

**THE WHARTON SCHOOL
UNIVERSITY OF PENNSYLVANIA**

**THE HEALTH SERVICES SYSTEM - HCMG 841
FALL 2011**

Class Meetings:	Tuesday/Thursday, 3:00-4:20 p.m. Huntsman Hall G60	
Course Instructor:	Lawton Robert Burns, Ph.D., MBA Chair, Department of Health Care Management 203 CPC	
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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**

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* (7th Edition, Delmar Press, 2007).
2. Jonas & Kovner, *Health Care Delivery in the United State* (9th Ed., Springer, 2008).
3. Shi & Singh, *Delivering Health Care in America* (5th Ed., Jones & Bartlett, 2011).
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)

Four (4) Course Requirements

1. Mid-Term Examination [25 points] Tues October 18th

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 6th, Nov 8th, Dec 8th

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] **TBA** (don't make travel plans yet!)

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

Tues Aug 2

History of Hospitals and Current Hospital Issues

Powerpoint Slides (Webcafe)

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=27024

Wed Aug 3

History of the Medical Profession and Current Manpower Issues

Powerpoint Slides (Webcafe)

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=27029

Thur Aug 4

History of the Health Insurance Industry & Rise of Managed Care

Powerpoint Slides (Webcafe)

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

Video on WebCafe: Link:

http://spike.wharton.upenn.edu/media/index.cfm?method=read&video_id=27044

INTRODUCTION: GLOBAL ISSUES IN HEALTHCARE

Tues Sept 8 The Rising Cost of Healthcare: Causes and Solutions

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

Sisko et al.: “National Health Spending Projections: The Impact of Reform Through 2019.” *Health Affairs* (October 2010). [Webcafe]

Tues Sept 13 International Comparisons of Health Care Systems

Anderson and Frogner. “Health Spending in OECD Countries: Obtaining Value per Dollar.” *Health Affairs*. 2008. [Webcafe]

Thur Sept 15 Overview of the Health care Industry: “The Big Picture” [Jeff Goldsmith, President, Health Futures]

SKIM HBS Case: Challenge Facing the U.S. Healthcare System [Study.Net]

PART I : PAYERS & FISCAL INTERMEDIARIES

Tues Sept 20 Employers and Wellness Initiatives

HBS Case: Pitney Bowes [Study.Net]

Thur Sept 22 Medicare & CMS (Centers for Medicare and Medicaid Services)

Kaiser Family Foundation. *Medicare: A Primer*. 2010. [Webcafe]

Kaiser Family Foundation. *Medicaid: A Primer*. 2010. [Webcafe]

SKIM Guterman. *Developing Innovative Payment Approaches*. Commonwealth Fund. [Webcafe]

Tues Sept 27 Medicaid & State Healthcare Reform Initiatives: Massachusetts & Vermont
[Nancy Turnbull, Senior Lecturer on Health Policy - Harvard School of Public Health; Former First Deputy Commissioner, Mass. Division of Insurance]

McDonough et al., “Massachusetts Health Reform Implementation: Major Progress and Future Challenges.” *Health Affairs* (2008). [Webcafe]

HealthConnector. *Massachusetts Health Care Reform: 2010 Progress Report*. [Webcafe]

Thur Sept 29 Health Insurance in the Private Market
[Richard G. Popiel, MD, MBA, President & Chief Operating Officer Horizon Healthcare Innovations]

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

Berwick. “The Triple Aim.” *Health Affairs* [Webcafe]

Popiel. Horizon Blue Cross press release. [Webcafe]

Tues Oct 4 Health Care Services and the Role of Venture Capital
[Darren Black, Partner - SV Life Sciences Advisers]

Oppenheimer. *Healthcare Services Weekly* (April 29, 2011). [Webcafe]

Thur Oct 6 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. Key State Blue Cross and Blue Shield (KSBCBS) has pursued a customer-focused strategy. Can health plans win in the marketplace following this approach? What challenges does KSBCBS face by competing on customer service? (~ 2 pages)**
- 2. Based on your understanding of insurers, what are the key objectives of health insurance plans? Does improved customer service help them to meet these objectives? (~1 page)**
- 3. Do investments in information technology (IT) help health insurance plans to become more efficient and to compete in the marketplace? What else might be needed beyond IT to gain efficiencies and compete? (~2 pages)**

PART II : PROVIDERS & THE DELIVERY OF HEALTH CARE

- Tues Oct 11** **Delivering Cost-Effective Care to the Chronically-Ill: “Hot Spots”**
 [Katherine Schneider, MD, Senior VP – Health Engagement, AtlantiCare]

 Atul Gawande, “The Hot Spotters”, *New Yorker* January 24, 2011 [Webcafe]

 Thomas Lee, “Putting the Value Framework to Work,” *New England journal of Medicine* December 23, 2010 [Webcafe]
- Thur Oct 13** **Hospital Quality and the Toyota Production System**

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

 HBS Case: *Virginia Mason Medical Center* [Study.Net]
- Tues Oct 18** **Integrative Session: Review of Mid-Term Exam**

 Mid-Term Exams Due by Start of Class
- Thur Oct 20** NO CLASS
- Tues Oct 25** NO CLASS
- Thur Oct 27** **Academic Medical Centers & Hospital Strategy**
 [Mike Dandorph, Senior VP for Business Development, University of Pennsylvania Health System]

 Hospitals: *Consultant Strategy Compilation* [Webcafe]

 Kaufman: “Ready or Not...” [Webcafe]
- Tues Nov 1** **The Kaiser System**
 [Bernadette Loftus, M.D., Associate Executive Director, Kaiser Permanente Medical Group for the Mid-Atlantic States]

 McCarthy et al., *Kaiser Permanente: Bridging the Quality Divide* [Webcafe]

 Thomas Lee, *Turning Doctors into Leaders* [Webcafe]

Thur Nov 3 Accountable Care Organizations

Goldsmith, “Accountable Care Organizations: The Case for Flexible Partnerships Between Health Plans and Providers.” *Health Affairs* [Webcafe]

Higgins et al. “Early Lessons from ACOs in the Private Sector.” *Health Affairs* [Webcafe]

SKIM: Brookings Institute. The ACO Toolkit. [Webcafe]

Tues Nov 8 Case Analysis: The Cleveland Clinic

[Martin Harris, M.D. – CIO and Strategy, The Cleveland Clinic]

Porter & Teisberg, *Redefining Health Care*, Pp. 149-169, 202-218 [Webcafe]

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)

PART III: PRODUCERS / SUPPLIERS

Thur Nov 10 Overview of the Pharmaceutical Industry

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

Munos, “How to Avert Biopharma’s R&D Crisis.” *In Vivo* (2011). [Webcafe]

FOR THOSE WITH NO PHARMA BACKGROUND - - PLEASE SKIM:
Northrup. “The Pharmaceutical Sector.” In Burns (Ed.), *The Business of Healthcare Innovation* (Cambridge University Press, 2005). Chapter 2.

Tues Nov 15 New Stanford Business School Case on Conflicts of Interest in the Development of Medical Devices
[Ellie Pidot, VP - Strategy, Medtronic]

Stanford Business School Case. Zenios, Burns, and Denend, *The Role of Physicians in Device Innovation: Critical Success Factor or Conflict of Interest?* [Handout]

FOR THOSE WITH NO MEDTECH BACKGROUND - - PLEASE SKIM:
Kruger. “The Medical Device Sector.” In Burns (Ed.), *The Business of Healthcare Innovation* (Cambridge University Press, 2005). Chapter 6.

Thur Nov 17 Pharmacy Benefit Managers (PBMs) & Pharmaceutical Wholesalers
[Karl Kellner, McKinsey]

Koster. “PBM Pendulum Swing.” *Employee Benefit News* February 1, 2011
[Webcafe]

AISHealth. “(2011 Outlook): Experts Predict – Reform Fallout, Limited Networks, Specialty Rx Glut, Consolidation.” January 7, 2011. [Webcafe]

The Pink Sheet. “Express Scripts/Medco’s Broad Reach Could Reshape Specialty Benefit Dynamics.” August 15, 2011.

OPTIONAL: Kaiser Foundation: *Understanding the US Commercial Pharmaceutical Supply Chain*. [Webcafe]

OPTIONAL: JP Morgan. *PBM Survey*. [Webcafe]

OPTIONAL: JP Morgan. *Healthcare Technology & Distribution*. [Webcafe]

Tues Nov 22 Overview of the Biotechnology Industry
[Eric Schmidt, Ph.D. – Managing Director, Cowen]

SKIM: Cowen. *Biotechnology Quarterly. Industry Outlook. Bring on the Competition: Round 2*. [Webcafe]

FOR THOSE WITH NO BIOTECH BACKGROUND - - PLEASE SKIM:
Pfeffer. “The Biotechnology Sector – Therapeutics.” In Burns (Ed.), *The Business of Healthcare Innovation* (Cambridge University Press, Cambridge UK, 2005). Chapter 3.

Thur Nov 24 HAPPY THANKSGIVING [no class]

Tues Nov 29 Medical Device Industry
[Ellen Cunniff, General Manager – North America, Becton Dickinson]

Standard & Poors: *Industry Survey: Health Care Products & Supplies*
[Webcafe]

Thur Dec 1 Innovation and R&D Creativity in the Life Sciences Industry

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

HBS Case: Wyeth Pharmaceuticals [Study.Net]

Tues Dec 6 Supplier Sector in Emerging Markets
[MK Raheja, Global Head of Cataract & Corneal R&D at Abbott Medical Optics]

Reading: TBA

Thur Dec 8 Collaborations & Business Development in the Life Sciences;
Case Analysis: Strategic Alliances Between Pharma and Biotech
[Ad Rawcliffe – Senior Vice President, Worldwide Business Development and Finance, Glaxo SmithKline]

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?

TBA Final Exam