

**THE WHARTON SCHOOL  
UNIVERSITY OF PENNSYLVANIA**

**THE HEALTH SERVICES SYSTEM - HCMG 841  
FALL 2010**

<b>Class Meetings:</b>	<b>Tuesday/Thursday, 3:00-4:20 p.m. Huntsman Hall G60</b>	
<b>Course Instructor:</b>	<b>Lawton Robert Burns, Ph.D., MBA Chair, Department of Health Care Management 203 CPC</b>	
<b>Office:</b>	<b>898-3711   burnsL@wharton.upenn.edu</b>	
<b>Telephone:</b>	<b>Tuesday and Thursday, 12:00-2:00 PM</b>	
<b>Office Hours:</b>		
<b>Teaching Assistants:</b>	<b>Jay Desai</b> <b>Pei Ho</b> <b>Aman Kumar</b> <b>Mihuan Li</b> <b>Joseph Scattergood</b> <b>Amir Satvat</b> <b>Kevin Shah</b> <b>Bhuvan Srinivasan</b>	<a href="mailto:desaij@wharton.upenn.edu">desaij@wharton.upenn.edu</a> <a href="mailto:peiho@wharton.upenn.edu">peiho@wharton.upenn.edu</a> <a href="mailto:amkumar@wharton.upenn.edu">amkumar@wharton.upenn.edu</a> <a href="mailto:mihuanli@wharton.upenn.edu">mihuanli@wharton.upenn.edu</a> <a href="mailto:jscat@wharton.upenn.edu">jscat@wharton.upenn.edu</a> <a href="mailto:bsatvat@wharton.upenn.edu">bsatvat@wharton.upenn.edu</a> <a href="mailto:kshah2@mail.med.upenn.edu">kshah2@mail.med.upenn.edu</a> <a href="mailto:bhuvans@wharton.upenn.edu">bhuvans@wharton.upenn.edu</a>
<b>Grading Assistant:</b>	<b>Rocky Lee, MBA</b>	<a href="mailto:rockylee@wharton.upenn.edu">rockylee@wharton.upenn.edu</a>

**Course Objectives**

The course describes the major actors and institutions within any country's healthcare system, and the key strategic, managerial, and financial issues facing industry executives and public policy-makers. To simplify the exposition of all this material, we focus sequentially on three major segments in the healthcare value chain:

1.     *Payers*           (employers, government, consumers)
2.     *Providers*       (hospitals, physicians, service providers)
3.     *Producers*       (pharmaceuticals, biotechnology, medical devices, IT firms)

The course also covers some of the major intermediaries that connect these segments: insurance companies, pharmacy benefit managers (PBMs), and wholesalers.

**This course has several specific aims:**

- 1. Describe the major players along the healthcare “*value chain*” (payers, providers, and producers), their interactions, and their divergent incentives**
- 2. Provide *global comparisons* of the US and ROW (rest of world) in terms of:**
  - a) Disease patterns / epidemiology**
  - b) Financing systems**
  - c) Delivery systems**
  - d) Insurance reform**
  - e) Technology development**
- 3. Compare the different *technology sectors* in healthcare: pharmaceuticals, biotechnology, information technology, and medical devices**
- 4. Analyze the factors and conditions associated with *entrepreneurship* in life sciences and medical devices, including reimbursement & regulation**

### **Course Format**

**The course is divided into major sections covering each of the three industry segments. Classes involve a mix of the following:**

- a) lectures by the professor**
- b) case discussions**
- c) presentations by guest speakers from industry and government**
- d) warm calls on students responsible for summarizing the class readings for that date**

**NOTE #1: As common courtesy to our speakers and fellow students, you will please refrain from using all computers and electronic devices in class.**

**NOTE #2: As common courtesy to our speakers and fellow students, you will please turn off all cell phones prior to the start of class.**

## **Readings**

Assigned readings for the course are found online or on WebCafe (organized into folders for each class). All HBS cases are available from Study.Net.

Those of you who have relatively little background in health care are advised to consult an introductory text on the health care system. The books are primers that do not go into detail on any particular issue but may serve as a good road map. Unfortunately, they are all US-centric.

1. Williams and Torrens, *Introduction to Health Services* (7<sup>th</sup> Edition, Delmar Press, 2007).
2. Jonas & Kovner, *Health Care Delivery in the United State* (9<sup>th</sup> Ed., Springer, 2008).
3. Shi & Singh, *Delivering Health Care in America* (4<sup>th</sup> Ed., Jones & Bartlett, 2007).
4. Beazley, *A Brief Guide to the U.S. Health Care Delivery System* (AHA, 2010)

Also of interest are three first-rate histories of the US health care system (hospitals and physicians), which are useful for understanding why our system looks and functions the way it does. This material was covered during the pre-session lectures. The books include:

1. Rosemary Stevens, *American Medicine and the Public Interest* (Yale University)
2. Rosemary Stevens, *In Sickness and In Wealth* (Basic Books, 1989)
3. Paul Starr, *The Social Transformation of American Medicine* (Basic Books, 1982)

## **Five (5) Course Requirements**

1. **Mid-Term Examination** [25 points] **Tues October 19th**

The exam will be a take-home exercise. It will test your ability to interpret key industry trends (e.g., draw implications of changes in one sector for firms in another sector, draw conclusions from a set of charts/tables). It is due at the beginning of class on 10/19. Students should not discuss the exam or work in groups.

2. **3 Case Write-ups – by Segment** [10 points each] **Oct 5<sup>th</sup>, Nov 4<sup>th</sup>, Dec 9<sup>th</sup>**

Learning teams will analyze three cases - - one for each segment of the course. These assignments are designed to give students a closer look at managerial and strategic issues across segments. For each case, teams should address the questions posed in the syllabus. Case write-ups should adhere to the following guidelines: 5 page limit, 1.5 spacing, single-sided, 12 point font, maximum of two additional pages for charts, etc.

3. **Final Examination** [35 points] **Wed Dec 16th**

The exam will be in-class. The format of the exam will include short essay questions, as well as a case to be analyzed that draws on learning from the second half of the course. The case will be distributed prior to the exam date.

4. **Class Participation** [10 points]

Students are expected to attend each class. The class participation grade will be partly assessed using a class sign-in sheet.

In addition, small groups of students (3-4 students) will be responsible for one class session. The small group will summarize (in prose) the assigned readings and speaker presentation for that class. The class summary should be two pages in length: one page on the readings, and one page on the speaker presentation. The sessions chosen should include the three pre-session classes. The group's summary must be submitted electronically to Dr. Burns and posted on WebCafe. Teaching assistants will facilitate the formation and matching of student groups with class sessions.

**Wharton MBA Grading System**

Per the MBA Program requirements, grades will be based on a A,B,C,D,F system, with +/- distinctions. The Class MBA grade point average cannot exceed 3.33. The Wharton MBA Program recommends a distribution of 25-35% A's, 60% B's, and 5-15% C or below.

**Quality Circle**

To enhance the learning process, it is important to evaluate the course on a real time basis and to make both short-run improvements and longer-term changes as needed. To this end, each learning team will select a representative to serve with Burns and the TAs as a Quality Circle to discuss course progress and provide feedback on any and all aspects of the course. A meeting is scheduled for Thursday October 28th immediately following class.

## PRE-SESSION

**Fri Aug 13**

### **History of Hospitals and Current Hospital Issues**

#### **In-Class Powerpoint Slide Handout**

Lawton Burns, "The Transformation of the American Hospital: From Community Institution Toward Business Enterprise." In *Comparative Social Research* Volume 12: 77-112. (Greenwich, CT: JAI Press, 1990). Available at WebCafe and also at:

<http://hcmg.wharton.upenn.edu/burnsl/html/chapters.htm>

**Video on WebCafe: Link:**

[http://spike.wharton.upenn.edu/media/index.cfm?method=read&video\\_id=23842](http://spike.wharton.upenn.edu/media/index.cfm?method=read&video_id=23842)

**Tues Aug 17**

### **History of the Medical Profession and Current Manpower Issues**

#### **In-Class Powerpoint Slide Handout**

Burns & Wholey. "Responding to a Consolidating Healthcare System: Options for Physician Organizations." In *Advances in Health Care Management* Volume 1: 273-335. (New York: Elsevier, 2000). Available at WebCafe and also at:

<http://hcmg.wharton.upenn.edu/burnsl/html/chapters.htm>

**Video on WebCafe:**

**Link:** [http://spike.wharton.upenn.edu/media/index.cfm?method=read&video\\_id=23861](http://spike.wharton.upenn.edu/media/index.cfm?method=read&video_id=23861)

**Thur Aug 19**

### **History of the Health Insurance Industry & Rise of Managed Care**

#### **In-Class Powerpoint Slide Handout**

Morrissey. "History of Health Insurance in the United States". Available at Study.Net.

**Video on WebCafe: Link:**

[http://spike.wharton.upenn.edu/media/index.cfm?method=read&video\\_id=23881](http://spike.wharton.upenn.edu/media/index.cfm?method=read&video_id=23881)

## INTRODUCTION: GLOBAL ISSUES IN HEALTHCARE

Thur Sept 9 Introduction to the Course;  
Overview of the Health care Industry: “The Big Picture”  
 [Jeff Goldsmith, President, Health Futures]

HBS Case: *The Challenge Facing the US Healthcare System* [Study.Net]

Tues Sept 14 The Rising Cost of Healthcare: Causes and Solutions

Kaiser Family Foundation. *Health Care Costs: A Primer*. March 2009.

Truffer et al.: “Health Spending Projections Through 2019.” *Health Affairs* (March 2010).

## PART I : PAYERS & FISCAL INTERMEDIARIES

Thur Sept 16 Employers and Private Health Insurance

Kaiser Family Foundation. *How Private Insurance Works: A Primer*. April 2008.

Weiner and deLissovoy. “Razing a Tower of Babel: A Taxonomy for Managed Care and Health Insurance Plans.” *Journal of Health Politics, Policy and Law*. 1993. Vol 18: 75-103.

Tues Sept 21 State Healthcare Reform Initiatives: California and Beyond  
 [Mark Smith, M.D., MBA, President & CEO – California HealthCare Foundation]

Smith. “Health Care System Must Change Now.” *The Sacramento Bee*

Robinson & Smith. “Cost-Reducing Innovation in Health Care.” *Health Affairs*. Sept/Oct 2008.

Fuchs. “New Priorities for Future Biomedical Innovations.” *New England Journal of Medicine*. August 19, 2010.

Murray. “The End of Management.” *Wall Street Journal*. August 21, 2010.

**Thur Sept 23 Medicare, Medicaid, & CMS (Centers for Medicare and Medicaid Services)**

**Kaiser Family Foundation. *Medicare: A Primer*. 2010.**

**Kaiser Family Foundation. *Medicaid: A Primer*. 2010.**

**Guterman. *Developing Innovative Payment Approaches*. Commonwealth Fund.**

**Tues Sept 28 Obama Care and Health Reform at the National Level  
[Stuart Guterman, The Commonwealth Fund]**

**Commonwealth Fund. *Timeline for Health Care Reform Implementation: Health Insurance Provisions*. April 1, 2010.**

**Commonwealth Fund. *Timeline for Health Care Reform Implementation: System and Delivery Reform Provisions*. April 1, 2010.**

**OPTIONAL/SKIM: Commonwealth Fund. *Health Insurance Exchanges and the Affordable Care Act: Key Policy Issues*. July 2010.**

**Thur Sept 30 International Comparisons of Health Care Systems**

**Anderson and Frogner. "Health Spending in OECD Countries: Obtaining Value per Dollar." *Health Affairs*. 2008.**

**Tues Oct 5 Case Analysis: Blue Cross & Blue Shield Plans**

***Key State Blue Cross and Blue Shield Plan: A Strategy for Winning in the Market Through Customer-Focused Service*. [Study.Net]**

**Case write-up assignment:**

- 1. How did Key State Blue Cross become more customer-focused, and what were the major steps and barriers in this transition? (~ 2 pages)**
- 2. Does Key State Blue Cross have unique competencies or comparative advantages that allow it to make an easier transition to greater customer focus than its competitors, or are these organizational changes fairly replicable across the industry? (~1 page)**
- 3. What future challenges to maintaining quality customer service do you expect Key State Blue Cross will face over the next ten years? (~2 pages)**

## PART II : PROVIDERS & THE DELIVERY OF HEALTH CARE

### Thur Oct 7 Hospital Quality and the Toyota Production System

Spear. “Fixing Health Care from the Inside, Today.” *Harvard Business Review*. 2005.

HBS Case: *Virginia Mason Medical Center*

### Tues Oct 12 Academic Medical Centers

[Ralph Muller, CEO, University Pennsylvania Health System]

Brookings Institution: *The Path Forward for Academic Medical Centers: Innovation, Economics, and Better Health*.

AHA: *TrendWatch: Teaching Hospitals*. 2009.

### Thur Oct 14 Health Care Services and the Role of Venture Capital

[Darren Black, Partner - SV Life Sciences Advisers]

Barclays Capital: *Health Care Distribution & Technology*. 2010.

*Marwood Analysis of Obama Health Plan Impact*. [slide]

OPTIONAL/SKIM. Citi: *2010 Healthcare Outlook*.

### Tues Oct 19 Integrative Session: Review of Mid-Term Exam

Mid-Term Exams Due by Start of Class

Thur Oct 21 NO CLASS

Tues Oct 26 NO CLASS

### Thur Oct 28 Recent Provider Trends & Issues: Accountable Care Organizations, Disruptive Innovations, and Low-Cost High-Quality Care

Iglehart: “Low-Cost High-Quality Care.”

Burns et al. “Strategic Response by Providers to Specialty Hospitals, Ambulatory Surgery Centers, and Retail Clinics. *Population Health Management* (Forthcoming).

Quality Circle meets after class



**Tues Nov 2    Pharmacy Benefit Managers (PBMs) & Pharmaceutical Wholesalers**  
**[Karl Kellner, Vice-President and Partner, Booz-Allen]**

**AIS: *PBM Contracting and Transparency Issues and Models*. 2008.**

**Kaiser Foundation: *Understanding the US Commercial Pharmaceutical Supply Chain*.**

**Thur Nov 4    Case Analysis: The Cleveland Clinic**  
**[Toby Cosgrove, M.D. – CEO, The Cleveland Clinic]**

**HBS Case: *The Cleveland Clinic: Growth Strategy 2008*. [Study.Net]**

**Case write-up assignment:**

1. Discuss the impact of health care reform on the Cleveland Clinic's current business model. What aspects pose the greatest opportunity? What represents the biggest threats? (~ 1 page)
2. How vital is the role of paying physicians on a salary basis to the Cleveland Clinic's culture? Do you believe the changes it has made over the past decade would have been possible if its physicians were fee for service? (~ 0.5 pages)
3. Do you believe that the Cleveland Clinic's investment in preventative health and a patient centric reorganization will be a financially successful strategy? (~ 1.5 pages)
4. You are the CEO of the Cleveland Clinic. Of the growth strategies discussed in the case, which ONE would be the most promising avenue for growth and why? What problems do you see with the other strategies? What internal factors may constrain the Clinic's growth? (~ 2 pages)

**Tues Nov 9    Global Comparison with India and The People's Republic of China:**  
**Industry Landscape, Health Reforms and Their Impact**

**Hu, Tang, Liu et al.: "Reform of How Health Care is Paid for in China: Challenges and Opportunities." *The Lancet*. October 20, 2008.**

**Yip and Mahal. "The Health Care Systems of China and India: Performance and Future Challenges." *Health Affairs* (July/August 2008).**

## **PART III: PRODUCERS / SUPPLIERS**

### **Thur Nov 11 Overview of the Biotechnology Industry**

[ Eric Schmidt, Ph.D. – Managing Director, Cowen ]

[SKIM] Cowen: *Biotechnology Quarterly: Launch Etiquette*.

**FOR THOSE WITH NO BACKGROUND - - PLEASE SKIM:**

Pfeffer. “The Biotechnology Sector – Therapeutics.” In Burns (Ed.), *The Business of Healthcare Innovation* (Cambridge University Press, Cambridge UK, 2005). Chapter 3.

### **Tues Nov 16 Overview of the Pharmaceutical Industry**

[Patricia Danzon, Ph.D., Professor of Health Care Mgmt, Wharton School]

Longman. “Pharma’s Strategic Divide: Focus or Diversify?” *In Vivo* (Sept 2008).

**FOR THOSE WITH NO BACKGROUND - - PLEASE SKIM:**

Northrup. “The Pharmaceutical Sector.” In Burns (Ed.), *The Business of Healthcare Innovation* (Cambridge University Press, 2005). Chapter 2.

### **Thur Nov 18 The Medical Device Industry**

Kruger. “The Medical Device Sector.” In Burns (Ed.), *The Business of Healthcare Innovation* (Cambridge University Press, 2005). Chapter 6.

### **Tues Nov 23 New Startups in the Medical Device Industry**

[David Cassak, Managing Partner, Windhover Information]

Cassak. “Negative Innovation: Helping Reduce Health Care Technology Costs.” *In Vivo* (June 2010).

Cassak. “Abbott Ventures: Extending Horizons in Abbott’s Device Pipeline.” *Start-Up* (April 2010).

Gilbert. “Creating a Winning Medtech Business Model for a Post-Reform World.” *In Vivo* (July 2010).

### **Thur Nov 25 HAPPY THANKSGIVING [no class]**

**Tues Nov 30** **Collaborations & Business Development in the Life Sciences**  
 [Ad Rawcliffe – Senior Vice President, Worldwide Business Development and Finance, Glaxo SmithKline]

Morrison et al. “Biopharma Trends: Nowhere to Go But Up.” *In Vivo*. January 2010.

Bonifant & Kelly. “Reimbursement: The New Biopharma Investment Hurdle.” *In Vivo* June 2010.

**Thur Dec 2** **INTEGRATIVE CASE: Balancing Medical Innovation with both the Clinical and Economic Customer: Illustration from Medical Devices**

Burns. “How the Health Care Value Chain Operates.” In Burns (Ed.), *The Health Care Value Chain*

HBS Case: *I’ve Got Rhythm: Selling Cardiac Rhythm Management Devices* [Study.Net]

**Tues Dec 7** **Innovation and R&D Creativity in the Life Sciences Industry**

Herzlinger. *Innovating in Health Care – Framework*. [Study.Net]

HBS Case: *Wyeth Pharmaceuticals: Spurring Scientific Creativity with Metrics*

**Thur Dec 9** **Case Analysis: Strategic Alliances Between Pharma and Biotech**

HBS Case: *Immusol and Novartis*. [Study.Net]

Case write-up assignment:

1. Explain how reimbursement for biologics factors into assessing the deal and the optimal price.
2. How do current health reform efforts and potential biosimilar legislation affect the potential deal?
3. Under today's environment, should Immusol become a fully-integrated drug company or a fully integrated pharmaceutical network?

**Wed Dec 16** **Final Exam**