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Event Summary

# The State of Adoption in Value-Based Health Care

**2015**

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# THE STATE OF ADOPTION IN VALUE-BASED HEALTH CARE

## FEATURING

Michael E. Porter, Bishop William Lawrence University Professor,  
Harvard Business School

Omar Ishrak, Chairman and Chief Executive Officer, Medtronic

## MODERATED BY

Adi Ignatius, Editor in Chief, *Harvard Business Review*

## OVERVIEW

Health care is undergoing a fundamental transformation, moving from a supply-driven system organized around physicians to a patient-driven system where establishing value is the overarching goal.

Traditionally, the interests of the stakeholders within the health care system have not been aligned, resulting in fragmented, suboptimal patient care undermined by burgeoning costs and a lack of focus on outcomes. Despite the hard work and good intentions of well-trained clinicians, health care systems around the world are struggling.

In the face of these challenges, health care systems are making a proactive move to a more unified framework: value-based health care delivery. In this framework, value, a patient-centric metric, is defined as patient health outcomes per dollar spent. This ideological shift means moving from a long-established system that rewards volume of visits, hospitalizations, procedures, and tests to a system that focuses on improving patient outcomes while lowering costs. Value, versus cost-shifting or restricting services, is a solution that can unite the interests of all system participants—and improve care.

This change is not without its challenges; it demands a reengineering of the way care is delivered. Within this new framework, integrated, multidisciplinary teams must focus on specific medical conditions. Outcomes and costs must be measured throughout the total cycle of care. Additionally, there must be a major change in the reimbursement model to align the incentives of all stakeholders.

“The history of health care has been littered with ‘silver bullets’ that didn’t make an impact.”  
—Michael Porter

The question is no longer whether health care will change, but how fast this transformation will occur and how organizations will create the best outcomes for patients and the overall system.

In a recent symposium on the state of adoption in value-based health care, Harvard Business School professor Michael Porter and Medtronic Chairman and CEO Omar Ishrak shared their views on the challenges to and best practices for establishing a value-based health care system. The symposium was part of *Harvard Business Review*’s ongoing examination of value-based health care in collaboration with the *New England Journal of Medicine*. The original articles and insights developed through the collaboration are sponsored by Medtronic.

#### KEY LEARNINGS

### THE TRUE REFORM OF HEALTH CARE

The history of health care reform has featured a succession of narrow solutions, many of which were imposed on provider organizations by external stakeholders. These have included programs emphasizing primary care, initiatives focused on reducing medical errors, and technological innovations such as electronic medical records. Few of these ideas tackled the underlying strategic and structural problems that work against value for patients. The proposals failed to change how clinical teams are organized or how care is delivered. More importantly, these silver bullets did not change how success is measured, how providers measure costs, or how health care practitioners get paid.

A strategic transformation of health care, then, should be rooted in the goal of delivering value above other concerns. According to Porter, value is defined as health outcomes that matter to patients over the cost of delivering those outcomes.

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

The relevant unit of analysis must be the value delivered to a patient over the full cycle of care for a particular medical condition, such as diabetes or breast cancer, Porter said. Historically, health care has been organized into distinctly separate sites within the hospital and health care system. This narrow focus on specific sites, departments, or specialties is inconsistent with what is needed to properly measure value. Measuring value requires analyzing outcomes and costs holistically, from end to end, over an entire cycle of care.

“We’ve got to think of value as the central goal, and that’s been a real challenge for some health care organizations that have been focused on revenue or operating margin or some other objective.”

—Michael Porter

## **STRATEGIC TRANSFORMATION OF HEALTH CARE DELIVERY**

In a co-authored article in the October 2013 issue of the *Harvard Business Review* (“The Strategy That Will Fix Health Care”), Porter outlined a six-part strategic framework for creating a value-based health care delivery system. The six elements identify what must be done to transform and dramatically improve the value of health care delivery.

### **CREATING A VALUE-BASED HEALTH CARE DELIVERY SYSTEM: THE STRATEGIC AGENDA**

1. Reorganize care into Integrated Practice Units (IPUs) around patient medical conditions.
2. Measure outcomes and costs for every patient.
3. Move to bundled payments for care cycles.
4. Integrate care delivery systems.
5. Expand geographic reach.
6. Build and enable information technology platforms.

In the symposium, Porter focused on the first three elements of this framework.

### **Reorganize Into Integrated Practice Units**

Conventionally, care has been organized based on how services, including interventions and specialty-specific care, were supplied. This approach has resulted in fragmentation, lack of coordination, excessive costs, and uneven quality. The model of the future—Integrated Practice Units (IPUs)—organizes the delivery of care around a patient’s condition. In an IPU, a dedicated team made up of both clinical and nonclinical personnel provides the full care cycle for the patient’s condition. IPUs treat not only a disease but also the related conditions, complications, and circumstances that commonly occur along with the disease (e.g., kidney and eye complications of diabetic patients).

In an IPU, health care professionals work together as a team toward a common goal: to maximize patients’ overall outcomes in the most efficient manner. By focusing on patients with specific conditions, such multidisciplinary teams are likely to develop more robust clinical expertise, which ultimately leads to effective care processes and thus, better outcomes—the most important driver toward achieving value.

“There are a lot of opportunities for reduced costs, and I think medical technology companies can play a big role.” —Michael Porter

A care team focused on a specific condition is different from the type of team one sees in today’s health care system. Many health care organizations try to care for a wide range of conditions and problems, but then lack the sheer volume of patients necessary to leverage the experience and expertise needed to deliver more optimal results. IPUs create the construct to deliver better care for more patients, and thereby create opportunities to generate greater value.

### **Measure Patient Outcomes and Costs**

Too often the push for greater measurement in health care has focused on processes instead of looking at outcomes that matter to patients and their families. Patients care not only about surviving an accident or disease but also about outcomes relating to discomfort, functionality, and mobility. Patients want to know how sustainable their health condition is once they undergo a medical intervention and how the intervention will impact their quality of life and daily activities.

Similarly, patients care about the quality of their care cycle and recovery process, considering aspects such as how long it takes to see a specialist and how setbacks in the care process are addressed. These concerns have a major impact on patient care. In most instances, these outcomes are not being measured. Even worse, for many conditions, they are not even known. Measuring the full set of outcomes that matter is indispensable to addressing patients’ needs. A growing number of providers are improving their understanding of what outcomes to measure and how to collect, analyze, and report outcomes data.

Measurement of outcomes and cost—the total cost for the full cycle of a patient’s medical condition—is one of the most powerful vehicles for lowering health care costs. Traditional accounting in health care has not facilitated an examination of the total cost for a condition or care cycle, but the technology and capability to do this is now emerging. In a value-based system, medical technology companies will have the ability to develop innovations that improve overall value and command a premium price for delivering value.

### **Move to Bundled Payments for Care Cycles**

The current fee-for-service payment system provides an incentive to providers to do more—more tests and more services without a direct tie to overall costs or outcomes. Under another model, global capitation, the system attempts to control costs by giving providers a set, risk-adjusted amount to care for a patient for an entire year. While global capitation incentivizes a provider to do less, it does not necessarily lead to better patient outcomes.

The payment approach best aligned with value is a bundled payment structure that covers the full cycle of care for acute medical conditions, the overall care for chronic conditions for a defined period, or primary and preventive care for specific patient populations, such as healthy children. Well-designed bundled payments readily support teamwork and promote high-value care. Payment

“In our view, proving value is absolutely central to continued innovation.” —Omar Ishrak

tied to overall care for a patient with a particular medical condition can be appropriately controlled by the care team. Providers benefit from improving efficiency while improving outcomes.

For example, a provider would receive a flat rate for all care related to a hip or knee replacement, not just the operation or post-operative hospital stay. Rather than totaling the prices for each service, the bundled payment aggregates the services in one payment that assumes an efficient, effective care process.

Today, if a bundled price was set appropriately, an estimated 30 to 40 percent of current providers would not make money on the care they provide because they do not have the necessary volume or expertise, or the right team personnel, to deliver optimal value-based care, Porter said. Already, some providers in the United States are moving toward bundles, with a number of pilots and experiments underway.

### **A VALUE-BASED SYSTEM REQUIRES THINKING DIFFERENTLY FOR MEDICAL TECHNOLOGY COMPANIES**

During the transformation to value-based health care, medical technology companies will need to think about their role more broadly, Medtronic CEO Ishrak said. In a well-structured delivery system, the focus will no longer be on selling a device, but rather on ensuring the device is properly used by both patients and providers in a well-structured delivery system. Medical technology companies also need to start measuring the impact of their technologies on multiple outcomes, instead of just one or two end points, which has been the case in clinical studies.

As the shift occurs, companies will work to precisely target their products to those patients for whom they will deliver the greatest value. Medical technology companies must work with patients and providers to understand value-based pricing of their products and services, Ishrak said.

For example, when a cardiac patient is hospitalized and receives a pacemaker, cost has been incurred and revenue has been generated for the device, but value—the metric of utmost concern—has yet to be provided. Value happens later, after the patient leaves the hospital and resumes his or her life. If value in this sense is not being adequately measured, then it is difficult to differentiate between competing products and their value propositions. Over time, that can have the effect of turning meaningful cardiac innovations into commodities. When products are commodities, the only variable is price.

In contrast, in a value-based world, payment will be intricately tied to demonstrated value. This heightens the importance of innovating to deliver value and of measuring value creation. Medtronic is focused on going beyond the current structure for clinical trials to measure broader value for patients, Ishrak said.

**Medtronic’s view is that creating a business model for value-based health care involves:**

- Selecting a specific disease or medical condition, including specific patient inclusion and exclusion criteria.
- Defining the relative outcomes to be measured for that disease or condition, as well as the time horizon over which these outcomes will be measured. (For example, an appropriate time horizon for a relevant outcome might be thirty days after hospitalization, or it could be two or three years.)
- Determining today’s baseline cost for delivering today’s outcomes.
- Creating business models and payment systems that align financial incentives to provide greater value.
- Continuously improving based on having new measurements, clinical care pathways, systems and tools, and data. With aligned financial incentives, stakeholders will use the new data to constantly improve.

**CASE STUDY: MEDTRONIC CATH LAB MANAGEMENT SERVICES**

Medtronic is already contributing to value-based health care delivery on a number of fronts, including management services for hospital cardiovascular suites. Through Medtronic’s Cath Lab management services, the company is

- providing hospitals with the latest medical technology and infrastructure,
- optimizing operational efficiency and clinical outcomes,
- running daily operations, and
- developing local cardiac services—including the care pathway for patients who need access to cardiac care.

Through its Cath Lab management services, Medtronic is committed to maintaining outcomes while lowering costs. In the future, the company will implement payment models tied to outcomes. Medtronic is starting to work with hospitals in Europe to focus on the set of cardiac conditions treated by Cath Labs (starting with PCI procedures for coronary artery disease) and establish baseline outcomes and costs per patient over relevant episodes of care (for example, thirty days prior to hospital admission and thirty days post-discharge). The longer the time horizon that can be considered, the greater the value that can be achieved.

Medtronic is working with health care organizations around the world to accelerate the shift to a true value-based system, and the company views its cath lab management services program as an important step on that journey.

***“We’ve got to break down barriers and build long-term, focused, collaborative relationships where our incentives are aligned, so if you win, we win; if you lose, we lose.” —Omar Ishrak***

- Consolidating volume for particular conditions. As Porter argues, a key factor in value-based care is creating adequate volume to improve processes and expertise that will, in turn, improve outcomes. This is a significant step because it requires a reengineering of the current fragmented system.

## **MEETING THE CHALLENGES OF TRANSFORMATION TO A VALUE-BASED HEALTH CARE SYSTEM**

The transformation to a value-based health care system is already underway. “I don’t think it’s a question of whether we are going to move in this direction [of value-based health care]. I think it’s a question of how and how fast,” Porter said.

In the United States, the Centers for Medicare and Medicaid Services recently announced that 90 percent of payments to providers would be tied to quality or value by 2018. The announcement is a key signal of the importance and acceleration of the transformation to value-based care.

Despite the mandate, organizations are struggling to define the appropriate outcomes to measure and gather the appropriate data. The creation of a systemic and standardized way of measuring outcomes would help organizations expedite change.

### **DISCUSSION**

During the symposium, *Harvard Business Review* editor in chief Adi Ignatius and health care leaders from the audience raised several topics for discussion. Among them:

- **A prerequisite for bundling:** controlling the team. In order for an organization to take ownership and responsibility for receiving a bundled payment, that organization must have control over the entire delivery team and care process. Currently, that is not the case in many parts of the U.S. health care system, where an abundance of private practice physicians serve as independent actors. There are work-arounds, but in general, if a provider does not control the delivery process, the provider is reluctant to take on a bundled payment plan. Conversely, providers in salaried systems are more comfortable working with bundled payment plans. The hope is that as providers increasingly compete based on value, they will increasingly utilize bundled payments to deliver value.
- **Legacy organizations or new entrants?** Small pieces of the health care system will be transformed by new entrants, but, as Porter noted: “The cold hard truth here is that the legacy organizations are going to have to transform themselves.” For some, change will be very uncomfortable.

For a legacy institution to begin the transformation process, the organization must have an understanding of value-based principles, a plan for measuring costs and outcomes, and a small team in the organization that can act as what Porter described as “a pocket of change” within the organization. It is also important to get clinicians involved early to define outcome measures as well as to help create a robust information technology platform that aggregates data to measure outcomes.

- **Health care disparities.** A concern was raised about whether moving to bundled payments takes into account providers that serve disparate groups of patients. Both Ishrak and Porter said that payments would vary based on a patient’s risk stratification.

## **CONCLUSION**

Providers that cling to today's system will face stiff challenges as organizations move to value-based health care delivery models. Maintaining current cost structures and prices in the face of greater transparency and falling reimbursement levels will be untenable. Those organizations—large and small—that can master the value-based health care agenda will be rewarded with financial viability and the only kind of reputation that should matter in health care—excellence in outcomes and pride in the value they deliver.

## PARTICIPANT BIOGRAPHIES



### **MICHAEL E. PORTER**

BISHOP WILLIAM LAWRENCE UNIVERSITY PROFESSOR  
HARVARD BUSINESS SCHOOL

Michael E. Porter is a leading authority on competitive strategy; the competitiveness and economic development of nations, states, and regions; and the application of competitive principles and strategic approaches to social needs such as health care, innovation, and corporate responsibility. Porter is generally recognized as the father of the modern strategy field, and has been identified in rankings and surveys as the world's most influential thinker on management and competitiveness. As the Bishop William Lawrence University Professor based at Harvard Business School, Porter has received the highest professional recognition that can be awarded to a Harvard faculty member.



### **ADI IGNATIUS**

EDITOR IN CHIEF | HARVARD BUSINESS REVIEW

Adi Ignatius joined HBR as editor in chief in January 2009. Previously, he was deputy managing editor for *TIME*. He was the editor of two *New York Times* best-selling books: *President Obama: The Path to the White House* and *Prisoner of the State: The Secret Diaries of Premier Zhao Ziyang*. Prior to his 2007 appointment as deputy managing editor, Ignatius served as executive editor of *TIME* starting in 2002, and from 2004 to 2007 he held the additional title of editor of *TIME* Canada. Ignatius joined *TIME* as deputy editor of *TIME* Asia in 1996 and was named editor of that edition in 2000. He also wrote frequently for *TIME*, including cover stories on Google Inc. and the 2007 Person of the Year profile of Vladimir Putin. Prior to joining *TIME*, Ignatius worked for many years at the *Wall Street Journal*, where his work was nominated for a Pulitzer Prize.

Ignatius was awarded a Zuckerman Fellowship at Columbia University's School of International and Public Affairs in 1990. He received his BA in history in 1981 from Haverford College. He is a member of the Council on Foreign Relations and the Asia Society.



### **OMAR ISHRAK**

CHAIRMAN AND CHIEF EXECUTIVE OFFICER | MEDTRONIC

Omar Ishrak has served as chairman and chief executive officer of Medtronic since June 2011. Medtronic is the world's leading medical technology company, with more than \$27 billion in annual revenue and operations reaching more than 160 countries worldwide. Medtronic offers technologies, solutions, and therapies to treat a wide range of medical conditions, including cardiac and vascular diseases; respiratory, neurological, and spinal conditions; diabetes; and more. The Medtronic mission is to alleviate pain, restore health, and extend life for millions of people around the world.

Since joining Medtronic, Ishrak has focused the company on three core strategies of therapy innovation, economic value, and globalization. These three strategies form the basis for Medtronic's efforts to partner with its customers to drive high-quality patient outcomes, expand patient access to health care, and lower costs in health care systems around the world. In 2014, Omar engineered the acquisition of Covidien, a \$10 billion global manufacturer of surgical products and supplies. The acquisition of Covidien was the largest medical technology acquisition in the history of the industry.

