

An Information Prescription For Health Care's Cognitive-Disorder Problems

by Tom Miller

Redefining Health Care: Creating Value-based Competition on Results

by Michael E. Porter and Elizabeth Olmsted Teisberg
(Boston: Harvard Business School Press, 2006), 506 pp., \$35

Competition is the problem in the U.S. health care system. But it's also the solution, insist business strategists Michael Porter and Elizabeth Teisberg. Their weighty tome, *Redefining Health Care*, exhaustively fleshes out an earlier case for redirecting health care competition to focus on value for patients, at the level of medical conditions, over entire cycles of care.¹ Perhaps not surprisingly, the two business school professors find that the structure and strategy for health care competition need to be fixed, and the primary problems involve management and organization, not technology or regulation. The authors' basic thesis should be no surprise to current and aspiring MBAs, or even casual skimmers of pop-business-strategy books: It makes more sense to set goals and measure results than to specify methods and try to enforce them.

Once you understand the book's basic definitions and mantras and then apply some common sense from the rest of the real world, you, too, might pose as an "instapundit of health care strategy." Value represents the desired combination of health outcome per dollar of cost expended. It should ultimately reflect the preferences of customers (patients), and it is best measured at the level of medical conditions over the full cycle of care (rather than for discrete medical care interventions).

The core strength of this book is that it provides an overarching guidepost and vision to direct the otherwise fragmented players and components of the overall health care system. The key to improving results might involve more information; it certainly will require better information. Porter and Teisberg make a persuasive case in this regard, but their wide-ranging exploration of a host of strategies and techniques for improving the status quo becomes so ambitious that a clearer, practical path to near-term implementation remains hard to discern. They touch too briefly on the potential for making existing sources of health care data, in Medicare and state all-payer systems, more available and useful. They also insist on an all-inclusive, Securities and Exchange Commission (SEC)-style, centralized common pool information regime, whereas (at least for transaction price information) a futures-market model in which proprietary information assets are owned by a trading venue might produce data streams at lower prices and with greater transparency than through the SEC model.²

In any case, Porter and Teisberg propose several praiseworthy general principles that would, eventually, encourage longer time horizons for health care decision making and outcome evaluation, as well as more transparent pricing through greater bundling of services—particularly for episodes of care.

The authors generally are astute in dismissing a number of facile but false "solutions" that might detract and distract from competitive approaches that improve health care's value proposition. "Fortunately, government is not the key to reform," they assert, because necessary reform will come largely from within the

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health care system's participants. The primary objective of government policy should involve ensuring that high-quality information on provider outcomes and prices for medical conditions is collected and disseminated. Single-payer systems fall short in offering real efficiencies and only increase the payer's bargaining power to shift costs without adding (if not subtracting) value, note Porter and Teisberg.

They also remain skeptical of other proposed solutions within the private sector. Integrated health plan/provider systems do not deserve preferential treatment, they say, because they tend to eliminate competition at the provider level while limiting it at the health plan level.³ They also assert that simply automating current modes of practice through information technology (IT) tools will yield limited benefits. And pay-for-performance (P4P) experiments have focused too much on process compliance and performing discrete medical interventions, instead of competition for high-value outcomes. Most P4P initiatives run the danger of devolving into micromanagement of providers, they warn.

If only Porter and Teisberg had heeded some of their own advice, stepped back from expounding a bit too pompously on elaborate competitive redesign of various sectors of the health care system, returned to their core competence, and downsized this book by several hundred pages. Then readers could have gained a more digestible, discernible, and actionable set of important takeaway messages. Also, their writing style can be deadening at times, as one sees the same set of phrases and message points reappearing with mind-numbing redundancy. Moreover, on numerous occasions the authors lapse into a circuitous hedging strategy, in which initially bold and unvarnished pronouncements are later modified, if not explicitly contradicted, perhaps in an effort to cover all bases for the umpteenth time. Consider the future role of insurers in their value-based system of health care competition. Porter and Teisberg begin by cataloguing a wide range of insurer misdeeds and bad practices (zero-sum cost shifting, restrictive networks, short-term discount chasing,

churning, restrictive micromanagement, re-underwriting, balance billing, and so forth). Some of them are real, but most are greatly exaggerated (particularly within the still-dominant realm of employer-sponsored insurance). It's as if they set the dials in the Wayback Machine with Sherman and Mr. Peabody for the mid-1990s and forgot to remember that they had returned to the present. Nevertheless, they later turn around and place most of their bets on those same private insurance companies as the key intermediaries, in a new and improved health care system, for assessing outcomes and costs in an objective manner, serving as independent medical experts, facilitating wider choices for insured customers, safeguarding personal health information, and nudging providers toward better medical practices in a collegial manner.

Somewhere in between, they periodically acknowledge that today's provider networks actually are quite broad and that insurers have mostly abandoned their restrictive preauthorization practices of the managed care era. The reality is that private insurers are neither demons nor angels; they are just in business to stay in business. They will eventually deliver what their paying customers want (and will pay for). But they won't get too far out in front of those customers, either, particularly given the relatively low trust levels they have "earned" from many consumers, providers, and employers in the past.

Porter and Teisberg have more of a like/dislike relationship with consumer-driven health care and health savings accounts (HSAs). They distance themselves from these newer products as oversimplified and prone to pure cost shifting, at least when they are not saying that early experience with HSAs and consumer-directed plans is promising. The authors appear to lean more heavily on insurers as facilitators for value enhancement because they cannot envision a more substantial, "active" decision-making role for the only parties who are supposed to matter in the value equation: end-user consumers. Consumers are left with a modest role, until competition in health care is perfected: Just "act responsibly," and "set

high expectations for results,” so that other actors can do their jobs well.

Employers are also largely left in a secondary role on the sidelines of redefined competition. Porter and Teisberg spend too much time unfairly criticizing them for increasingly free riding, cost shifting, chasing after illusory short-term network discounts, or purportedly all but starving the health system of the revenue it needs. They fail to make a coherent case for how employers can become more assertive purchasers of high-value health care (not just health insurance) if they must largely defer to the assumed medical expertise of insurers.

The authors also fail to wrestle realistically with the inherent limits of the current system’s near-term capacity and capabilities. Encouraging most providers to get somewhat better, but not become the best, might have to be good enough for now. It will take much stronger demand-side pressure to deliver less uncreative retention of supply-side incumbents and more “disruptive innovation,” if not creative destruction.

The authors seem to go overboard in railing repeatedly against the evils of price discrimination and cost shifting. A more informed review of the checkered history of Robinson-Patman Act enforcement would be useful, as well as a greater appreciation of how imposing a rule of uniform pricing for all purchasers (“everyday high prices?”) might lead to government price regulation, at worst (see Maryland), or a brittle chilling of information signals from the demand side, at best.

Most of the authors’ final recommendations for changes in government policy, beyond the realm of health information development, either aim cannons at phantom menaces or recycle the conventional catechism about the necessity of universal coverage. They detract from what should have been an important message: We need to know what works and then reward most those who deliver it best. Or, as Porter and Teisberg write midway through the book, “Information initiatives need to start with simple steps rather than *grand* initiatives” (emphasis added). That’s a generic prescription that needs refilling.

NOTES

1. M.E. Porter and E.O. Teisberg, “Redefining Competition in Health Care,” *Harvard Business Review* 82, no. 6 (2004): 65–76.
2. See S. Brown-Hruska, “Competing Models for Market Data Dissemination: A Comparison of Stock and Futures Markets,” 20 June 2002, http://www.mercatus.org/publications/pubid.1219/pub_detail.asp (accessed 6 July 2006).
3. “They appeal to those who believe that top-down control and oversight of providers is the only hope,” write Porter and Teisberg as an indirect response to some critics of their strategy. See, for example, A.C. Enthoven and L.A. Tollen, “Competition in Health Care: It Takes Systems to Pursue Quality and Efficiency,” *Health Affairs* 24 (2005): w420–w433 (published online 7 September 2005; 10.1377/hlthaff.w5.420).

Books Received

Cities and the Health of the Public, edited by Nicholas Freudenberg, Sandro Galea, and David Vlahov (Nashville, Tenn.: Vanderbilt University Press, 2006), 364 pp., \$79.95 (cloth), \$34.95 (paper).

Growing Older in World Cities, edited by Victor G. Rodwin and Michael K. Gusmano (Nashville, Tenn.: Vanderbilt University Press, 2006), 416 pp., \$79.95 (cloth), \$39.95 (paper).

Hard Science, Hard Choices: Facts, Ethics, and Policies Guiding Brain Science Today, by Sandra Ackerman (Washington: Dana Press, 2006), 152 pp., \$12.95.

Medicare: A Policy Primer, by Marilyn Moon (Washington: Urban Institute Press, 2006), 232 pp., \$26.50.

The Troubled Dream of Genetic Medicine: Ethnicity and Innovation in Tay-Sachs, Cystic Fibrosis, and Sickle Cell Disease, by Keith Wailoo and Stephen Pemberton (Baltimore: Johns Hopkins University Press, 2006), 249 pp., \$60 (cloth), \$21.95 (paper).

Trust Is Not Enough: Bringing Human Rights to Medicine, by David J. Rothman and Sheila M. Rothman (New York: New York Review Books, 2006), 213 pp., \$24.95.

Unplugged: Reclaiming Our Right to Die in America, by William H. Colby (New York: American Management Association, 2006), 272 pp., \$24.95.