

Creating a High-Value Health Care System

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This presentation draws on Michael E. Porter and Elizabeth Olmsted Teisberg: [Redefining Health Care: Creating Value-Based Competition on Results](#), Harvard Business School Press, May 2006, and "How Physicians Can Change the Future of Health Care," *Journal of the American Medical Association*, 2007; 297:1103:1111. 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. Further information about these ideas, as well as case studies, can be found on the website of the Institute for Strategy & Competitiveness at <http://www.isc.hbs.edu>.

The Paradox of U.S. Health Care

The United States has a **private system** with **intense competition**

But

- Costs are **high** and **rising**
- Services are **restricted** and often **fall well short** of recommended care
- In other services, there is **overuse** of care
- Many patients receive therapies that **fail**
- 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?

What should it mean to COMPETE?

Sports and war are the wrong models.

Healthy competition is about INCREASING VALUE.

**This means improving results (outcomes and costs),
not shifting costs or winning at someone else's expense.**

**Improving results for patients *increases value*
rather than dividing value.**

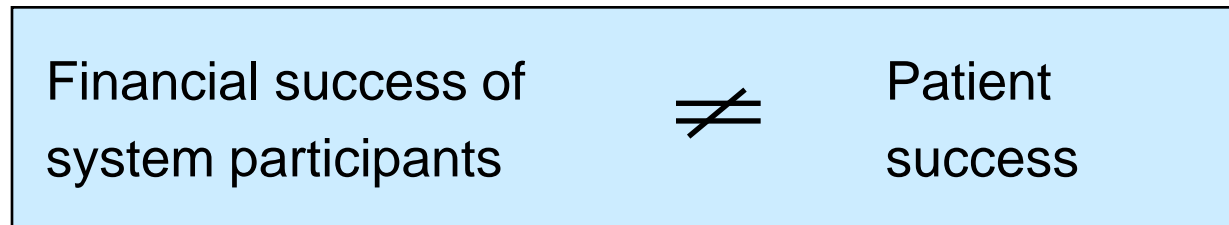
This is a win-win proposition.

Improving value is appropriate no matter who pays.

(Consider anesthesia improvements.)

Creating a Value-Based Health Care System

- Today's competition in health care **is not about value.**
- The **fundamental** problem is not just skewed incentives, but dysfunctional competition over the wrong things.

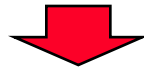


- So, **just changing who pays can't solve the problem.**
(Neither a single payer nor a consumer-directed system address the root problems; nor does merging payers and providers.)
- **Administrative control won't fix the problems**
(P4P, EMB & managed care morphed to administrative control)
- We need to **restructure to create a high-value health care system.**

Redefining Health Care

- The core issue in health care is the **value of health care delivered**

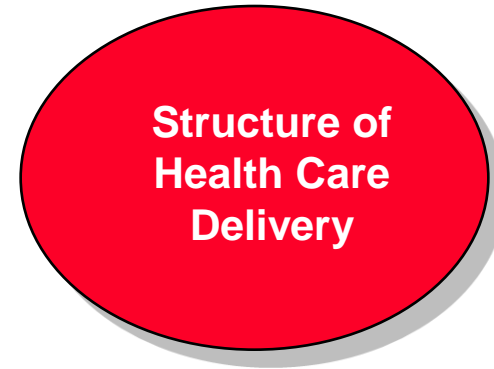
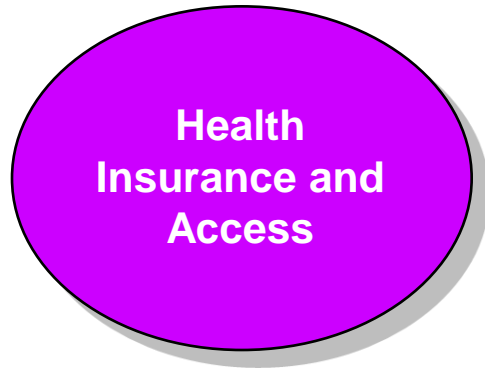
Value: Health outcomes relative to the cost of achieving them.



- How to design health care systems that **dramatically improve value**
- How to create a **dynamic system** that keeps rapidly improving **health** ... and **care**

Universal coverage IS essential for equity and efficiency.

And, it is not enough.



**The key to success is improving the heart of the system:
delivery of care and enabling of health.**

When value increases significantly, it is possible to deliver far better health outcomes for the money spent. This enables more access and more coverage.

No matter who pays for health care, **increasing value is the critical issue.**

Dramatic and ongoing improvements in value require:

1. Patient-Centered Care

- Define the goal as increasing **value** for patients.
- Value is created in the **prevention & treatment** of **medical conditions.**

2. Restructuring Care Cycles

- Redesign delivery around **full care cycles** for **medical conditions.**
- Measure outcomes at this level to motivate significant change.

3. Results-Driven Improvement

- Measure results at the level at which value is created for patients.
- *Drive learning!*
- Competition to improve results is positive-sum.
Today's competition is mostly dysfunctional.

A “medical condition” is a set of interrelated medical circumstances that are best cared for in an integrated way.

**(So, diabetes with hypertension IS a medical condition.
Multiple chronic diseases may be one medical condition.
Heart surgery is a procedure, NOT a condition.)**

1. Define the goal as increasing value for patients, not just lowering costs.

The health care system must be about improving health and care.

If cost reduction were the goal, pain killers and compassion would be all we need.

Zero-Sum Competition in U.S. Health Care

Bad Competition

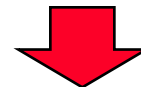
- Competition to **shift costs** or **capture a bigger share of revenue**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to **restrict services** in order to maximize revenue per visit or reduce costs



Zero or Negative Sum

Good Competition

- Competition to **increase value for patients**



Positive Sum

Competition on results is a different mindset.

Value:
$$\frac{\text{Patient health outcomes over the full care cycle}}{\text{Total cost of achieving those outcomes}}$$

- Competition on results vs. supply control or administrative control
- Reward results vs. process compliance
- Get patients to excellent providers vs. “lift all boats” or “pay for performance”
- Expand the number of excellent teams and the proportion of patients cared for by highly effective teams vs. create a second tier
- Grow the excellent teams by reallocating capacity and expanding across locations vs. local mindset

The dynamic of high value health care is **results-driven, patient-centric, and physician-led.**

- Diabetes outcome measures in Minnesota
- Cystic Fibrosis outcomes comparisons
- Swedish competition on measures
- Pediatric oncology improvements

Responsibility for health IS important. Health is co-produced.

But “*consumer driven*” often means shifting costs.

And consumer attention will not fix today’s dysfunctional structure.

**Outcomes and efficiency
often improve simultaneously.**

“health care is different”

The goal is better health, not more treatment.

**And better health is
inherently less expensive
than poor health.**

The best way to contain costs is to drive improvement in quality.

Enabling better health is more efficient in many ways:

- Prevention
- Early detection
- Right diagnosis
- Early treatment
- Right treatment to the right patients
- Treatment earlier in the causal chain of disease
- Fewer mistakes and repeats in treatment
- Fewer delays in the care process
- Less invasive treatment methods
- Faster recovery
- More complete recovery
- Less disability
- Fewer relapses or acute episodes
- Slower disease progression
- Less need for long term care

Plus, much delivered care is behind best practices for effective care.

Process improvement, “waste reduction,” and safety improvements can drive large gains, but streamlining a fragmented system has inherent limits.

Incremental change is not sufficient.

2. Reorganize delivery around **medical conditions** over the **full cycle of care.**

A medical condition is a set of interrelated medical circumstances that are best treated in an integrated way.

Includes the common co-occurrences:

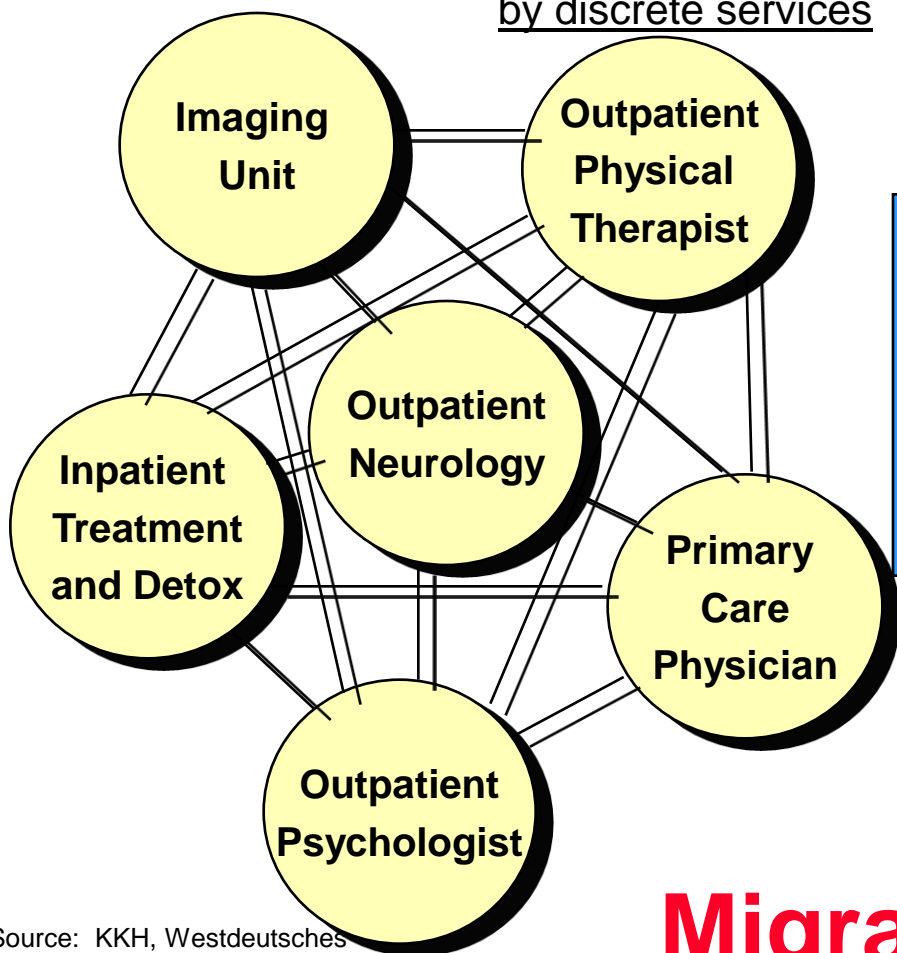
Four commonly co-occurring chronic diseases ARE a medical condition.

“What is the needed set of skills?” vs. “That’s a different specialty”

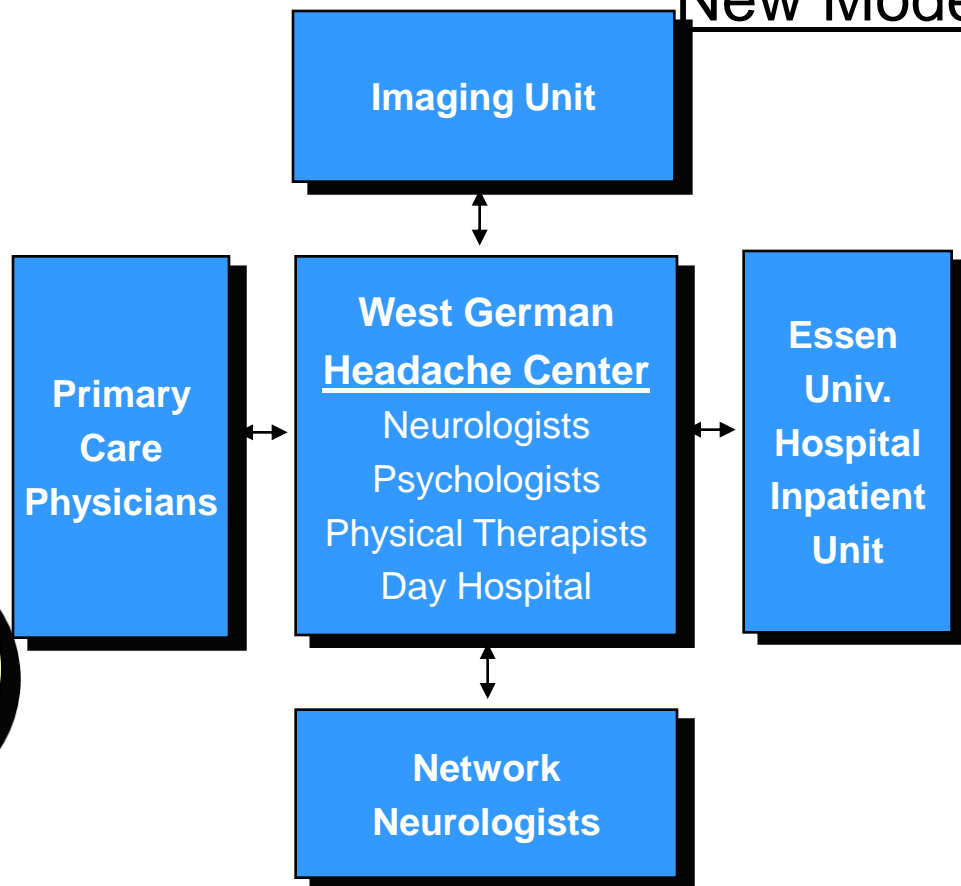
Organize around the services patients need for these co-occurrences.

Patient value needs to be the beacon of inspiration for organizational innovation

Old Model: organized by specialty and by discrete services



New Model



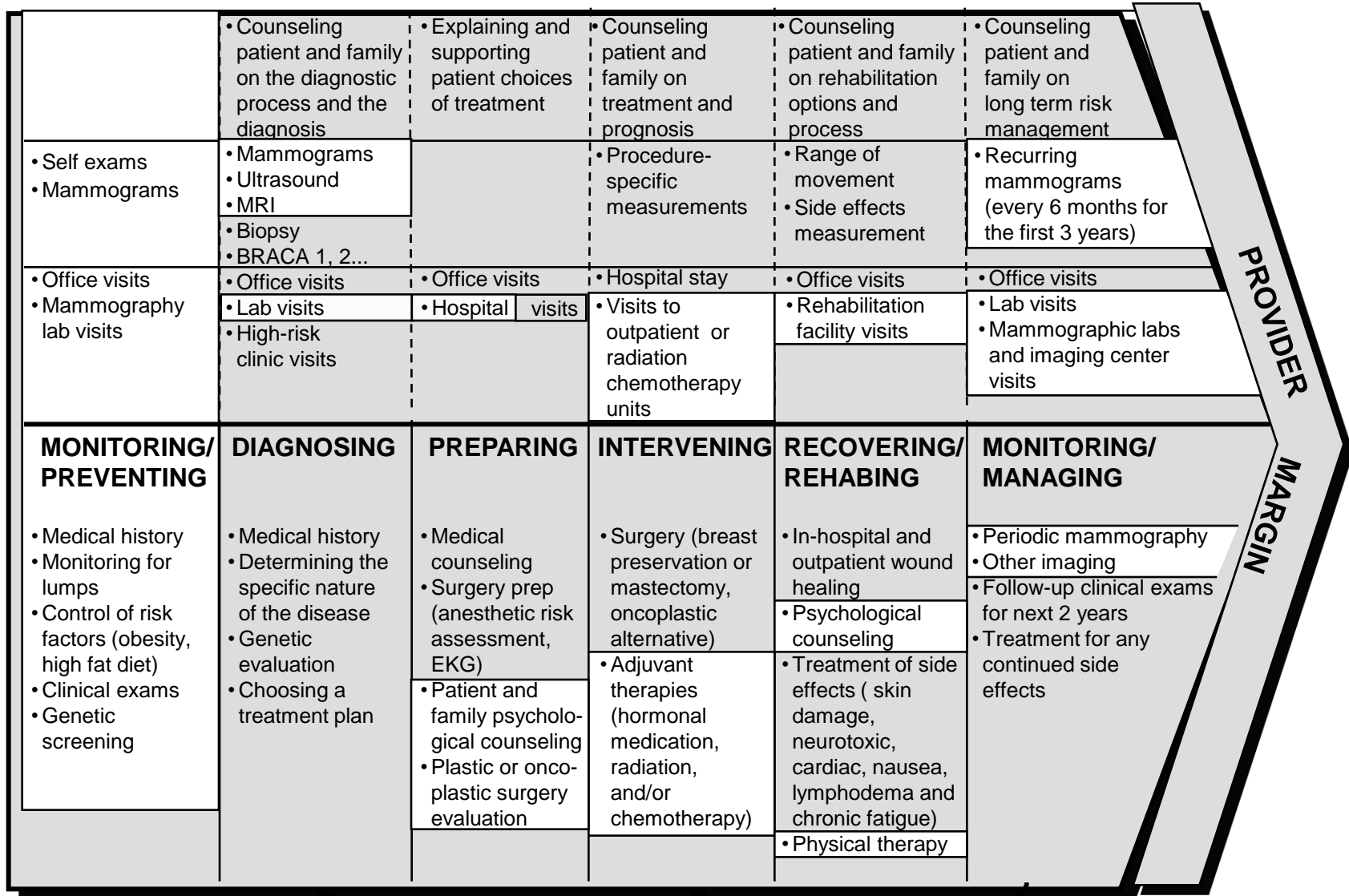
Migraine Care in Germany

Integrated Practice Units simplify coordination

Source: KKH, Westdeutsches Kopfschmerzzentrum

Currently, most care is delivered with fragmented processes.

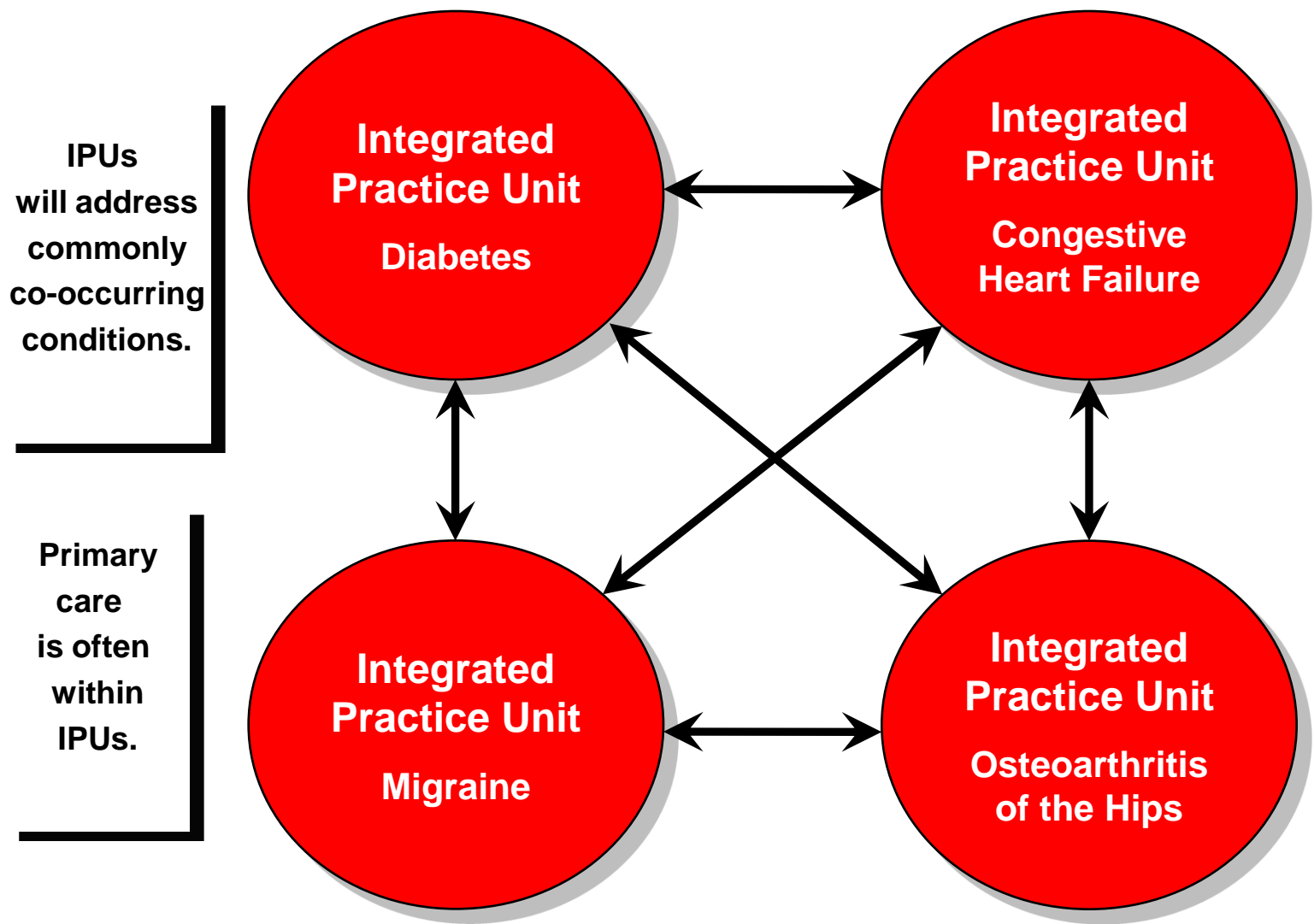
Breast Cancer Care Delivery Value Chain



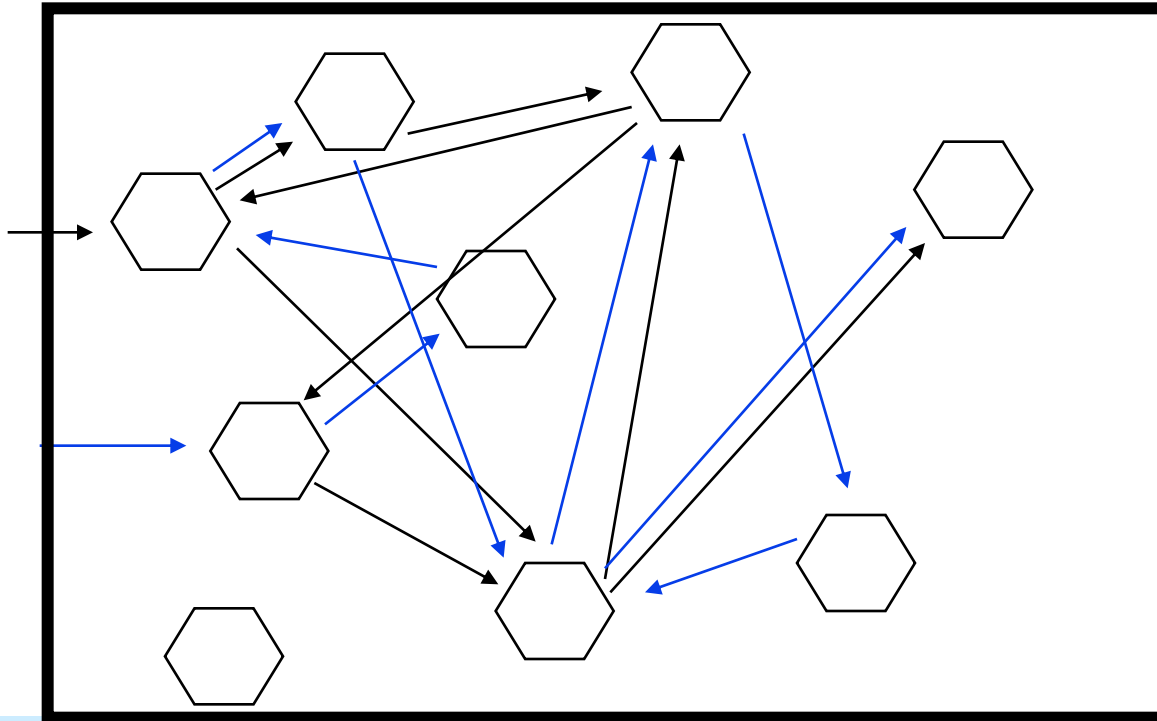
	Breast Cancer Specialist
	Other Provider Entities

Today, EVERY patient requires special effort to coordinate care.

Integrated Practice Units create **service lines and teams, making most coordination normal, whereas organization by specialty makes even common coordination a special event.**



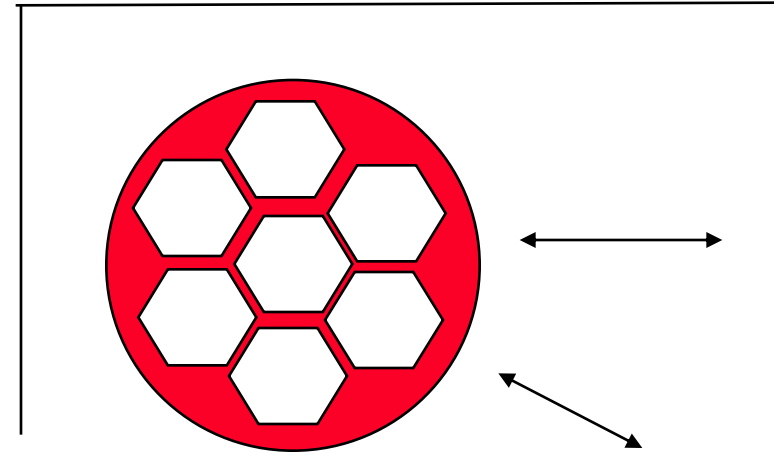
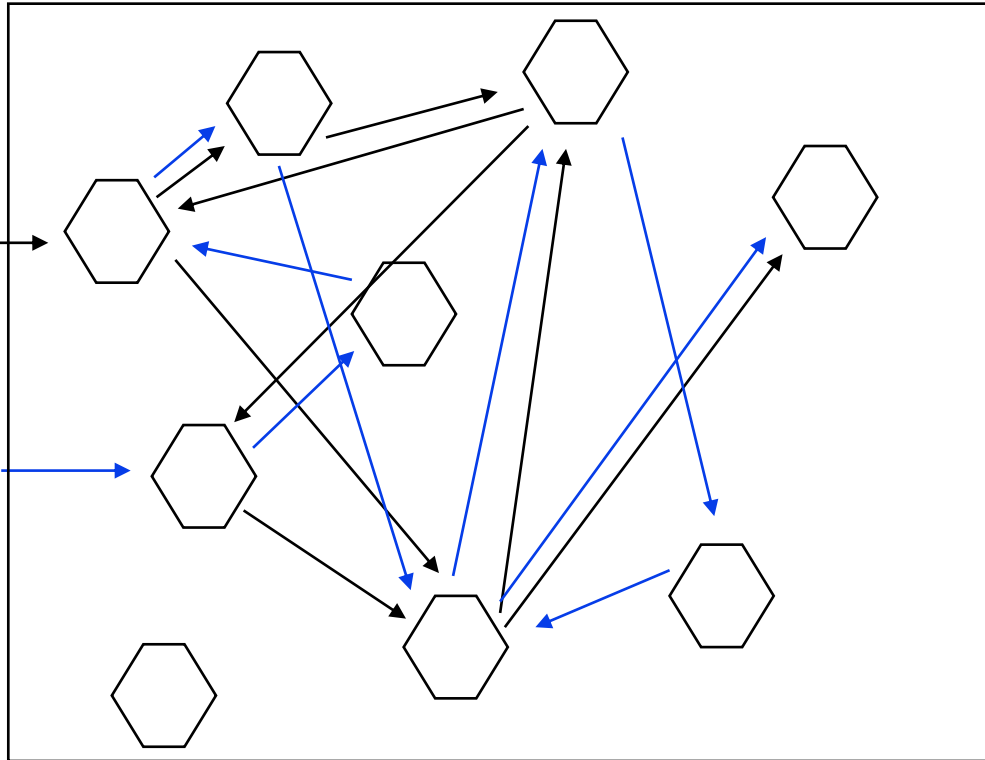
Today, most “integrated” care is not a team, but a collection of fragmented services.



The care differs, the judgments on which it is based differs, the outcomes differ... and the clinicians never really know the team’s results, or to what they should compare. They work hard, care a lot, and assume they’ve done very well.

But data show...most have not done “very well.”

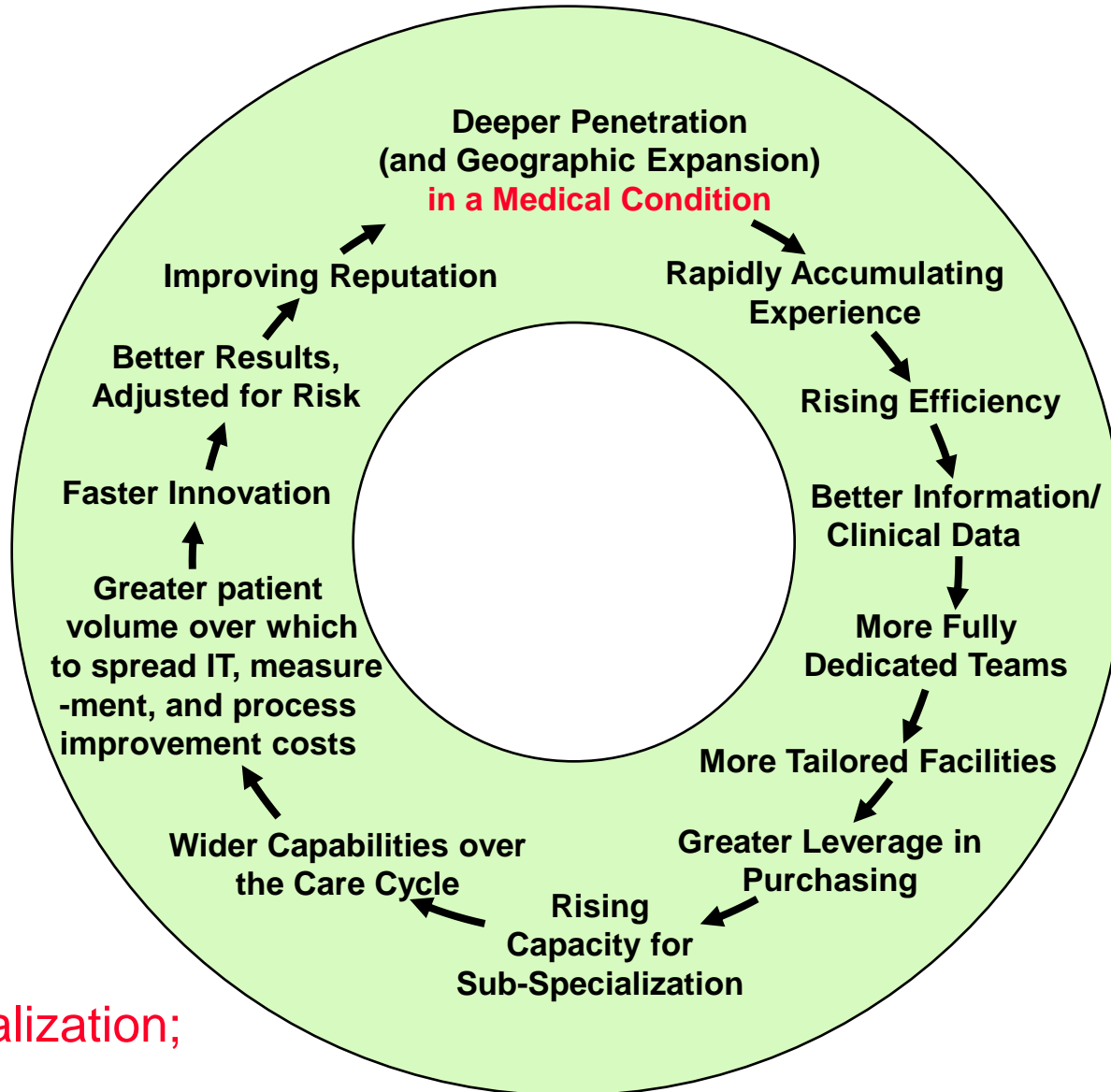
The delivery “system” doesn’t have identified teams working explicitly to improve results over the care cycle. Clinicians are identified by medical specialty, not by patient-centered teams. Linkages and communications are reinvented over and over.



An integrated practice unit has self-conscious results improvement efforts in multi-specialty teams. The team meets regularly to discuss care and outcomes. It learns together. And it links to other IPUs as needed. We don’t describe IPUs as “freestanding.”

The Virtuous Circle for Integrated Practice Units

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



This is not
hyper-specialization;
broad expertise develops over the care cycle.

3. Drive improvement with widely available information on results.

**Physicians need results measures to know what to improve
and when they are improving outcomes for patients.**

RESULTS are what really matter.

And results differ widely.

Patient HbA1c levels measure intermediate results.

Blindness or amputation are also results, but not good results.

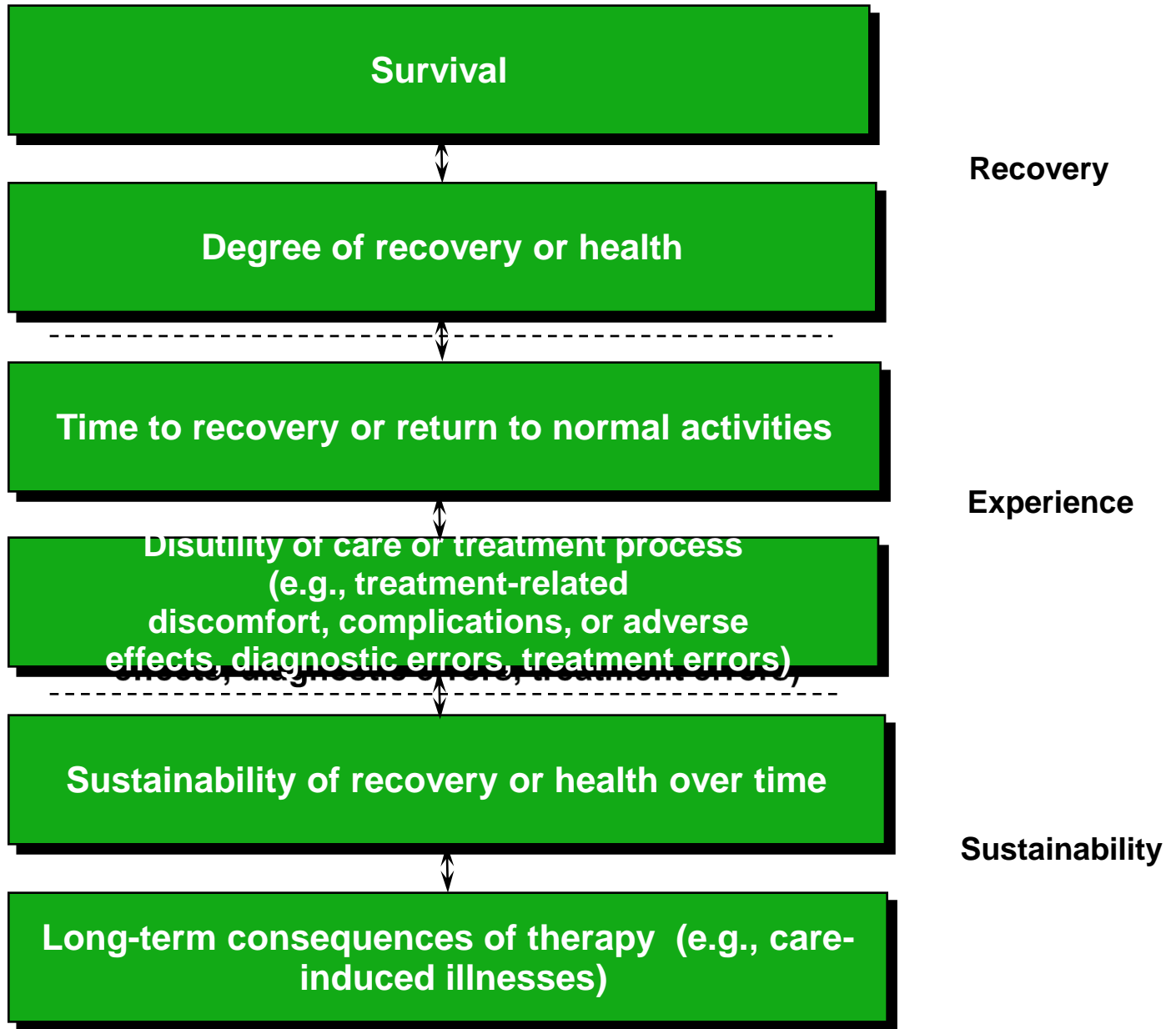
“But, patients don’t use information when it IS available!”

The point is... **doctors DO.**

- In New York, CABG surgery had a **41% reduction in mortality** in the first four years of outcome reporting.
- Comparing results for cystic fibrosis patients led to changes in care resulting in an **increase in average life expectancy from 18 years to 33 years**, and the best centers achieve life expectancy of 47 years.
- And actually, studies show that informed, involved patients do make very different choices ...for less invasive, less expensive care with more personal care responsibility.

Measuring Results

Multiple Outcome Measures



Measuring Results

Principles

- Measure **outcomes** versus processes of care
- Outcome measurement should take place:
 - At the **medical condition** level
 - Over the **cycle of care**
- There are **multiple outcomes** for every medical condition
- Outcomes must be **adjusted for risk**
- Outcomes are critical for **physicians** and important for consumers and health plans



- The feasibility of universal outcome measurement at the medical condition level has been **conclusively demonstrated.**
- **And using measures is the fastest way to ensure improvement -- not just in results, but in the measures themselves.**

Measuring Breast Cancer Outcomes

Survival

- **Survival rate**
(One year, three year, five year, longer)

Degree of recovery / health

- **Remission**
- **Functional status**
- **Breast conservation surgery outcome**

Time to recovery or return to normal activities

- **Time to remission**
- **Time to achieve functional status**

**Disutility of care or treatment process
(e.g., treatment-related discomfort, complications, adverse effects, diagnostic errors, treatment errors)**

- **Nosocomial infection**
- **Nausea**
- **Vomiting**
- **Febrile neutropenia**
- **Limitation of motion**
- **Depression**

Sustainability of recovery or health over time

- **Cancer recurrence**
- **Sustainability of functional status**

Long-term consequences of therapy (e.g., care-induced illnesses)

- **Incidence of secondary cancers**
- **Brachial plexopathy**
- **Premature osteoporosis**

How Will Redefining Health Care Begin?

Each system participant can take **voluntary** steps in these directions, and will **benefit** irrespective of other changes. *Altruism is not required!*

The changes are **mutually reinforcing**.

Once competition begins working, value improvement will **no longer be discretionary** or **optional**. *Moving early has major benefits.*

II. Moving to a High Value System: Implications for Investment

Implications for investment

- **Value-based competition creates a template** for assessing innovation: the principles provide insight that can be used in evaluation.
- **Results can and should be measured** – at the level at which value is created: by medical condition over the cycle of care.
(You would expect no less in any other sector. Don't accept excuses.)
- **A variety of transition paths are possible:** look for organizations driving measured improvement at the medical condition level and reorganizing around the patient perspective of co-occurring medical circumstances.
- The best **outcomes measurement will be designed to enable improvement and learning**, not as report cards. Measurement for teams is appropriate.
- **The definition of primary care will evolve**, as the full cycle of care is coordinated, so the services and products of most value for primary care will change.
- **Encourage new contracting models** with health plans based on care cycle delivery structures and teams. Gain sharing and joint accountability will accelerate ongoing improvement.

Implications for investment

- Models that work well will **not be constrained by location**.
(Being the best locally will not be good enough if that is substandard.)
(Several models of geographic expansion are now succeeding.)
- **Suppliers** can work to improve care cycles and embed their products in more effective care cycles. Participating in results measurement and longer term studies will be critical.
- **Consumers cannot fix today's dysfunctional competition.**
Products or services to create a “consumer-driven” system are not enough. The goal is improved health care value, not consumer control.
- **P4P is becoming administratively controlled care** (this happened with managed care and with some evidence based medicine). Process compliance and measuring inputs (rather than outputs) won't work.
- **Look for measurable value from telemedicine.** Services should demonstrate the ability to improve results and streamline care delivery (error reduction, more accurate diagnoses, improved outcomes with fewer clinic visits, home managed care...)
- **Information technology is an enabler of restructuring care delivery and measuring results**, not a solution itself.
- Early movers will have significant advantages.

III. Moving to Value Based Competition

Roles in creating a high value health care system

Moving to Value-Based Competition

Implications for Providers

- Organize around **integrated practice units** (IPUs) for each medical condition
- Choose the appropriate **scope of services** in each facility based on excellence in **patient value**
- **Integrate services** for each medical condition **across geographic locations**
- Employ formal **partnerships** and **alliances** with other entities involved in the care cycle to integrate care and improve capabilities
- Measure **results** by medical condition
- Expand high-performance IPUs **across geography** using an integrated model
 - Instead of merging broad line, stand-alone facilities
- Lead the development of **new contracting models** with health plans based on care cycle delivery structures and bundled reimbursement

Moving to a High-Value Health Care System: Roles and Responsibilities

Consumers

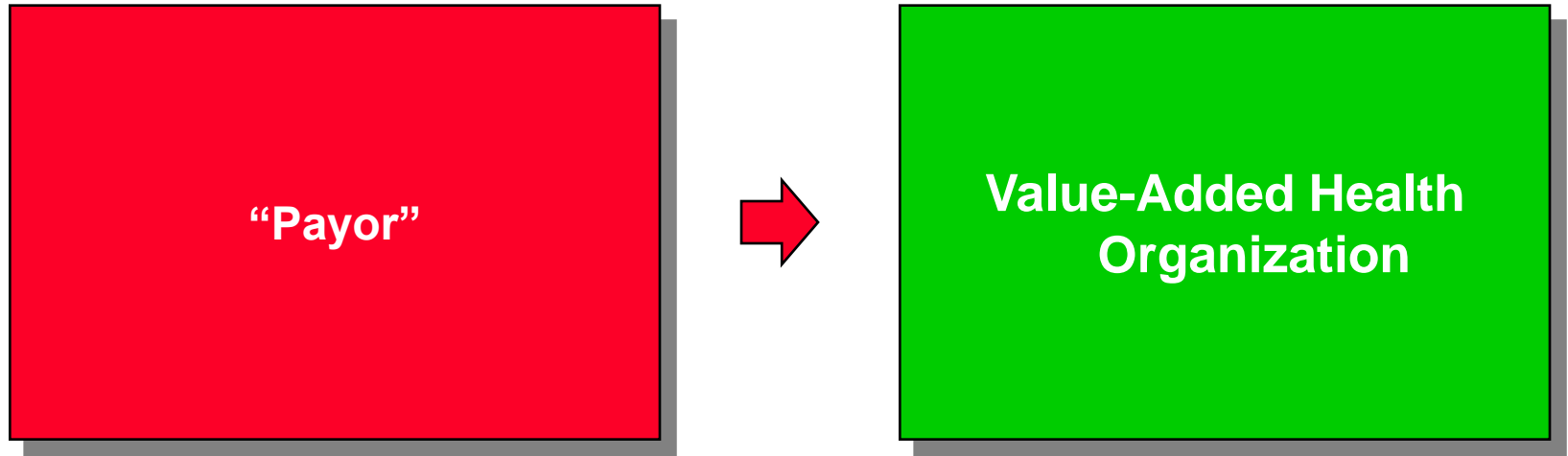
- Participate actively in **managing personal health**
- Expect **relevant information** and seek advice
- Make treatment and provider **choices** based on **outcomes**, not convenience, waiting time, or amenities
- **Comply** with care
- Develop a **long-term relationship** with a health plan



- But “consumer-driven health care” is the **wrong metaphor** for reforming the system

Moving to Value-Based Competition

Health Plans



Moving to Value-Based Competition

Value-Adding Roles of Health Plans

- Measure and report **health results** by medical condition for members



- Monitor and compare **provider results** by medical condition
- Provide advice to patients (and referring physicians) in selecting **excellent providers**
- Ensure coordinated care for members across the **full care cycle** for their **medical conditions**
- Provide for comprehensive **prevention**, **screening** and **chronic disease management** for all members
- Design new reimbursement models **for care cycles**
- Assemble and manage the **total medical records** of members

Transforming the Roles of Employers

Old Role

- Set the goal of **reducing health premium costs**
- Focus on **direct cost** of health benefits
- Use bargaining power to negotiate **discounts** from health plans and providers
- **Shift costs to employees** via premium payments, co-payments
- Evaluate plans and providers based on **process compliance** (P4P)
- **Limit or eliminate the employer role** in health insurance

New Role

- Set the goal of **employee health**
- Focus on the **overall cost of poor health** (e.g., productivity, lost days)
- Work with health plans and providers to improve overall **value** delivered
- Improve access to **high-value care** (e.g., wellness, prevention, screening, and disease management)
- Evaluate plans and providers based on **health outcomes**
- Take a leadership role in **expanding the insurance system** to encompass individually purchased plans on favorable terms

Creating a High-Value Health Care System: Roles and Responsibilities

Employers

- Set the goal of **employee health**, not minimizing costs
 - Two-thirds of employer health care cost is estimated to be due to the indirect costs of poor health
- Unify employee health benefits and workers' compensation into a **single integrated agenda**
- Assist employees in **healthy living** and encourage **active participation in their health care**
 - E.g., low or zero co-payments for chronic disease drugs and supplies
 - Health premium credits for participation in wellness programs and healthy behaviors
 - Healthy food choices in cafeterias
 - On-site or subsidized membership in exercise facilities
 - Smoke-free work environment along with free smoking cessation programs
 - Cultural change, not just programmatic change

Creating a High-Value Health Care System: Roles and Responsibilities

Employers, cont'd.

- Provide for convenient access to **prevention, screening, primary care**, and **disease management** services
 - On-site health clinics
 - Partnerships with local care delivery organizations
- Provide for **health plan continuity** for employees, rather than plan churning
- Select plans based on **health excellence** in their geographic areas, not administrative simplicity or national coverage

Creating a High-Value Health Care System: Roles and Responsibilities

Employers, cont'd.

- Set **new expectations for health plans** by aligning plan design and execution with value-based principles
 - **Measure health outcomes** of members
 - Assist members in identifying and **accessing excellent providers** for their medical conditions
 - Make **prevention, screening, and disease management** integral to health benefits
 - Contract for **integrated care cycles** for medical conditions rather than discrete services
 - Expect reimbursement models that **reward providers for improving value**
 - Eliminate **billing of employees** except for co-pays and deductibles
- Engage **directly with providers** to reinforce a focus on value and drive innovation
 - Encourage **integrated care delivery models** and **outcomes measurement**
 - Encourage new **reimbursement structures**
 - Offset health plan **conservatism** and **mindsets**

Creating a High-Value Health Care System: Roles and Responsibilities

Employers, cont'd.

- Find ways to **expand insurance coverage** and advocate **reform of the insurance system**
 - **Tax neutrality** and **financial risk pools** to enable individually-purchased health insurance
 - Make health insurance **mandatory** for all citizens
 - Increasing the proportion of insured lowers the costs for all
 - Leveling the playing field across employers enhances competitiveness
- Measure and hold internal employee benefit staff accountable for the company's **health value received**

Creating a High Value Health Care System

Suppliers

- Compete on value over the full cycle of care
 - Superior patient results per dollar expended for a defined set of patients
 - Value over the **cycle of care** rather than a discrete treatment
- Become actively involved in outcomes measurement over the cycle of care
- Demonstrate value based on careful study of long term costs and results
- Ensure that the products are used by the right patients
- Ensure that drugs/devices are embedded in the right care delivery processes
- Create forums for sharing learning about care delivery improvements

Creating a High Value Health Care System

Suppliers, cont'd

- Build marketing campaigns based on value, information, and customer support
 - Improve value by providing **continuing information** that supports consumers, providers, health plans, and employers
- Offer services that contribute to value rather than reinforce cost shifting

Moving to Value-Based Competition

Government

- Measure and report health **results**
- Create IT standard **data definitions** and **interoperability standards** to enable the collection and exchange of medical information for every patient
- Reform laws and regulations to enable the **restructuring of health care delivery** around the integrated care of medical conditions
- Shift reimbursement to **bundled prices for cycles of care** instead of payments for discrete treatments or services
- Eliminate cross-subsidies in Medicare reimbursement rates that fragment care delivery
- End **provider price discrimination** across patients based on group membership
- **Open up competition** among providers and across geography

Moving to Value-Based Competition

Government, cont'd.

- Require health plans to measure and report **health outcomes** for members
- Encourage the **responsibility of individuals** for their health and their health care
- Enable **universal insurance** consistent with value-based principles
 - Create **neutrality** between employer-provided and individually-purchased health insurance
 - Establish **risk pooling adjustment vehicles** that eliminate incentives for cherry picking healthier patients
 - Move towards an **individual mandate** to purchase health insurance
 - All health insurance plans should include **screening and preventive care** in addition to **disease management** for chronic conditions