

FTC Testimony

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Characteristics of Good Markets?

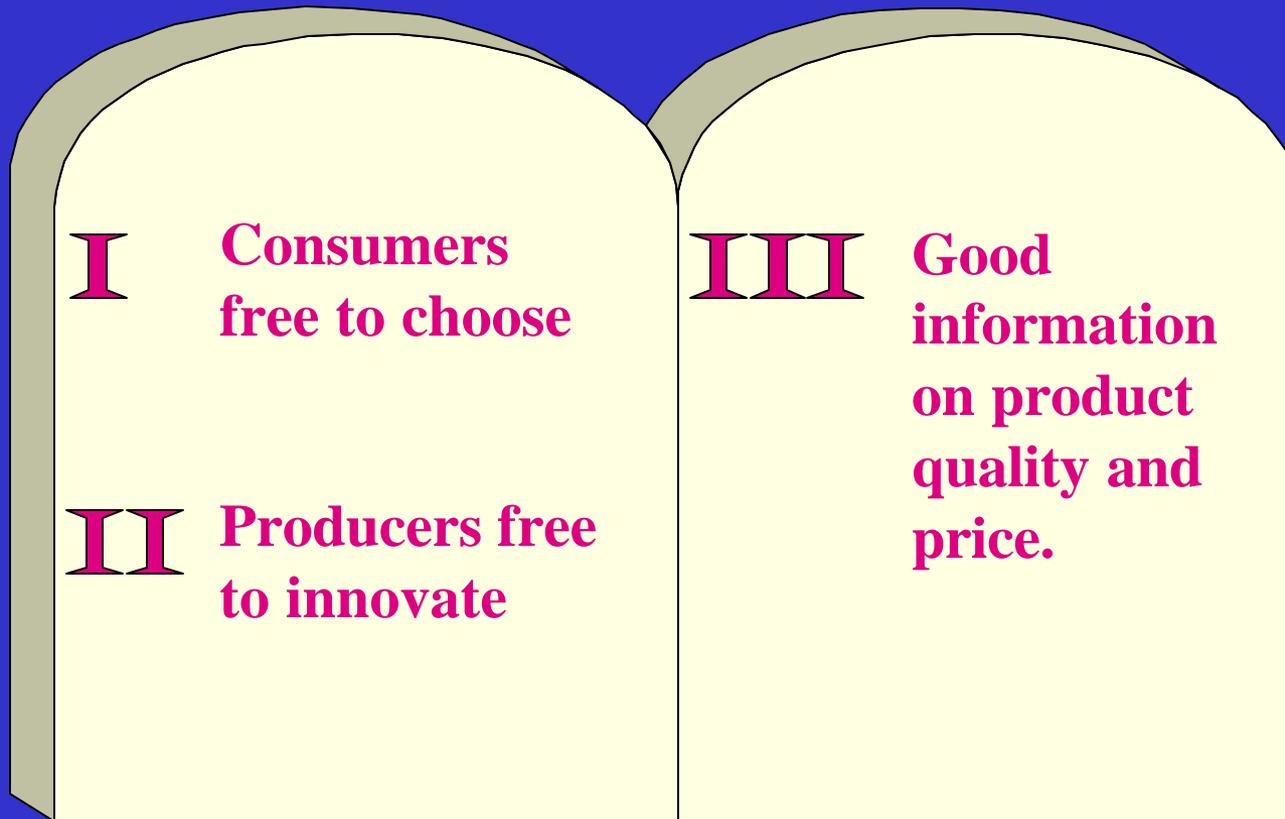
Cars



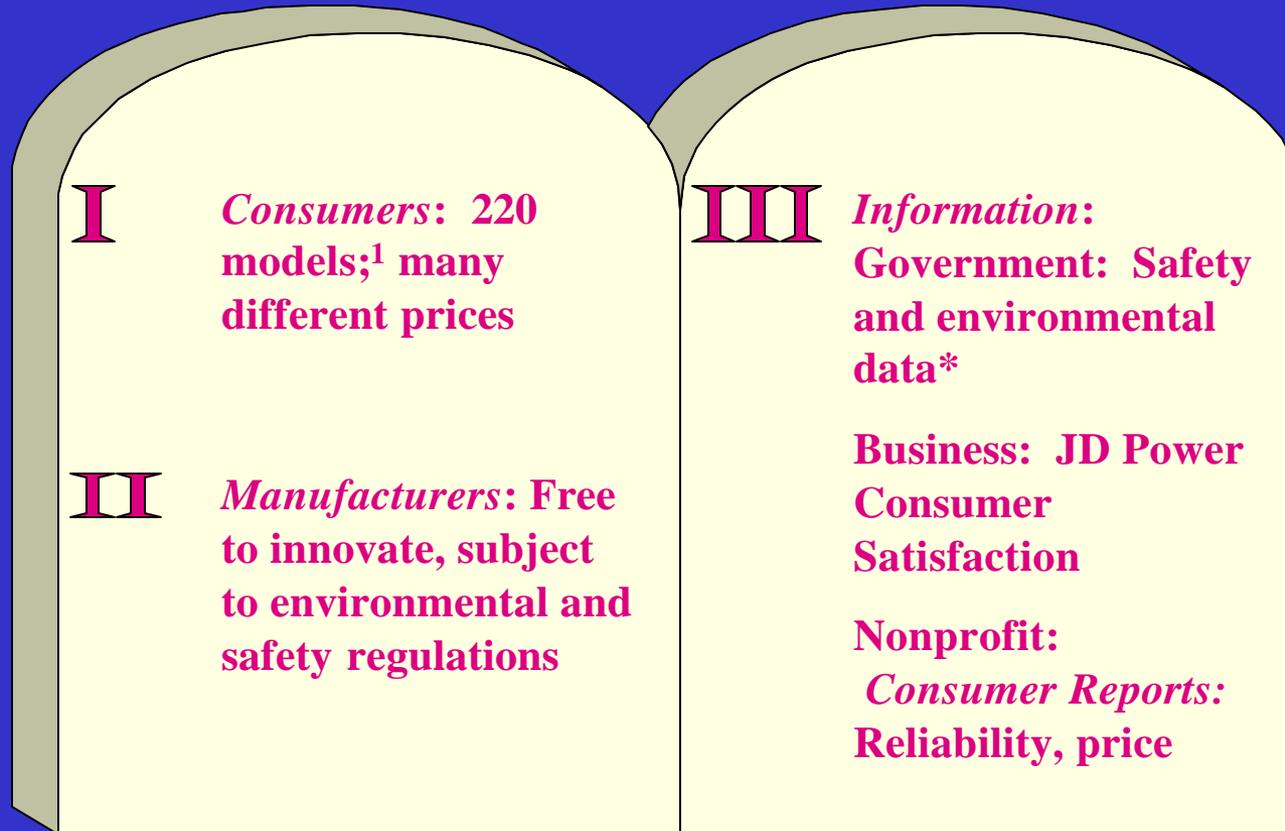
Computers



Essential Ingredients of Good Markets



Example: Automobile Market

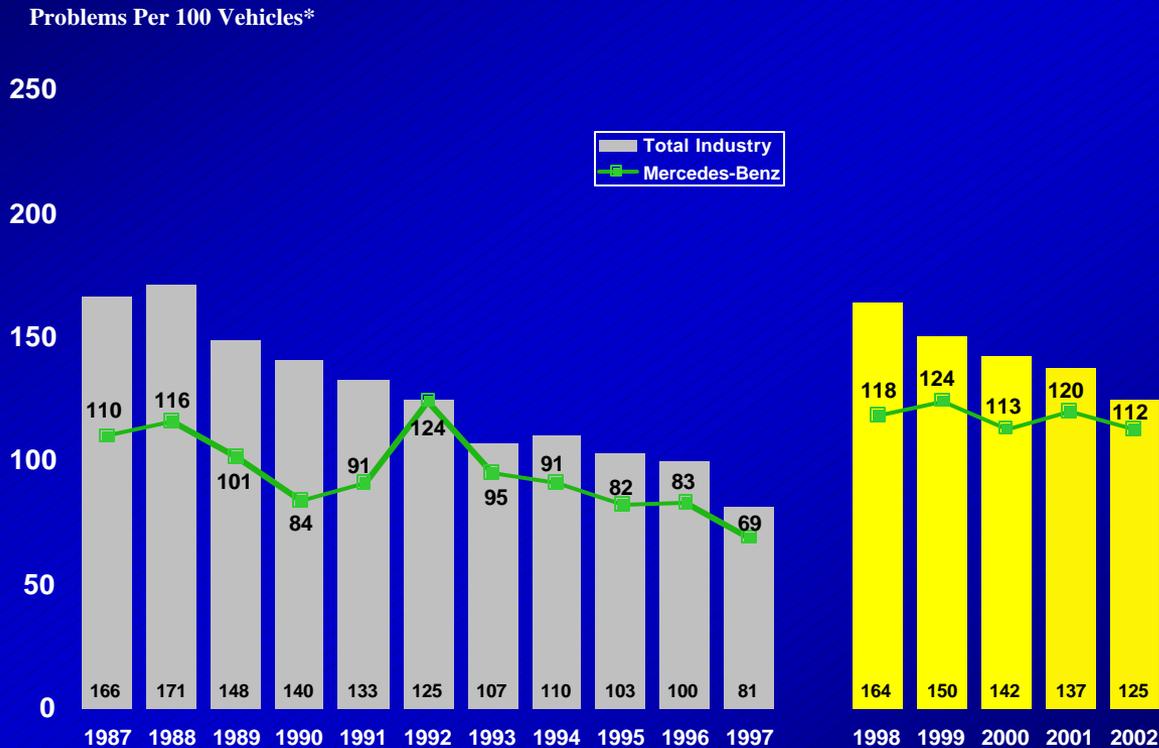


*See, for example, safety data for cars at <nhtsa.gov> and for planes at <www.faa.gov>.

¹"The Economics of Panty Hose," *Forbes*, August 23, 1999, p. 70.

Average Quality Rises

The Quality Revolution



* Car Only; The increase in the number of problems reported beginning in 1998 is due to a study enhancement.

Source: J.D. Power and Associates Initial Quality Study



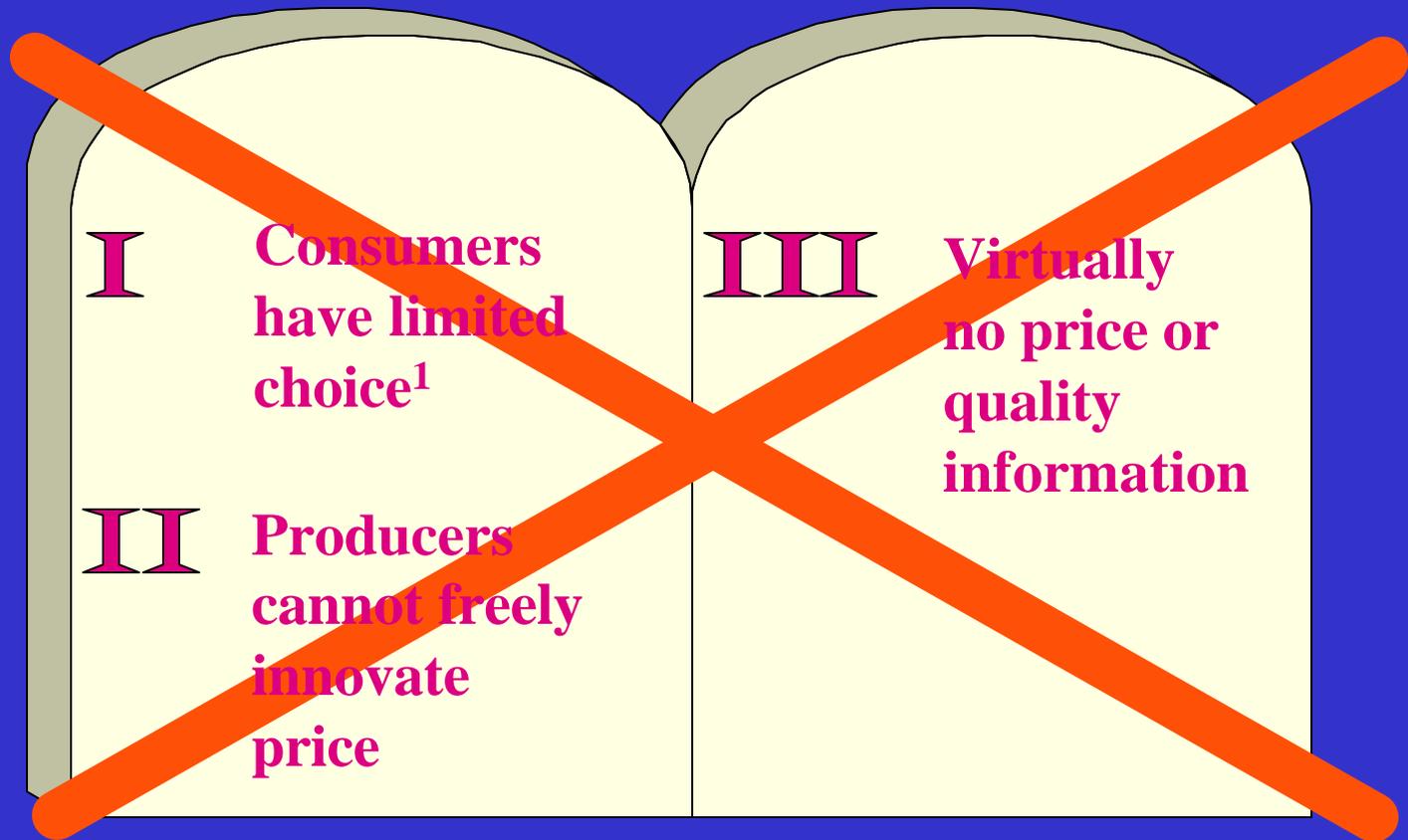
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Health Care Sector



²See, for example, safety data for cars at nhtsa.gov and for planes at www.faa.gov.

Why Health Care Problems Exist



¹Regina E. Herzlinger, *Consumer-Driven Health Care* (San Francisco: Jossey-Bass, 2003).

Two Theories of Health Care

Top Down Micro Management¹

Limit consumer choice

**Limit provider freedom to price
and innovate—big is beautiful**

**Information: Don't confuse
consumers; voluntary industry
association**

Bottom-Up Consumer- Provider Interaction

**Give consumer considerable
choice**

**Permit providers considerable
freedom to innovate and price**

Information—free market

¹Evan M. Melhado, "Review of Thomas Rice, *The Economics of Health Reconsidered*" (Chicago: Health Administration Press, 1998)," in *Journal of Health Politics, Policy and Law*, Vol. 25, No. 1 (February 2000), p. 252.

Health Care Information Scare Stories

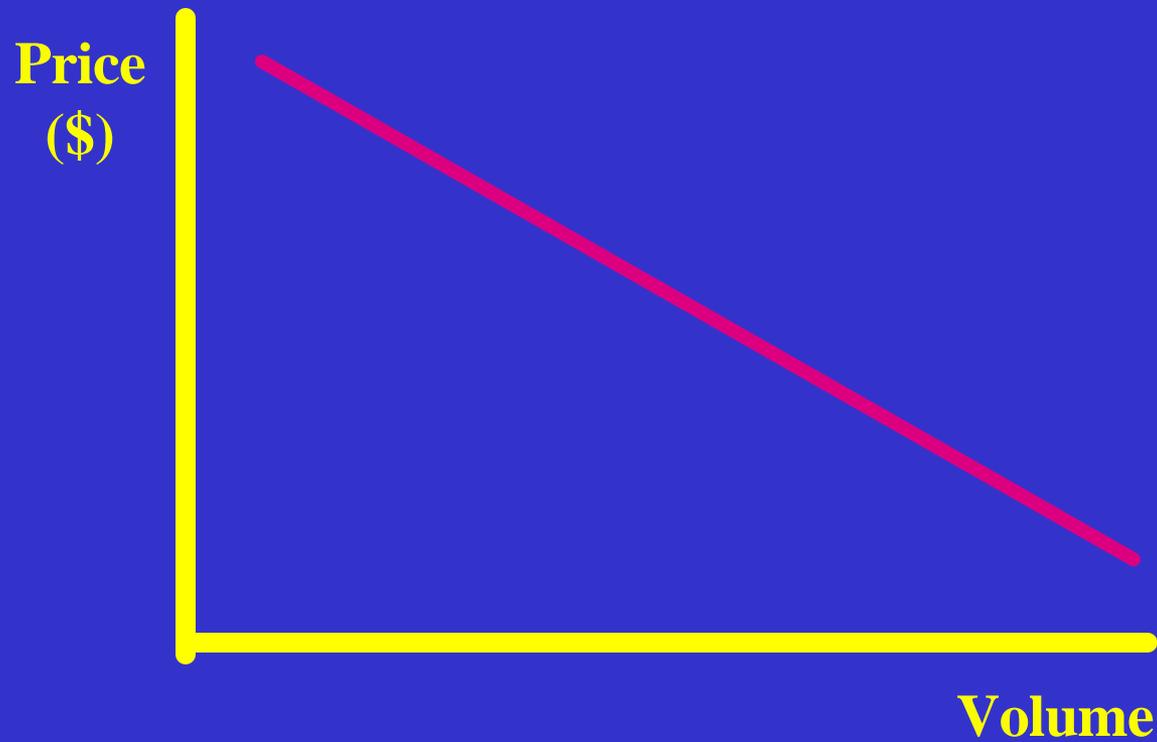
1. Bewilder the consumer¹—indifference to HEDIS
2. Punish the provider—90% of MDs had fewer than 60 diabetics²
3. Nobody will treat the sick
4. Measures are impossible, especially risk adjustment—beta and the Nobel Prize³

¹New York Business Group on Health Care (NYBGH), *Conference Proceedings*, “The Nation’s Health Insurance System” (New York: NYBGH, 1992), p. 61.

²Timothy P. Hofer, Rodney A. Hayward, Sheldon Greenfield, Edward H. Wagner, Sherrie H. Kaplan, and Willard G. Manning, “The Unreliability of Individual Physician ‘Report Cards’ for Assessing the Costs and Quality of Care of a Chronic Disease,” *Journal of the American Medical Association*, Vol. 281, No. 22, July 9, 1999, pp. 2098-2105.

³Merton H. Miller, “The History of Finance,” *Journal of Portfolio Management*, Vol. 25, No. 94 (Summer 1999), pp. 95-101.

Why Consumers Do Not Get Confused by Information



Keys to Efficacy of Information

- **Small groups, usually 16%, of interested consumers— 80 million on the Web for health care¹; Medicaid Personal Assistant—more satisfaction, excellent care²**
- **Excellent information—MIA**

¹PricewaterhouseCoopers, *HealthCase 2010* (New York: PricewaterhouseCoopers, November 2000), p. 22; Scott Reents, *Impact of the Internet on the Doctor-Patient Relationship: The Rise of the Internet Health Consumer* (New York: Cyber Dialogue, 1999), p. 4 <<http://www.cyberdialogue.com/pdfs/wp/wp-cch-1999-doctors.pdf>>; and Susannah Fox and Lee Rainie, *How Internet Users Decide What Information to Trust*, <[222.perInternet.org/reports/pdfs](http://www.perInternet.org/reports/pdfs)>, May 2002.

²"Improving the Quality of Medicaid Personal Assistance through Consumer Direction," *Health Affairs*, May/June 2003.

Examples of Impact of Health Care Information¹

- **New York State CABG—Improved results through impact on providers**
- **BHCAG—Migration to lower-cost, higher quality care teams²**
- **DTC—44% of viewers discussed it with their MD³**

¹Mark R. Chassin, Edward L. Hannen, Barbara A. DuBuono, “Benefits and Hazards of Reporting Medial Outcomes Publicly,” *New England Journal of Medicine*, Vol. 334 (6), February 8, 1996, pp. 394-298; J. Marvin Bentley and David B. Nash, “How Pennsylvania Hospitals Have Responded to Publicly Released Reports on Coronary Artery Bypass Graft Surgery,” *Journal of Quality Improvement*, Vol. 24, No. 1 (January 1998), pp. 40-49; and Erid D. Petersen, Elizabeth R. DeLong, James G. Jollis, Lawrence H. Muhlbaier, and Daniel B. Mark, “The Effects of New York’s Bypass Surgery Provider Profiling on Access to Care and Patient Outcomes in the Elderly,” *Cardiac Surgery*, Vol. 32, No. 4 (October 1998), pp. 993-999.

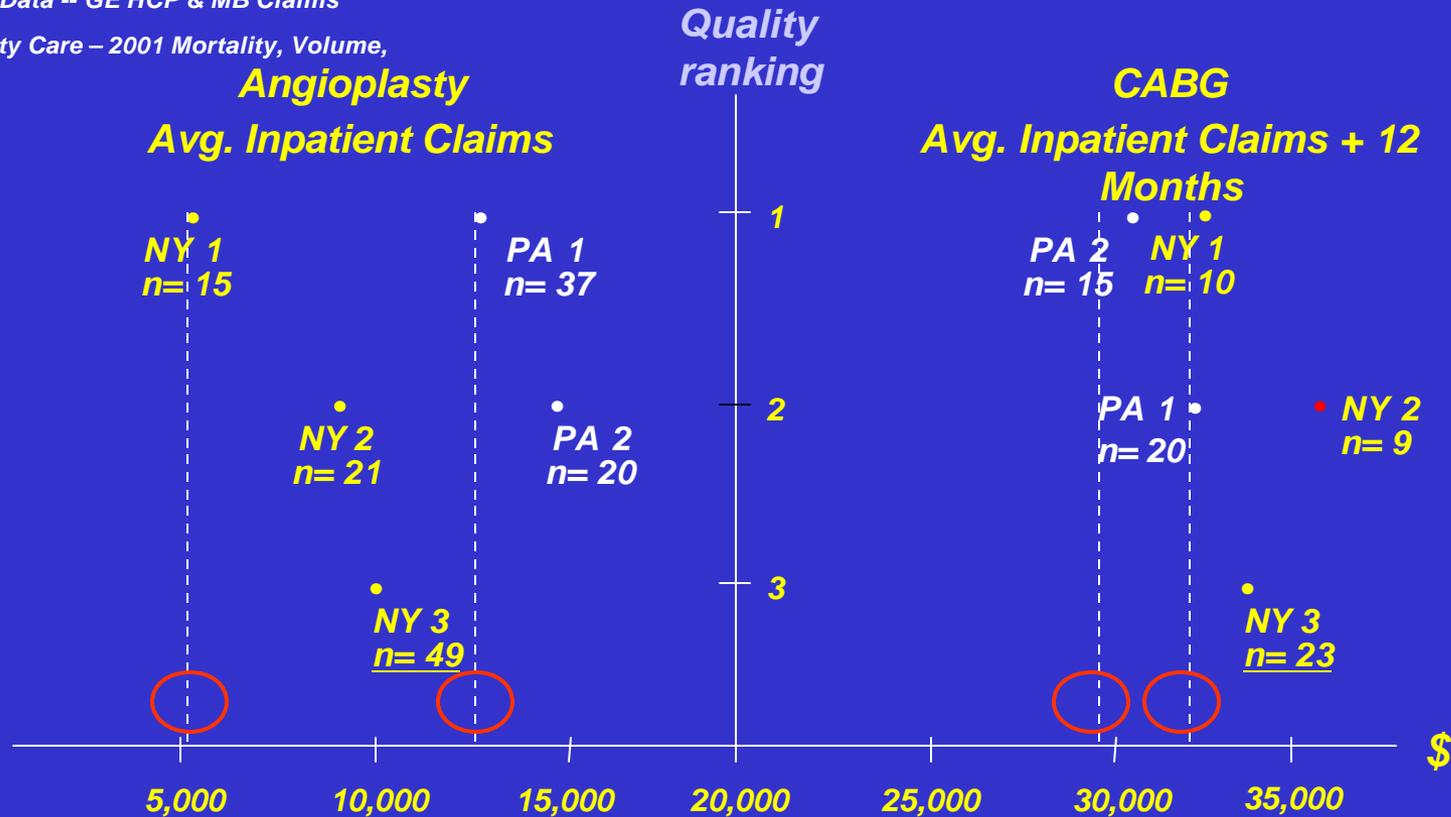
²Jon B. Christianson and Roger Feldman, “Evolution in the Buyers Health Care Action Group Purchasing Initiative,” *Health Affairs*, Vol. 21, No. 1 (January/February 2002), pp. 76-88; and Regina E. Herzlinger, *op. cit.*

³Michael Taggart, “Consumer Education Makes a Difference,” *Employee Benefit News*, December 2002.

High Quality ¹ High Cost

\$: 1999 & 2000 Data -- GE HCP & MB Claims

Q: Select Quality Care – 2001 Mortality, Volume, Complications



Without transparency, we will continue to reward poor performers and penalize the better performers.

Source: Francois de Brantes, GE Presentation to CEO Forum, St. Louis, April 2003.

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CABG^{1,2,3}

Denton Cooley

\$13,800

General Providers

\$25,486

¹Edmonds, C.H., Hallman, G.L. “CardioVascular Care Providers: a pioneer in bundled services, shared risk, and single payment.” *Tex Heart Inst J* 22:72-6, 1995.

²Nangle, M., Duncan, J.M. “The Medicare Participating Heart Bypass Demonstration Project in Houston, Texas: the experience of St. Luke’s Episcopal Hospital, Texas Heart Institute, and CardioVascular Care Providers, Inc.” *Tex Heart Inst J* 22:77-80, 1995.

³Stevens, C. “Is this the beginning of DRGs for doctors?” *Medical Economics* 16:27-36, 1989.

Health Care Information Characteristics

	<i>WANT</i>	<i>HAVE</i>
About Whom?	About doctors and hospitals¹	About insurers
What Type?	Outcomes	Process
	Price	MIA
	Comparative	Absolute
Sources of Information	Peers²	Others

¹Martin N. Marshall, Paul G. Shakelle, Sheila Leatherman, and Robert H. Brook, "The Public Release of Performance Data," *Journal of the American Medical Association*, Vol. 284, No. 14 (April 12, 2000), pp. 1866-1874.

²"A New Direction for Employer-Based Health Benefits," KPMG, LLP, publication 99-12-05, November 1999.

How Not to Obtain Health Care Information

To Date, Voluntary Disclosure Is A Flop

Process based measures—JCAHO, NCQA, Medical Boards

Unaudited

Low-scoring participants opt out¹

Few standards of measurement

¹David W. Bates and Atul W. Gawande, “The Impact of the Internet on Quality Measurement,” *Health Affairs*, November/December 2000, p. 106. For an expanded discussion of this topic see also Regina E. Herzlinger and Seth Bokser, “Note on health Care Accountability and Information in the U.S. Health Care System,” Harvard Business School Case No. 302-007 (Boston, MA: Harvard Business School Publishing, 2001).

Health Care Information: How To Make It Happen

SEC-FASB Model

Government

**Requires audited, regular disclosure
of performance**

Punishes miscreants

Private Sector

Develops measurement standards

Audits the data

Model: Financial Information

GAAP did not exist until SEC Acts

**In 1923, only 25% of Big Board firms
provided shareholder reports**

Memo to FTC: To Do

Provide Information!

