

# Redefining German Health Care

Moving to a Value-Based System

Bearbeitet von  
Michael E Porter, Clemens Guth

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# Preface

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The book *Redefining Health Care*, published in late 2006, introduced a new framework for designing and managing health care based on the principal of value for patients. Value is defined as the patient health outcomes achieved relative to the cost incurred. The value framework incorporates a new organization of care delivery around patient medical conditions, rigorous measurement of outcomes and costs, new forms of contracting to better align payment with value and new thinking about how to integrate entire health care systems. With the publication of the book, we set out to look globally for innovative care delivery organizations and systems that embodied value-based delivery principles to learn from them.

The seeds of this book grew out of one such example, the West German Headache Centre (WGHC). We wrote a Harvard Business School case study on WGHC, which is an innovative integrated practice unit focused on headache care. Patients are treated in an interdisciplinary fashion, and outpatient and inpatient units cooperate closely for the benefit of patients. Developed through a partnership between a health plan, KKH-Allianz, and a provider, Essen University Hospital, the Centre is delivering superior health outcomes for its patients. Over time, it has achieved these better health outcomes at lower cost than previous care delivery approaches. The Centre involves a new contracting model that pays a total packaged reimbursement for all the necessary services, which allows the Centre to operate differently than prevailing care approaches.

In the WGHC case, the role of the health plan, and its collaboration with providers, is strikingly different than the norm. The health

plan plays a value-adding role, a marked departure from prevailing practice not only in Germany but elsewhere where the focus is on negotiating discounts, limiting services, and competing solely on premium rates. KKH identified migraine as a medical condition that was often poorly treated, and contracted an excellent provider to offer a new, innovative delivery model. Clinical outcomes and costs are measured and shared openly between the provider and health plan. KKH identifies and contacts subscribers whose migraines are not well controlled to get care at the Centre, based on the fundamental belief that better care will not only benefit patients but reduce long-term subscriber cost.

As the West German Headache Centre drew our attention to Germany, we began looking more broadly at the German system as a whole. At first blush, the German system seemed to represent the ideal that other systems strive for. Germany has universal insurance coverage, with premiums based on income to make insurance feasible for all income groups. Coverage in Germany is comprehensive and includes virtually all services. Subscribers have free choice among competing health plans. Patients also have free choice among providers without the need for a referral. There are numerous German providers of outpatient, inpatient, and rehabilitation care to choose among, with ample capacity and strong technical qualifications.

The more we looked at Germany using the value-based perspective, however, the more we came to see that the West German Headache Centre was the exception, not the rule. Despite the clear benefits of the value-based model, the way most care was delivered in Germany, and the role of health plans, is very different. Indeed, studies on the quality of German providers have revealed large variations in quality across providers and problems in coordinating care. The common assumption that the high cost of the German system is due to its high quality is beginning to be challenged. The notion that universal access and high number of provider visits in Germany correlate with better health is not holding true. The question becomes, why does the rest of German health care not look like the

West German Headache Centre, or the other innovative care delivery examples we discovered in Germany that prove that value-based delivery in Germany is possible?

These observations inspired us to write this book. It offers a comprehensive assessment of the German health care system using the value-based framework and strategic recommendations for system transformation. The important actors in the system are described and analyzed, including health plans, providers, employers, and consumers. We also examine the government policies that have affected the health system, and explore the numerous policy reforms that have attempted to improve the system and the reason for their disappointing results.

Our principal goal in this book is to offer a new strategic perspective on the German system and lay out a comprehensive blueprint for reform. While we propose numerous recommendations, we stop short of detailed implementation steps, which are best deployed by system participants. Central to the book is our passion to move beyond the current discussions and reform efforts that focus on cost control, health insurance premium rates, and risk pooling. It is patient outcomes and the costs of actually delivering care that matter, not premiums per se.

A secondary goal of the book is to create a template for examining any national health care system using value principles. We have yet to find any health care system that is achieving its full potential to deliver value. Every country needs to assess its health care system strategically based on value principles, rather than gravitate to incremental policy steps and quick fixes, which has been the prevalent approach to health reform. We hope that the value framework described in this book will be applied and improved upon in many other countries.<sup>1</sup>

This book would have not been possible without the help of many individuals and organizations too numerous to mention. We are grateful for all their insights, advice and suggestions for improvement. Individuals who deserve special mention begin with Jens

Deerberg-Wittram, who played a major role in inspiring the book and reviewing the drafts. His insights into the German health care system, and the innovations he and his colleagues have led at Schön Klinik, have informed and inspired us. We also owe special thanks to Klaus Böttcher, Thomas Mansky, and Klaus Jacobs.

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Any flaws in our thinking and analysis are entirely our own, but the insights and encouragement of all of these individuals are greatly appreciated.

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Michael E. Porter  
Clemens Guth