Performance-based financing pragmatically applied to enhance healthcare productivity

Dr. Arne Björnberg, Stockholm
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Health Consumer Powerhouse

Health Consumer Powerhouse

- **Building consumer information about health care (Europe, Canada).**
- **Providing information tools:**
  - **Swedish Health Consumer Index (2004 - 2007)**
  - **EuroHealth Consumer Index (2005 - 2007)**
  - **Canadian Health Consumer Index (Jan 2008)**
  - **several ”diagnostic specific indices”.**
- **Healthcare consumer magazine.**
- **More about us at: www.healthpowerhouse.com**

Background of speaker

Arne Björnberg, PhD (inorganic chemistry)

- Boliden Metall; VP R&D (base metal refining)
- Boliden Semitronic; CEO (semiconductors)
- Bohlin & Strömberg AB; Business Consultant
- Reserca AB; CEO (Swedish Tobacco R&D)
- University Hospital of Northern Sweden; CEO
- IBM Healthcare Europe; Director of Healthcare Systems
- Apoteket AB; CEO (Swedish National Pharmacy Corp.)
- KPMG Sweden; Director Healthcare Services

Everybody looking for "the Holy Grail" of reform

- **How to combine:**
  - **Patient / consumer empowerment**
  - **Better medical outcomes**
  - **Lower costs / reduced cost increase?**

The ”Stockholm revolution” - something to write home about?

- **A peaceful revolution turning ”socialized medicine” into a major European ”health care market”.**
- **The long waiting lists disappeared.**
- **The co-workers started their own service companies.**
- **A new industry emerged.**
- **The healthcare workers' unions advocated change.**

How it was done (1)

- **1991: exit global budgets, entry a DRG-based *productivity related compensation system* (increased hospital productivity by 19%).**
- **1992: *Competition* for contracts started.**
- **1994: The first acute hospital (The S:t Göran) *incorporated* (still council-owned).**
- **2000: The S:t Göran *sold to a publicly traded corporation.***

How it was done (2)

- **Starting 1999, all remaining hospitals were to be incorporated as well (four actually were incorporated).**
- **Step by step all services were to be contracted.**
- **2007, 45 - 50 % of the primary care and est. 25 % of the total health care in Stockholm are delivered by *privately owned producers on public funding.***
- **More than 200 *employee-owned companies* were established.**
- ***Improved consumer information and choice.***

Achievements

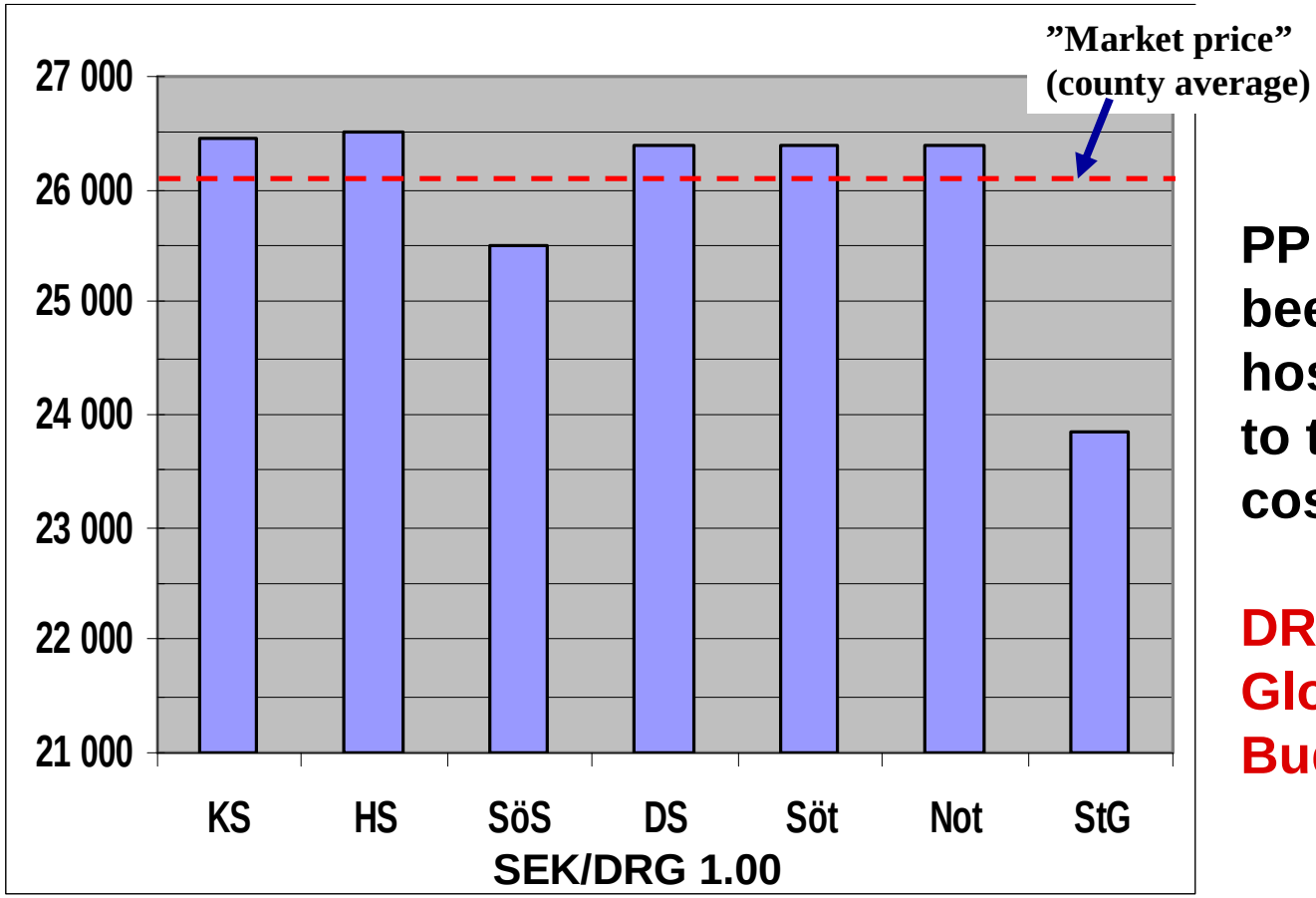
- **Better efficiency (purchaser-provider split county councils are 10-15% more efficient than others; the S:t Göran hospital still 12 % cheaper than publicly run competitors).**
- **Consumer freedom of choice among providers.**
- **Improved patient/consumer information www.vardguiden.se .**

So why has this *not* been a roaring success, copied by everybody else?

What has happened?

- **Very good productivity increase in 1992 – 1994 (when healthcare professionals still believed that performance would be rewarded)**
- **No detectable differences in cost and productivity between incorporated/privatized hospitals and county-operated hospitals**
- **Virtually all Swedish hospitals over 2000 – 2003 were showing the same cost trends: ± ½ % deviation from the underlying salary cost and rate of inflation trends**
- **A few hospitals were showing a comparatively sharp increase in costs – virtually no hospitals show a decrease**
- **There are privatised GP Centers and other smaller care providers, which do show performance gains!**

Care providers in Sweden have been paid for having costs, not for performance!



PP systems have been paying hospitals according to their respective cost levels!

DRG:s become a Glorified Lump Sum Budgeting System!

Prices paid to Stockholm acute hospitals are different according to hospitals' respective costs

Some outcomes

- **Cost *increases* of the four major Stockholm hospitals 1999 – 2003: 44 % (~ constant output)**
- **Gothenburg primary care 2000 – 2003: *costs up* 37 % and *output down* 15 %.**

Source: Internal Audit reports from the respective counties.

More outcomes
GP Productivity

Number of patients seen by the average family doctor in a working day:

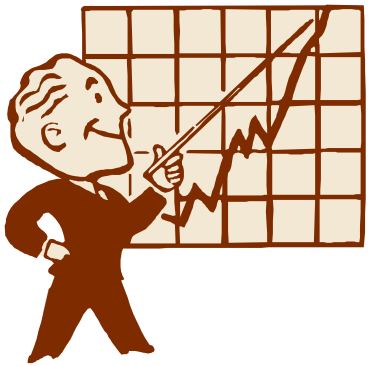
Japan	**80**
Denmark, continental EU	**~ 35**
Sweden	**12*)**

***) number essentially constant since 1980**

Severe systems flaws undermined success

- **Basic lack of understanding *re* productivity vs. total costs**
- **Incompetent public purchasing**
- **Growing waiting lists**
- **Today the system lacks most of the initial dynamics.**

Stockholm: From radical improvement to a warning example



The accountants are back…

- Lack of business experience ("everything they do not teach you at Harvard Business School")
- administrators kept running things the way they grew up with: ***lump sum budgeting***!
- The public sector illusion that ***lump sum budgeting*** is the only certain mechanism for cost ”control”

…and again the health consumers are kept waiting…

Lessons

- **It takes radical and consistent policy to make real change.**
- **A clear ”business logic” necessary.**
- **New administrative competences needed:**
  - **If you want to build a house: get some experienced carpenters and masons on the team!**
- **Critical ingredients: true competition, assessment systems, reimbursement principles.**

Germany might be doing it right

- **Unlike Stockholm and other Swedish counties, the German introduction of DRG:s is retaining the fundamental principle:**
  - **§ *one* market price per DRG point (€ 2785.- in 2009)**

Why do industrial management techniques meet with limited success in non-profit Health Care?

Due to the lack of:

All industrial management rests on the firm assumption of the presence of a fundamental

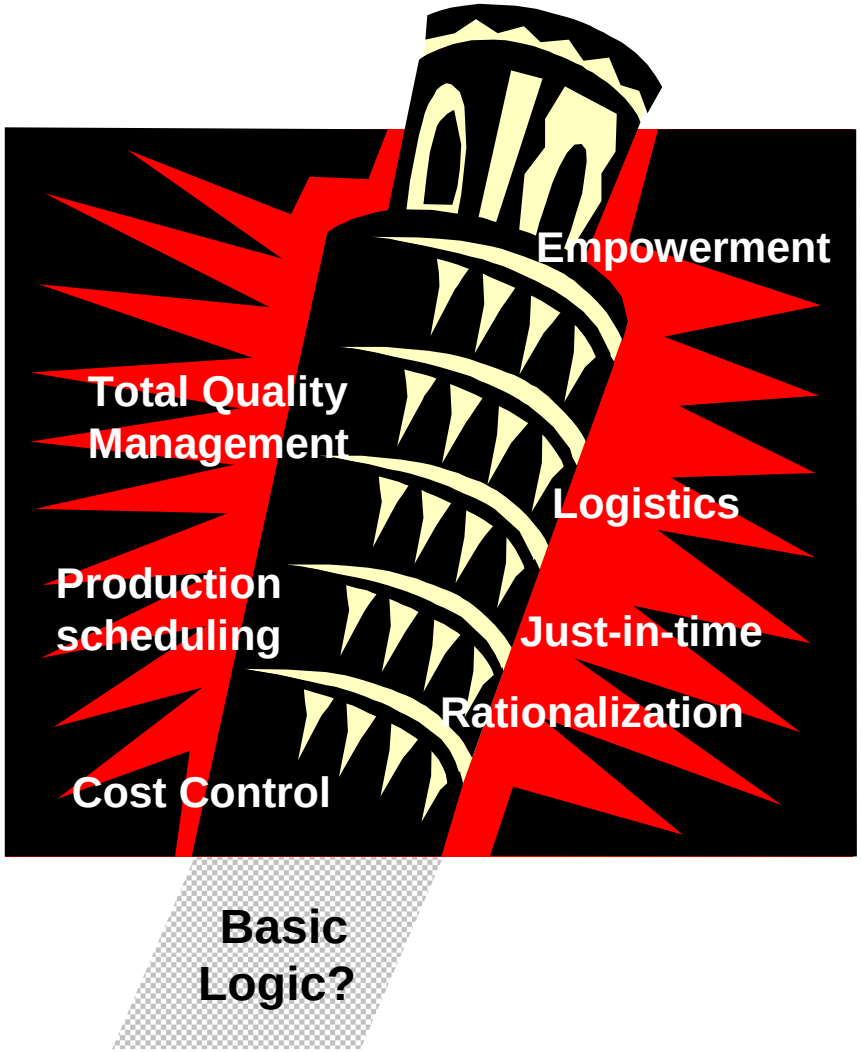
”Basic Logic"

Basic Logic:
They, who produce and
sell lots of high-quality services,
do better financially than they,
who produce and sell poor quality and less!

”Basic Logic"

Global Budgeting	”Basic Logic”
The winner is: **he who can maximize his approved cost budget in any way possible**	**The winner is:** **he who maintains the best ratio between performance and costs**

Basic Logic:
The Very Foundation of all industrial management!



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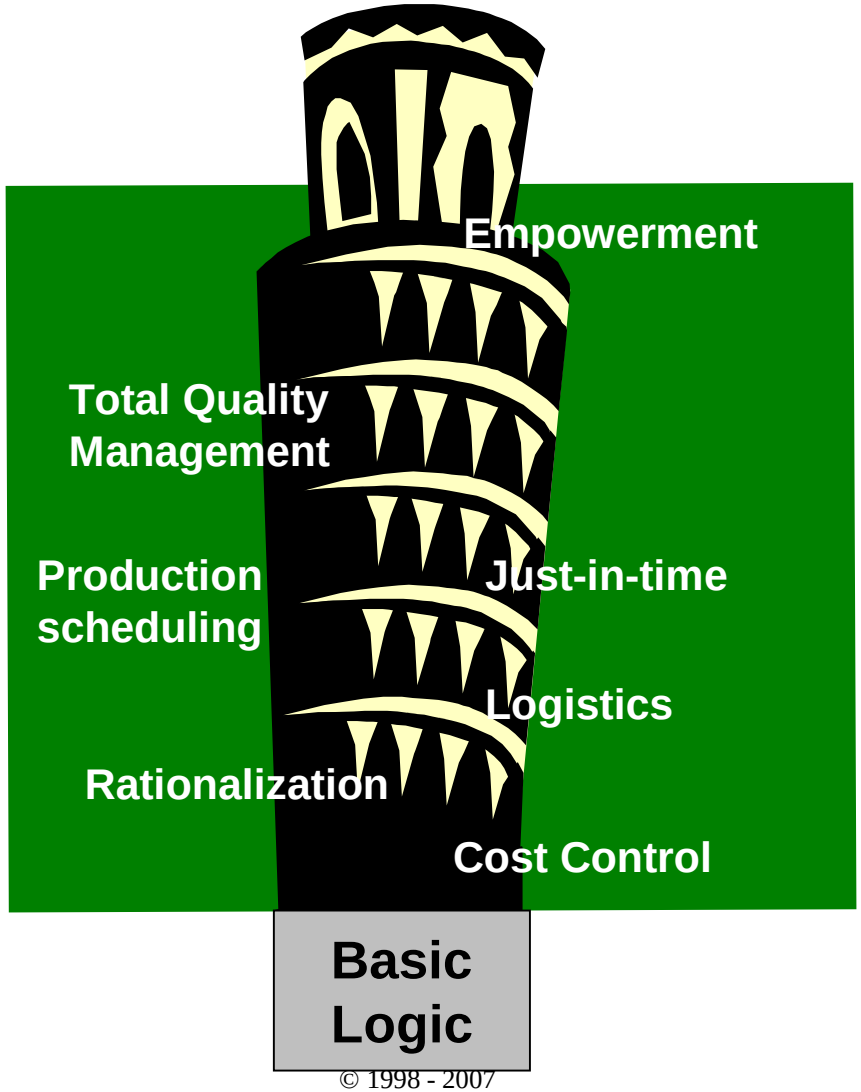
For technocrats:

How you do it

Basic Logic:
The Solid Foundation of all industrial management!



”The Heart of the Matter"

Move primary focus of management from

resource consumption

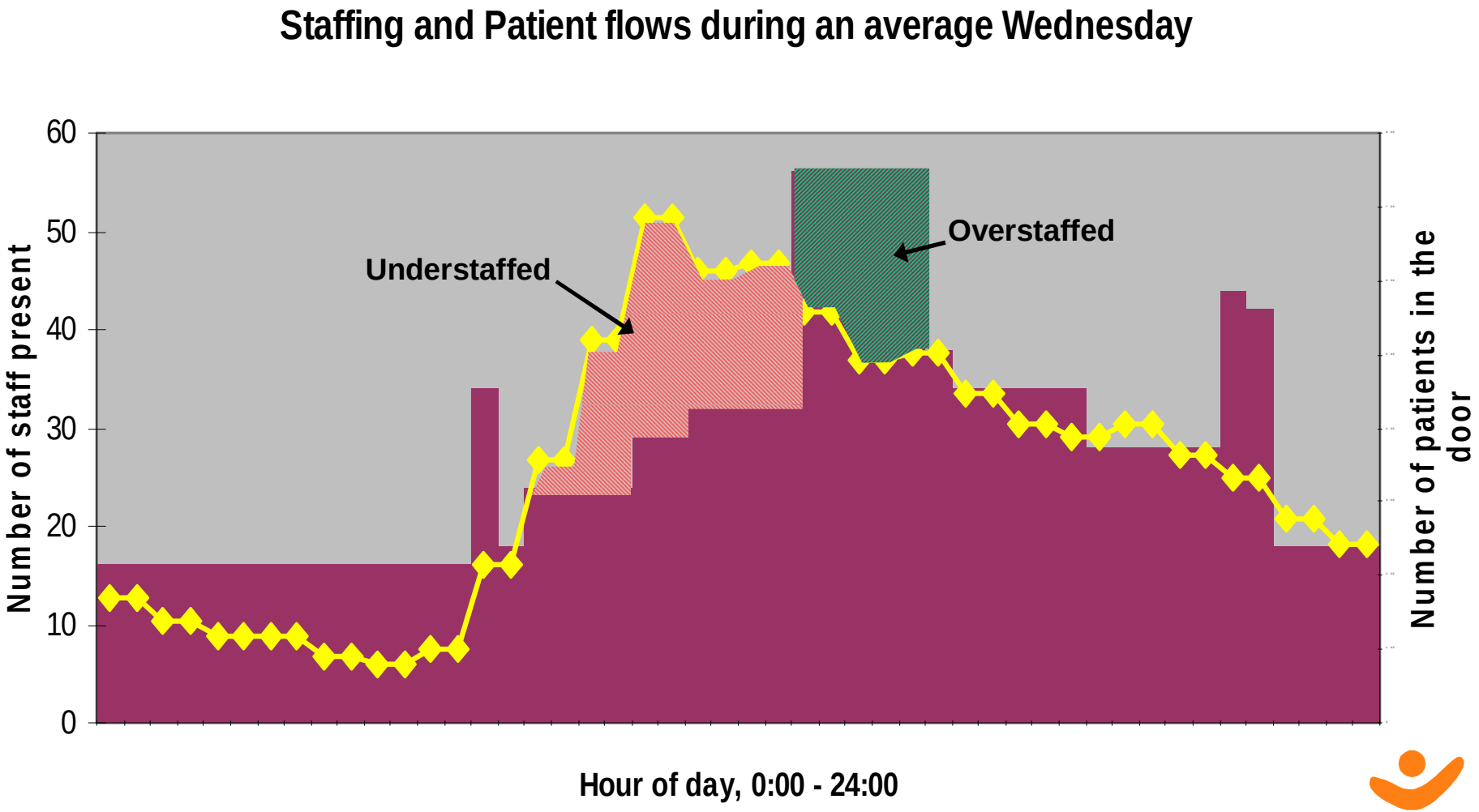
(FTE employees, costs, bed-days etc)

to

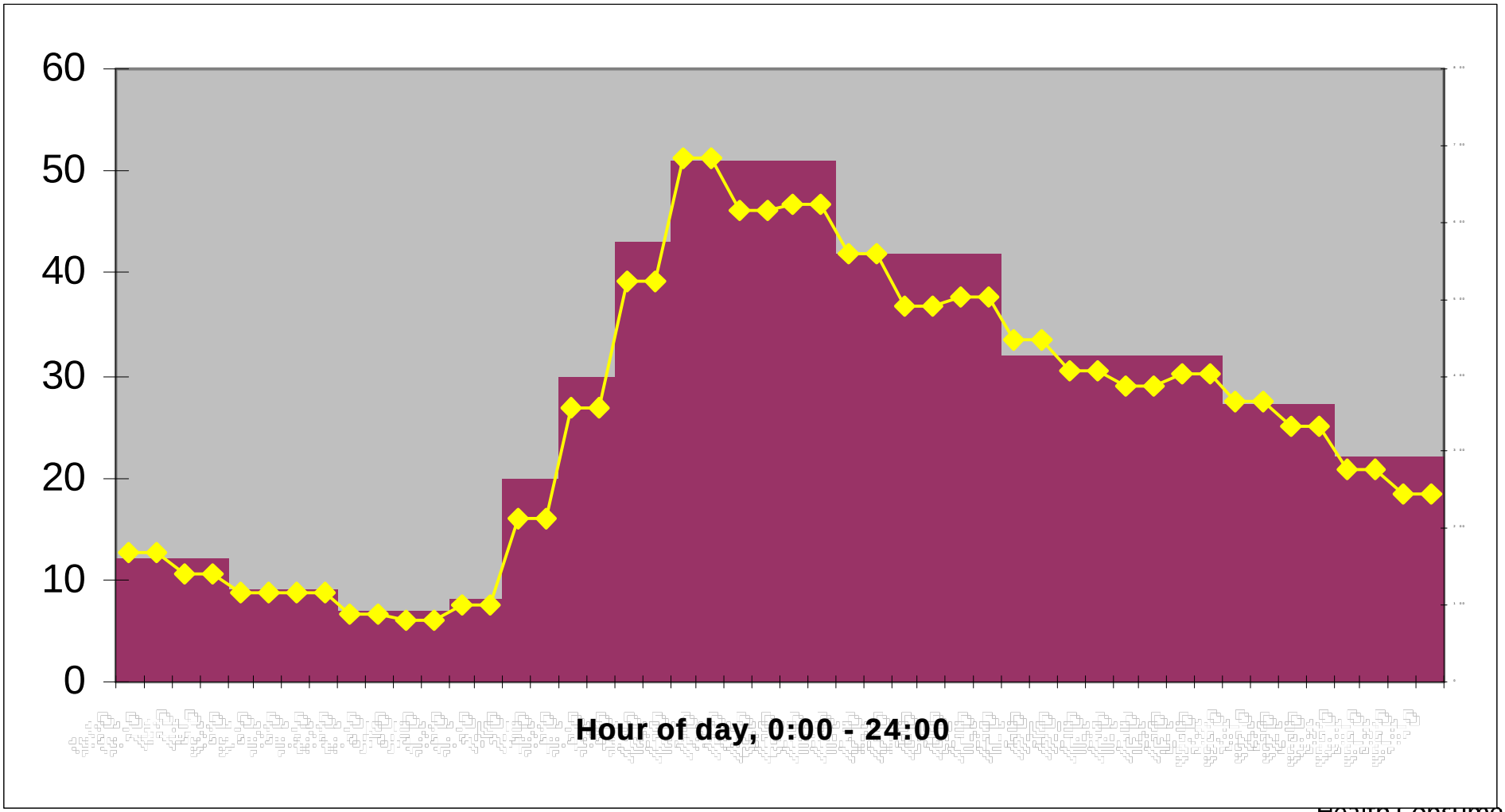
quantified measurements of what hospitals

perform in terms of Care Provided

Staffing levels and patient flow in the A&E Department of a Swedish hospital with an excellent reputation for efficiency



The Revolution That Never Happened: Staffing levels directed by patient arrivals



Basic Logic: Nothing magic – a craft that can be learned:
Conventional corporate management
prevents anarchy

A sub-unit in a corporation is not free to spend its revenues

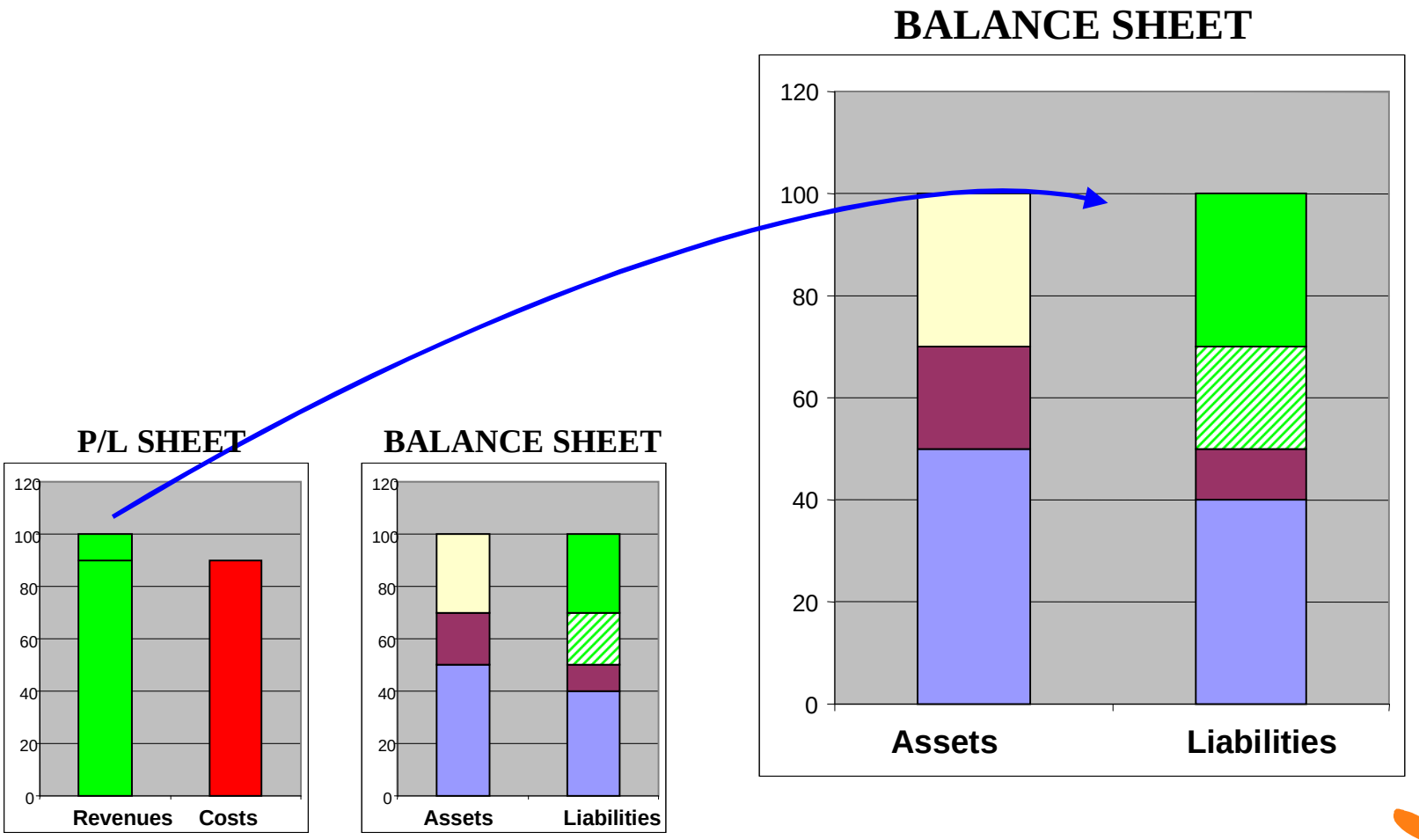
’volume of revenues’ and ’cost budget’ are different concepts!

Corporate Management
Facts

A sub-unit with insufficient revenues is expected to start reducing costs without having to be told

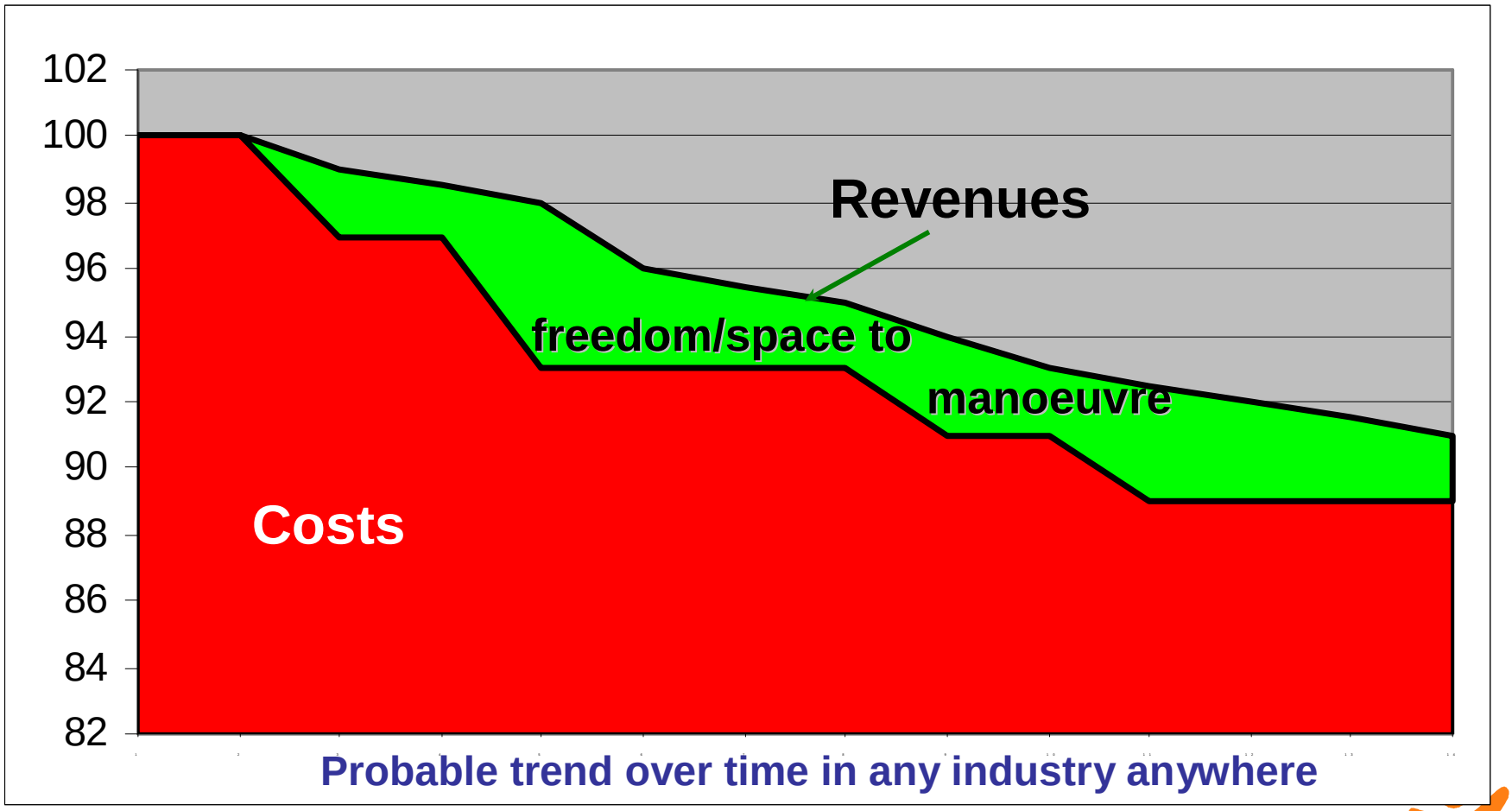
A sub-unit with more-than-expected profits usually still needs approval for spending above original budget!

In a corporation, all profits and losses are transferred to the balance sheet of the corporation, *i.e.* sub-units do not keep profits!

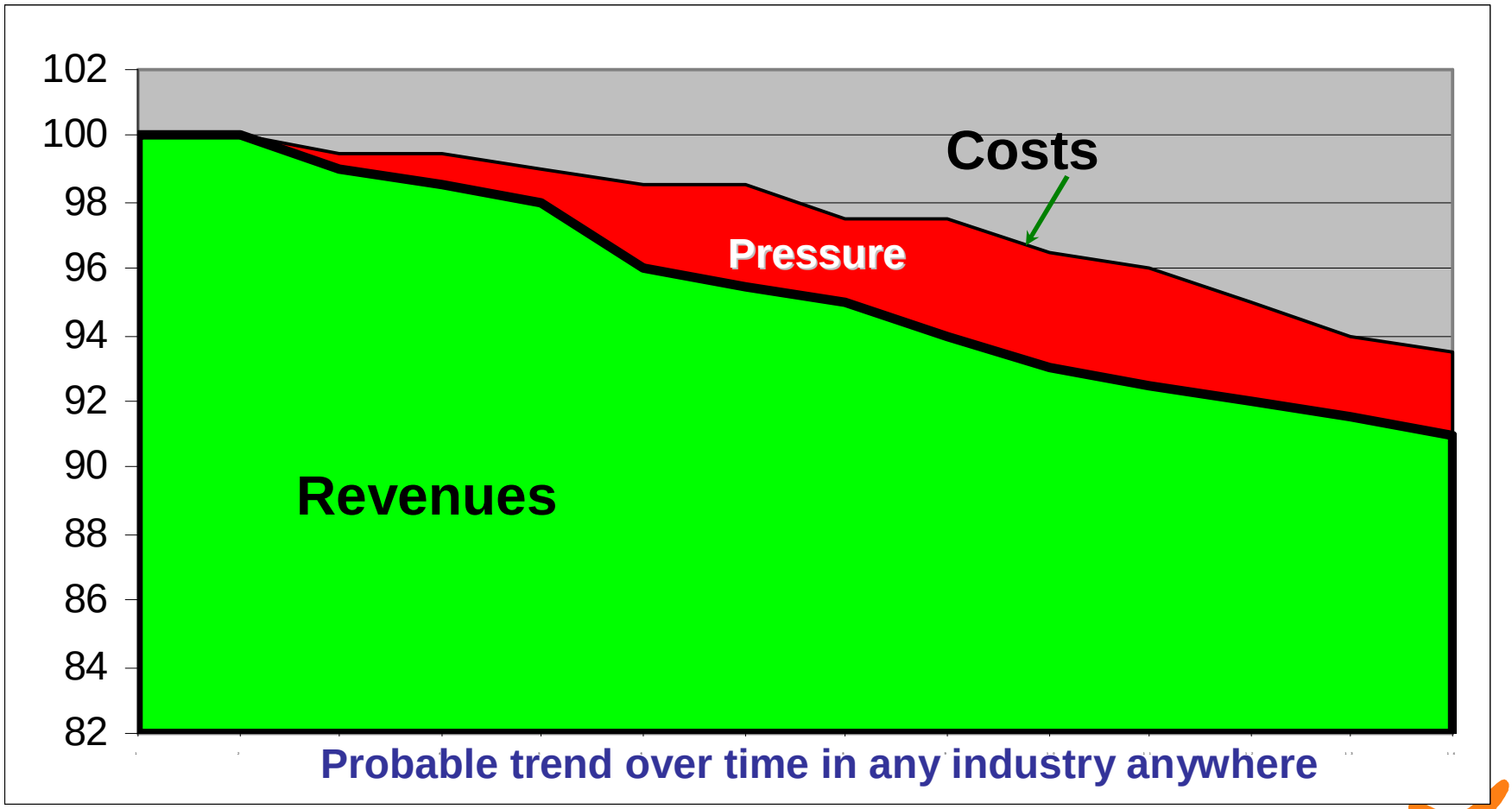


Why do private enterprise managers cut costs?

High revenues in relation to costs create space to manoeuvre



Low revenues in relation to cost levels result in awkward pressure



What is the point of making a profit, if you cannot keep it?

What top corporate decision-making is all about:

Units showing a healthy profit are usually trusted with recycling (part of) the profits for purposes such as those in the green column:

PROFIT MAKERS	LOSS MAKERS
New techniques	Cost cutting
New patient groups	Short-term priorities
R&D projects	Downsizing
Recruiting top people	Redundancies
Expansion	Restructuring
Competence enhancement	Hostile takeover
Possibly even bonuses?	Closure?

Life on the green side is much more pleasant than on the red side – this is what top corporate decision-making is all about, and why managers willingly do cost-cutting!

What can happen if you do it right?

Changes at UHNS*) Jan year 1 - Aug year 3

(32 months; rolling 12-month numbers)

# employees (- 808)	- 11.7 %
Total costs	- 6.0 %
Output (weighted total)	+ 14.8 %
Productivity per unit cost	+ 22.1 %
Productivity per employee	+ 30.0 %

all this resulting in a wait list-free 1000-bed university hospital and same-day access to family doctors by the end of year 3!

*) University Hospital of Northern Sweden, Umeå, including the 16 GP centers of the DHA

What can happen if you do it right?
Changes at UHNS 1993 - 1998

Structural change of hospital care

# hospital beds year-end 1993	1236
Target # beds year-end 1998	840
(in five-year strategic plan)	
Outcome 98-12-31	835

Health Consumer Powerhouse and the EuroHealth Consumer Index – empowering the European healthcare consumer!

(The Gospel According to St. John, 8:32)