

**THE WHARTON SCHOOL
UNIVERSITY OF PENNSYLVANIA**

**THE HEALTH SERVICES SYSTEM - HCMG 841
FALL 2013**

Class Meetings: Tuesday/Thursday, 3:00-4:20 p.m.
SHDH 1206

Course Instructor: Lawton Robert Burns, Ph.D., MBA
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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*” in the US (payers, providers, and producers), their interactions, and their divergent incentives**
- 2. Analyze the major problems confronting the US (and all other) health care systems: controlling rising costs, providing insurance coverage to all, improving quality, and balancing all three goals**
- 3. Provide *global comparisons* of the US and ROW (rest of world) in terms of: disease patterns / epidemiology, financing, delivery systems, insurance reform, and technology development**
- 4. Compare the different *technology sectors* in healthcare: pharmaceuticals, biotechnology, information technology, and medical devices**
- 5. 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, those who use computers and electronic devices in class should sit in the back row of the 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 Canvas (organized into folders for each class). All HBS cases and some book chapters are available from Study.Net. Additional readings are found in Burns, *The Business of Healthcare Innovation* 2nd Edition (Cambridge University, 2012), which is available for purchase in the bookstore.

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* (4th 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 8th

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 10/8. Students should not discuss the exam or work in groups.

2. 3 Case Write-ups – by Segment [10 points each] Oct 1st, Oct 31st, Dec 3rd

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**

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.

INTRODUCTION (A): HISTORY OF US HEALTH CARE SYSTEM

Tues Aug 27

Introduction to Course & History of Hospitals

Burns. "The Business of Healthcare Innovation in the Wharton School Curriculum." In Burns (Ed.), *The Business of Healthcare Innovation* (Cambridge University Press, Cambridge UK, 2012). Chapter 1.

Thur Aug 29

History of Hospitals (cont) and Current Hospital Issues

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 on Study.Net and also at:
<http://assets.wharton.upenn.edu/~burnsl/html/Burns%20TransformationoftheAmericanHospital.pdf>

Tues Sept 3

History of the Medical Profession and Current Manpower Issues

Burns, Goldsmith, and Muller. "History of Physician-Hospital Collaboration," in Crosson and Tollen (Eds.), *Partners in Health* (2010).

Thur Sept 5

History of the Health Insurance Industry & Rise of Managed Care

Roberts. "History of Health Insurance in the US and Colorado". Read pp. 1- 26.

Kaiser Family Foundation: *How Private Health Coverage Works: A Primer*. 2008 Update.

INTRODUCTION (B): GLOBAL ISSUES IN HEALTHCARE

Tues Sept 10 The Rising Cost of Healthcare: Causes and Solutions

Kaiser Family Foundation. *Health Care Costs: A Primer*. 2012.

Hartman, Martin, Benson et al. "National Health Spending in 2011: Overall Growth Remains Low, But Some Payers and Services Show Signs of Acceleration," *Health Affairs* 32(1) (January 2013): 87-98.

Thur Sept 12 Overview of the Health Care Industry: “The Big Picture”
[Jeff Goldsmith, Ph.D., Associate Professor, Univ of Virginia]

HBS Case: *Challenge Facing the U.S. Healthcare System*. Case # 9-606-096.

HBS Case: *The Market for Healthcare*. Case # 9-312-040.

PART I : PAYERS & FISCAL INTERMEDIARIES

Tues Sept 17 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]

Kaiser Family Foundation. *Massachusetts Health Care Reform: Six Years Later*. (2012).

OPTIONAL: Longer version

Blue Cross of Massachusetts Foundation. *Massachusetts Health Reform: A Five-Year Progress Report*. (2011).

Thur Sept 19 Overview: Patient Protection and Affordable Care Act (PPACA)

Kaiser Family Foundation: *Summary of the Affordable Care Act*. 2013.

Kaiser Family Foundation: *Establishing Health Insurance Exchanges*. 2013.

Tues Sept 24 Employers and Wellness Initiatives

HBS Case: *Pitney Bowes: Employer Health Strategy*. Case # 9-709-458.

Weldon, “Fix the Health Care Crisis, One Employee at a Time,” *Harvard Business Review Web Exclusive*.

Thur Sept 26 Medicare & CMS (Centers for Medicare and Medicaid Services)

SKIM THE FOLLOWING:

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

System Approach to Medical Home Transformation,” *Journal of Ambulatory Care Management* (2011).

Tues Oct 8 Integrative Session: Review of Mid-Term Exam

Mid-Term Exams Due by Start of Class

Thur Oct 10 NO CLASS – Fall Break

Tues Oct 15 NO CLASS – Q1 Core Exams

PART II : PROVIDERS & THE DELIVERY OF HEALTH CARE

Thur Oct 17 International Comparisons of Health Care Systems

Squires, *The U.S. Health System in Perspective: A Comparison of Twelve Industrialized Nations* (Commonwealth Fund, July 2011).

Tues Oct 22 Hospital Process Improvement and the Toyota Production System

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

HBS Case: *Virginia Mason Medical Center*. Case # 9-606-044.

Thur Oct 24 Overview of the Pharmaceutical Industry

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

Munos, “Lessons from 60 Years of Pharmaceutical Innovation,” *Nature Reviews / Drug Discovery* (2009).

**FOR THOSE WITH NO PHARMA BACKGROUND - - PLEASE SKIM:
Northrup et al. “The Pharmaceutical Sector: Rebooted and Reinvigorated.”
In Burns (Ed.), *The Business of Healthcare Innovation* (Cambridge
University Press, 2012). Chapter 2.**

Tues Oct 29 Overview: Health Care Information Technology

[John Glaser, Ph.D., CEO - Siemens; former CIO at Partners Healthcare]

Kellermann et al. “What Will it Take to Achieve the As-Yet Unfulfilled

Promises of Health Information Technology?” *Health Affairs* 32(1) (2013).

DesRoches et al. “Adoption of Electronic Health Records Grows Rapidly, But Fewer than Half of US Hospitals Had At Least a Basic System in 2012”, *Health Affairs* 32(8) (2013).

FOR THOSE WITH NO IT BACKGROUND - - PLEASE SKIM:

Powell and Goldsmith. “ The Healthcare Information Technology Sector” In Burns (Ed.), *The Business of Healthcare Innovation* (Cambridge University Press, Cambridge UK, 2012). Chapter 7.

Thur Oct 31 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.

HBS Case: *The Cleveland Clinic: Growth Strategy 2012*. Case # 9-709-473. [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. 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? (~ 4 pages)

Tues Nov 5 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 7 IDNs, ACOs, and OWAs with TLAs

Burns and Pauly, “Integrated Delivery Networks (IDNs): A Detour on the Road to Integrated Health Care?” *Health Affairs* (2012).

Burns and Pauly, “Accountable Care Organizations May Have Difficulty

Avoiding the Failures of the Integrated Delivery Networks of the 1990s,”
[and online appendix], *Health Affairs* (November 2012).

Tues Nov 12 Health Care Services and the Role of Venture Capital
[Darren Black, Partner - SV Life Sciences Advisers]

RBC Capital Markets. *2012 Healthcare Services: Full-Year-in-Review*.

PART III: PRODUCERS / SUPPLIERS

Thur Nov 14 Overview of the Biotechnology Industry
[Eric Schmidt, Ph.D. – Managing Director, Cowen]

Schmidt, *Isis Pharmaceuticals*. Cowen. November 9, 2012.

Ernst & Young, *Beyond Borders: Matters of Evidence* (2013).

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, 2012). Chapter 4.

Tues Nov 19 **Diversification Across the Health Care Value Chain: Pharmacy Chains.**
{Brad Fluegel, Senior VP & Chief Strategy Officer, Walgreens}

Thur Nov 21 Medical Device Sector
[Steven Oesterle, M.D. - Medtronic]

Ernst & Young: *Pulse of the Industry – Medical Technology Report* (2012).

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.

Tues Nov 26 **Transparency & Conflicts of Interest**

Stanford Business School Case: *The Role of Physicians in Device Innovation: Critical Success Factor or Conflict of Interest?* Case # OIT-105.

Government Accountability Office, *Health Care Price Transparency*

(September 2011). GAO 11-791.

Thur Nov 28 **HAPPY THANKSGIVING [no class]**

Tues Dec 3 **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*. Case # 9-303-038. [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?

Thur Dec 5 **Innovation and R&D Creativity in the Life Sciences Industry**

HBS Case: *Wyeth Pharmaceuticals: Spurring Scientific Creativity with Metrics*. Case # 9-607-008.

Burns, *Business of Healthcare Innovation*: Chapter 3.

Tues Dec 10 **Combining Management and Science to Develop Start-ups in Emerging Markets: Biotech in China**

Sarah Frew, Ph.D., MBA, TetraLogic Pharmaceuticals]

Erin McCallister, “China’s Bottleneck,” *BioCentury* 21(8) (2013).

Arlene Weintraub, “China’s Rise Drives Investment in Biotech Drugs,” *FierceBiotech*.

Le Deu et al., “Health Care in China: Entering ‘Uncharted Waters’,” *McKinsey Quarterly* (November 2012).

TBA **Final Exam**

