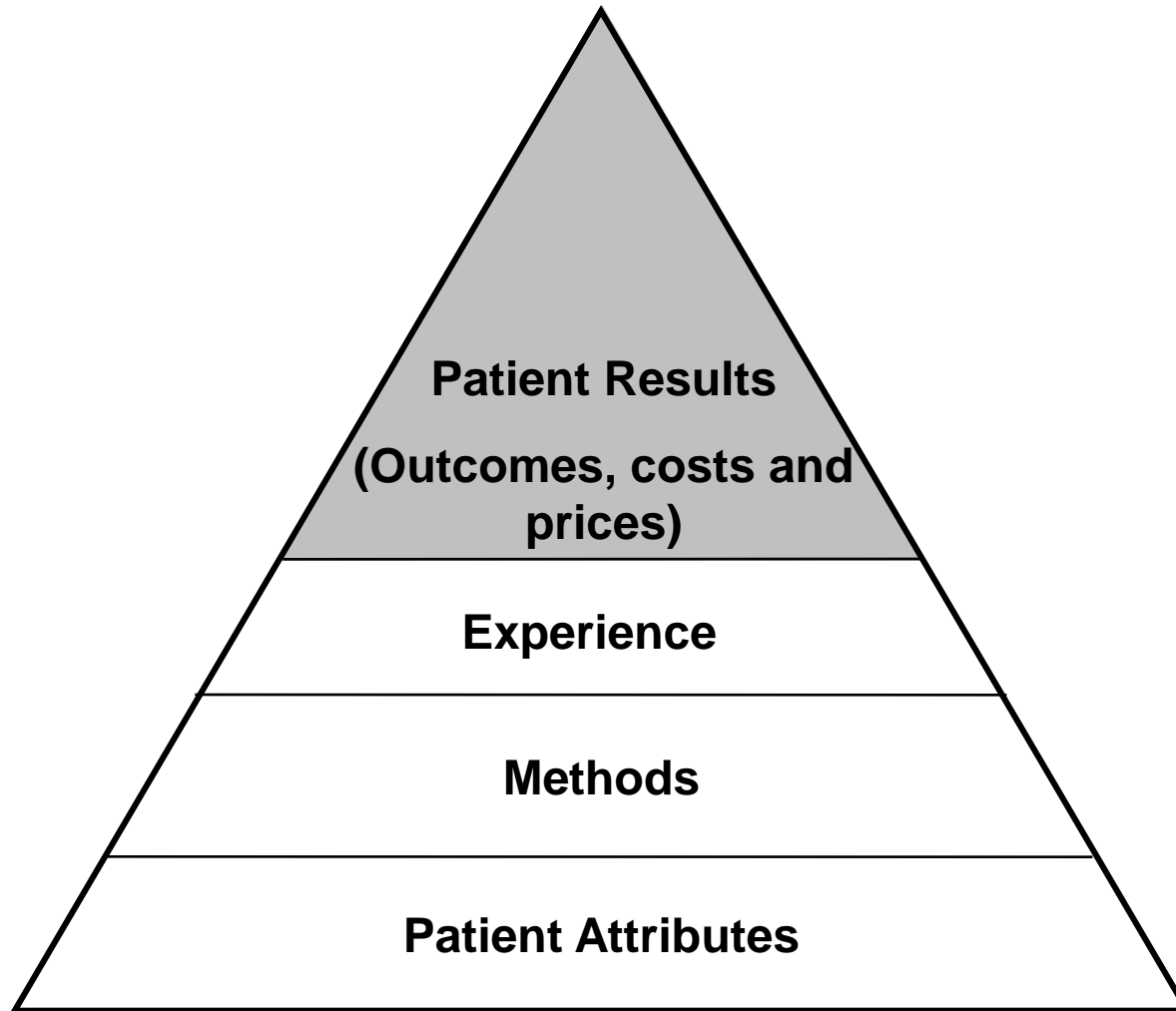
The Virtuous Circle in Health Care Delivery



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- Competition should be **regional** and **national**, not just local.
- **Information** on results and prices needed for value-based competition must be widely available.

The Information Hierarchy



Principles of Positive Sum Competition

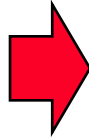
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- **Information** on results and prices needed for value-based competition must be widely available.
- **Innovations** that increase value must be strongly rewarded.

Moving to Value-Based Competition Providers

1. Redefine the business around **medical conditions**

What Businesses Are We In?

Nephrology practice

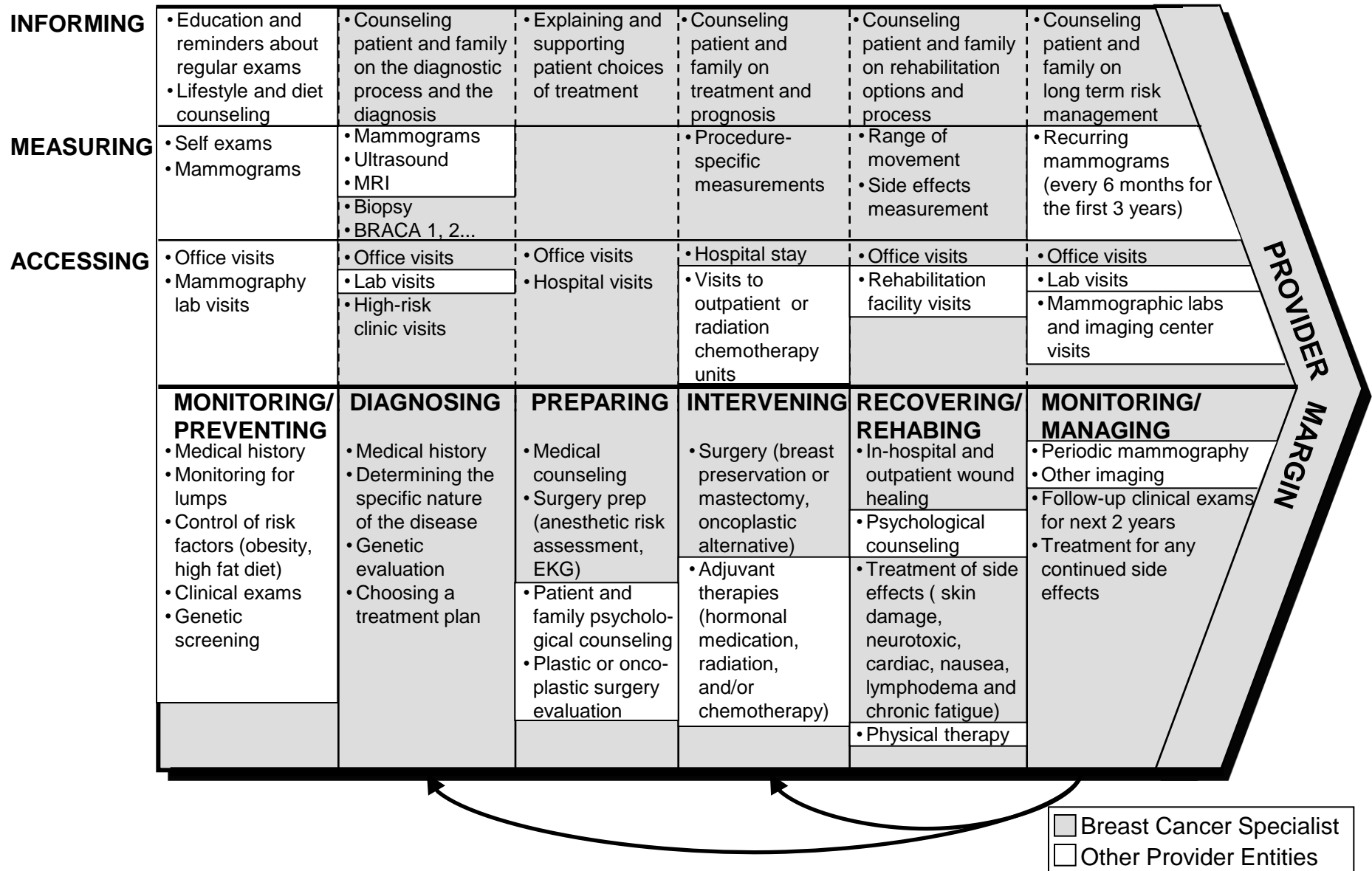


- Chronic Kidney Disease
- End-Stage Renal Disease
- Kidney Transplants
- Hypertension Management

Moving to Value-Based Competition Providers

1. Redefine the business around **medical conditions**
2. Choose the **range and types of services provided**
3. Organize around **medically integrated practice areas**

The Care Delivery Value Chain: Breast Cancer Care

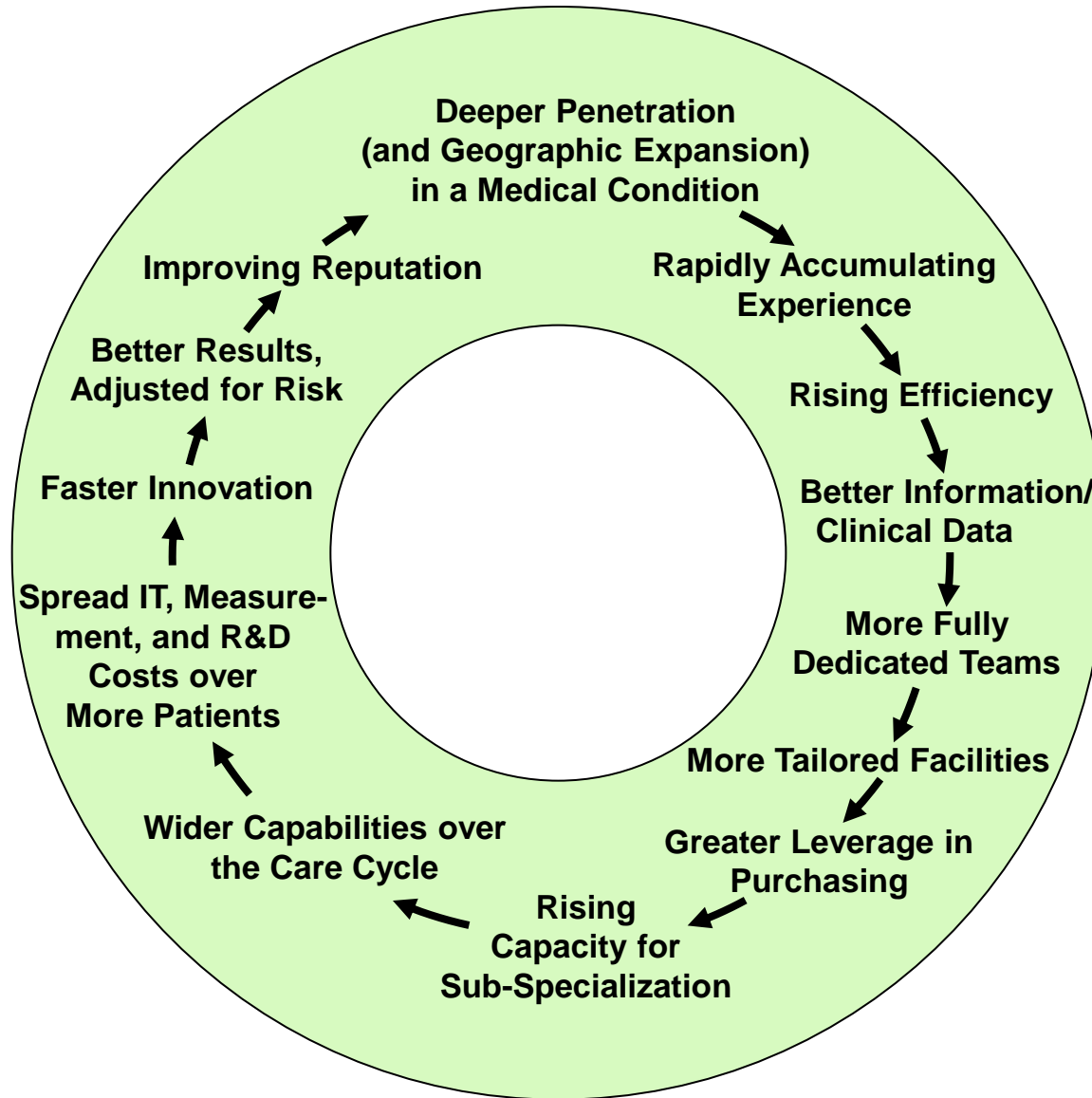


Moving to Value-Based Competition

Providers

1. Redefine the business around **medical conditions**
2. Choose the **range and types of services provided**
3. Organize around **medically integrated practice areas**
4. Create a **distinctive strategy** in each practice area
5. Measure **results**, **methods**, and **patient attributes** by practice area
6. Move to **single bills** and new approaches to **pricing**
7. **Market** services based on excellence, uniqueness, and results
8. Grow locally and geographically in **areas of strength**

The Virtuous Circle in Health Care Delivery



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**
- **Minimize** the need for administrative transactions and simplify billing
- Compete on subscriber **health results**

Moving to Value-Based Competition

Health Plans

Provide Health Information and Support to Patients and Physicians

1. Organize around **medical conditions**, not geography or administrative functions
2. Develop measures and assemble results **information** on providers and treatments
3. Actively **support provider** and **treatment choice** with information and unbiased counseling
4. Organize information and patient support around the **full cycle of care**
5. Provide comprehensive **disease management** and **prevention** services to all members, even healthy ones

Restructure the Health Plan-Provider Relationship

6. Shift the nature of **information sharing** with providers
7. Reward provider **excellence** and value-enhancing **innovation** for patients
8. Move to **single bills** for episodes and cycles of care, and **single prices**
9. Simplify, standardize, and eliminate **paperwork** and **transactions**

Redefine the Health Plan-Subscriber Relationship

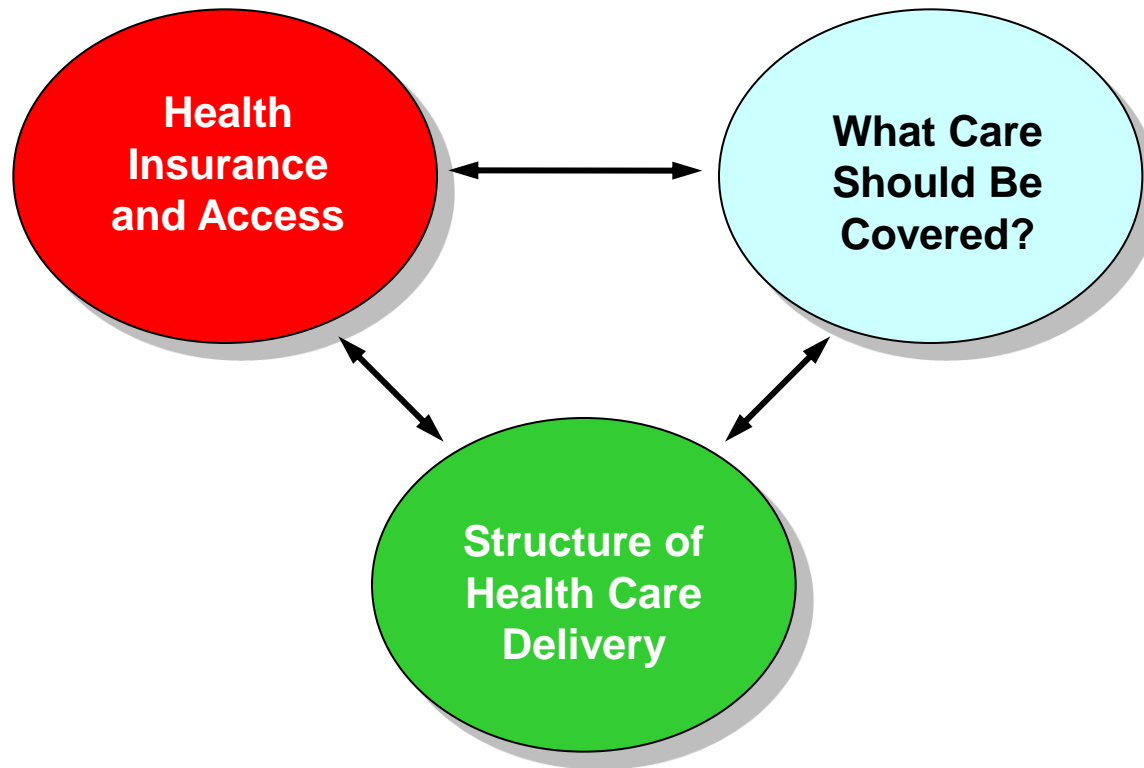
10. Move to **multi-year subscriber contracts** and shift the nature of plan contracting
11. **End cost shifting practices**, such as re-underwriting, that erode trust in health plans and breed cynicism
12. Assist in managing **members' medical records**

Moving to Value-Based Competition

Employers

- Set the goal of increasing **health value**, not minimizing health benefit costs
- Set new expectations for health plans, including **self-insured** plans
- Provide for health plan **continuity** for employees, rather than plan churning
- Enhance provider competition on **results**
- Support employees in **making health choices** and **managing their health**
- Find ways to **expand insurance coverage** and advocate reform of the insurance system
- Measure and hold benefits staff accountable for the company's **health value received**

Issues in Health Care Reform



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.

What Government Can Do: Policies to Improve Health Insurance, Access, and Coverage

BACK-UP

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

BACK-UP

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)

BACK-UP

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**