

A prescription for healthcare

Professor: Get industry to compete over quality instead of shifting costs

By Robert Weisman, Boston Globe Staff, June 8, 2004

Michael E. Porter has a new problem to fix.

The Harvard Business School professor, often described as America's foremost business strategist, has never shied away from tackling intractable problems. Over the past two decades, for example, he has devoted considerable energy toward fostering economic development in American inner cities.

But his latest challenge is one that has stumped the best and brightest business theorists, politicians, and policy makers: America's dysfunctional healthcare system. And Porter is staking his reputation on a prescription that calls for a healthy dose of competition.

In a long essay in the June edition of Harvard Business Review, the 57-year-old Porter argues for redefining healthcare competition on the level of specific diseases and treatments, rather than on the level of health plans, networks, or hospital groups. "The wrong kinds of competition have made a mess of the American healthcare system," contend Porter and his coauthor, Elizabeth Olmsted Teisberg of the University of Virginia. "The right kind of competition can straighten it out."

The article is significant not only for its critique, but also because it bears the Michael Porter stamp. One of only 15 "university professors" (the highest designation for faculty members) at Harvard University, his 16 books on strategy, competitive advantage, and business clusters have made him among the most sought-after business thinkers in the world. Porter consults for corporations, regions, and even nations. He is an adviser to Governor Mitt Romney and a former instructor of President Bush. He runs his Institute for Strategy and Competitiveness from Ludcke House, his stucco neo-Georgian headquarters on Harvard Business School's campus. And his views can influence conventional wisdom in the corporate world and even in the public policy arena. But healthcare may prove to be a tough sell, even for Porter. "It may take a decade," said Dr. Toby Cosgrove, leader of the Cleveland Clinic Foundation, who applauds Porter's effort. "How fast do you think anybody can move a fifth of the US economy?"

Still, it is clear that when Michael Porter talks, people listen. "Sometimes you need a fresh look at things," said Mary R. Grealy, president of the Healthcare Leadership Council, a health policy advocacy group in Washington representing a coalition of health plans, physicians groups, hospitals, health clinics, and pharmaceutical and medical device companies. "What's different about professor Porter is that he understands other industries, and he's trying to translate some of their experiences into healthcare. He's not mired in the system."

What attracted Porter to the healthcare sector, in fact, was its standing as a competitive industry that seemed to defy the laws of competition. In properly functioning businesses, from personal computers to mobile phones, product and process improvements drive down prices and costs, quality rises, markets expand, and uncompetitive players go out of business. In healthcare, costs are forever climbing, services are restricted or rationed, many patients receive poor care, preventable medical errors persist, and there are wide discrepancies in costs and quality among providers and across geographic areas.

Porter and Teisberg have a deceptively simple diagnosis: Healthcare competition today works on the wrong level. The players -- health plans, payers, providers, and doctors -- engage in what the authors call "zero-sum competition," dividing value rather than creating it. They seek to transfer costs onto one another, limit access to care, hoard information, and stifle innovation, all to the detriment of patients.

The right kind of competition should occur at the level of preventing, identifying, and treating patients' conditions and diseases, Porter and Teisberg assert. They call for collecting and disseminating information about the outcome of medical procedures, so patients can make intelligent choices about physicians and hospitals. They also recommend transparency in billing and pricing to reduce cost shifting, discrimination, and other inefficiencies. And they propose increased specialization by healthcare providers, resulting in more centers of excellence in conditions and treatments that compete for patients.

"There's only one kind of competition that's directly connected to healthcare value," Porter maintained in an interview. "And that's the competition about who can do the best job of your prostate surgery, with the least complications and the best recovery records. That's where the competition needs to be. Yet that kind of competition has been all but eliminated in the system, in a misguided effort to save costs."

Most of the tried-and-failed healthcare reform efforts of the past decade have emphasized government playing a larger role, as it does in Canada, the United Kingdom, and other countries. By contrast, the Porter-Teisberg approach would be a largely private sector solution, with employers helping to instigate change by negotiating with health insurers and providers for quality, choice, and transparency.

Government would have a role, not as a "single payer" or an insurer of last resort, but by blocking network restrictions, hospital consolidation, and multiple hospitalization bills, and helping to set a framework for reform through its Medicare program. The role of health plans, meanwhile, would be more akin to that of coaches and advisers, helping their members navigate the system and find the best care.

Even before this month's publication of their article, which they plan to expand into a book over the next six months, Porter and Teisberg shared their two years of research and analysis with groups of healthcare industry leaders. And a few already have begun to reexamine their role as employers. Merck & Co., the pharmaceutical giant based in Whitehouse Station, N.J., has formed a senior level management committee -- headed by Raymond V. Gilmartin, the Merck chief executive -- that is working with its human resources staff to change the company's approach to purchasing healthcare for employees.

"Senior management has not really engaged the issue of healthcare as an operational issue," Gilmartin said. "They have looked at it as just a benefit, and often at how to reduce the cost of that benefit . . . It's been quite a while since we've had new thinking in the healthcare area."

Teisberg, an economist who began collaborating with Porter when she was at Harvard in the early 1990s, moved to the University of Virginia in 1996 to teach at its Darden Graduate School of Business Administration. She got interested in healthcare years ago when a family health issue gave her insight into both the good and bad aspects of the US healthcare system. Speaking of herself and Porter, she said, "Neither one of us has come at this as a healthcare expert. We're out there talking to people because we care about this. It matters."

Porter and Teisberg both anticipate pushback from the parties invested in the current system. Employers and insurers may continue to focus on cost-cutting as a top priority. Doctors, health plans, and hospitals may resist publishing data on outcomes, arguing that such information could be misleading without the proper context because physicians and clinics with the best reputations tend to take on the toughest cases and therefore may have higher failure rates.

As for the health plans, Porter said flatly, "I suspect they will have a bit of indigestion over this . . . They are used to saying, 'OK, I have this power and I can bargain down rates with certain providers.' We advocate that there shouldn't be price discrimination. That is, somebody shouldn't pay more just because they're insured by one health plan versus another. It doesn't make any economic sense."

Still, there is a broad consensus that the healthcare industry is overdue for reform. Grealy and Gilmartin said elements of what Porter and Teisberg are proposing already are being introduced or tested in pilot projects around the country. Health insurers in Massachusetts, for example, are moving toward enabling members to search the Web for the best-rated hospitals for specific surgeries or illnesses. And, the M.D. Anderson Cancer Center and Texas Heart Institute, both in Houston, are among a growing number of institutions developing their specialties rather than trying to be all things to all people; such sites increasingly are referring patients with related conditions to other specialty centers.

Such efforts still aren't widespread, but Porter is hoping his proposals can be a spur to new thinking, especially among physicians. "What more thrilling thing to do as a doctor than to try to be the best?" the professor asked rhetorically. "Isn't that why you went into medical school? . . . Well, how are you going to know if you're not competing with anybody, if there's no information, if there's no data collected?"

Porter's style, refined in countless lectures at Harvard Business School, is to overwhelm listeners with his energy and the sheer logic of his ideas. He is both intellectual and animated. On a recent visit to WBUR's radio studio, where he discussed his healthcare proposal with "On Point" host Tom Ashbrook, Porter rocked from side to side in his swivel chair, traced arcs through the air with his hands, and seemed to be only warming up to his subject when the 50-minute taping drew to a close.

One question with which Porter is wrestling is how to get from the current dysfunctional state of healthcare to the model that he and Teisberg have laid out. Porter said he is committed to meeting with industry executives, and state and federal regulators, to lend his support to initiatives and reform efforts that move in the right direction.

Porter also has his eyes on the presidential campaign where, he believes, "the debate now is totally about cost shifting and not value creation" in healthcare. Could his proposal influence that debate?

"I hope so," Porter said. "I would love to challenge both candidates to see what they're going to do to engage these issues."

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