

**Value Based Purchasing: A Definition**  
(Adapted from the National Business Coalition on Health)

*“As major purchasers of health care services, employers have the clout to insist on change. Unfortunately, they have also been part of the problem. In buying health care services, companies have forgotten some basic lessons about how competition works and how to buy intelligently.”*

**Michael Porter, Professor**  
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***Introduction***

The business community of America is increasingly at a competitive disadvantage in a global economy because of two forces: the ever rising costs of health insurance benefits and poor quality health care. The former puts tremendous pressure on corporate profit generation; the later is a drag on workforce health and productivity. Both significantly impact the bottom line and are not sustainable over time.

The business community learned from its own production processes that rising costs and poor quality are closely related. Health care that is not evidence-based and is provided through unsafe, unnecessary, fragmented or inefficient processes of care is wasteful, expensive and deleterious to positive health outcomes. All of these elements currently plague the health care system. Even the underuse of some needed services impacts employers who must bear higher costs for the progression of an illness that could have been prevented or better managed.

But pointing the finger at the health care provider community for putting the business community at a competitive disadvantage, while tempting, is both unproductive and wrong. All stakeholders in health care must share in the blame for the current system and be part of the needed solutions. This is particularly true for the employer community that must bear the primary responsibility for creating a payment system that rewards inefficient and poor quality health care. Employers have only themselves to blame for a system that pays for volume and individual services over achievable outcomes and integrated services, pays for sickness treatment over prevention, and pays for errors and “do overs” over demonstrated performance. Employers are also to blame for a payment system that insulates consumers from cost sensitivity because of third party payment.

That National Business Coalition on Health (NBCH), representing over 70 business and health coalitions, believes that the goal of controlling health care costs and improving the quality and efficiency of health care services can only be realized if private employers join with other stakeholders, particularly public employers and the Medicare and Medicaid programs, to pursue a strategy of value based purchasing. Business and health coalitions, as the voice of the employer community within local and regional communities and markets where health care is delivered, are uniquely positioned to play a leadership role in organizing and implementing value based purchasing strategies. But

success in leading this effort will depend on the NBCH coalition community developing a common understanding of value based purchasing and its key elements. The definition below was developed with this purpose in mind.

### *What is Value Based Purchasing?*

#### **Value based purchasing is:**

- The **common strategy** that NBCH member coalitions are promoting and deploying to reform the health care system, community by community.
- A **demand side strategy**, involving the actions of coalitions, employer purchasers, public sector purchasers (e.g. Medicare and Medicaid), health plan payers, and individual consumers, **to reward excellence in health care delivery**. Rewards can take three dominant forms: **enhanced reputation and recognition** through public reporting; **enhanced payment** through differential reimbursement; and **enhanced market share** through purchaser, payer, and/or individual consumer selection.

#### **Value based purchasing is not:**

- The **supply side strategy of continuous quality improvement** espoused by the Institute of Medicine in *Crossing the Quality Chasm*. Value based purchasing is, however, a critical external motivator in establishing a business case for why providers of care should embrace, lead, and implement the reengineering of health care delivery. (Note: While many NBCH member coalitions are participating and even leading health care quality improvement projects, these important and worthwhile efforts should not be confused with the demand side strategy of value based purchasing.)

### *What are the Four Pillars of Value Based Purchasing?*

**Pillar One: Standardized Performance Measurement** Standardized performance measurement is the foundation upon which value based purchasing rests. There is no capacity to reward excellence in health care without first measuring performance.

Priority areas for measurement include the following:

- **Consumer behaviors**, particularly healthy lifestyle choices and the self-management of chronic diseases;
- **Medical services and interventions**, particularly competing interventions for the same or similar diagnosed illness/condition;
- **Health plan performance;**
- **Hospital performance;**
- **Physician group performance;**
- **Individual physician and other health care practitioner performance.**

The dimensions of health care performance that need to be measured are captured by the Institute of Medicine's STEEEP typology:

- **Safe;**

- **Timely;**
- **Efficient;**
- **Effective;**
- **Equitable;**
- **Patient-centered.**

A critical element of standardized performance measurement is the ability to access and aggregate data from different sources, including administrative, medical record, and patient survey based information in order to generate robust, comprehensive and meaningful performance profiles. The establishment of all payer, all provider, community databases becomes an important priority in generating reliable performance measurement and a critical arena for coalition focus.

(Note: NBCH and coalitions are participants in and supporters of the national organizations working on the establishment of standardized performance measures. These organizations include: NQF, CMS, AHRQ, HQA, AQA, the Leapfrog Group, NCQA, JCAHO. Some coalitions are also leading regional and local efforts to establish all payer, community, databases. Still other coalitions are involved in building clinical databases at the community level through the organization of regional health information organizations.)

**Pillar Two: Transparency and Public Reporting** The second pillar in value based purchasing is full transparency and public reporting. Standardized performance measures need to be converted into useful information for purchasers, payers and consumers to inform their decision making, particularly for payment and choice. Research also demonstrates that public reporting can be a significant external motivator for supply side performance improvement, given the importance of community reputation.

(Note: many coalitions have led or have participated in public reporting initiatives at the level of health plans, hospitals, and to a much lesser degree, physician and physician group levels.)

**Pillar Three: Payment Reform** The third pillar of value based purchasing is payment reform. There are two critical aspects of payment reform: first, the principle of differential reimbursement based on demonstrated performance; the second, the need to redesign payment methodology to better align economic incentives with desired outcomes. Both elements of payment reform are needed and complementary. Differential reimbursement or “pay for performance” as it is popularly known, reflects the principle, as in other segments of our economy, that payment rates should be aligned with performance. Differential reimbursement creates a powerful business case, now absent in the current system, for providers to produce high quality and efficient service.

The redesign of payment methods attempts to address an equally important and fundamental issue: the fact that “how” we pay is often a big determinant of the kind of care we receive. To use the most obvious example, fee-for-service reimbursement – the health care system’s most prevalent payment methodology - creates economic incentives

for the increased volume of individual units of care. A more rational approach to encourage efficient care might be to reimburse providers for bundled services or complete episodes of illness. Similarly, if our desired outcome is population care management, capitation may be preferred payment method. Whether these approaches or others, a pillar of value based purchasing should be experimentation with different payment methodologies to better encourage high quality, efficient services and new models of care delivery.

(Note: A small but growing number of coalitions are promoting and leading payment reform efforts. Direct purchasing coalitions are in the best position to directly deploy payment reform strategies given their contractual relationships with producers.)

**Pillar Four: Informed Choice** The final pillar of value based purchasing is informed choice. The challenge here is to encourage demand side participants to choose better performance at all levels of the health care, thus rewarding producers of care with increased market share.

While all demand side participants are important, an increasing priority for employers and health plans is to activate the individual consumer to make better and more informed choices. The important choices for consumers are:

- Choice of **lifestyle**;
- Choice of **treatment intervention**;
- Choice of **compliance** with treatment regimen;
- Choice of **health plan** (when consumers have a choice);
- Choice of **hospital and physician**.

Strategies to influence informed consumer choice include:

- Employer-based and community-based **health and productivity programs** (primarily to influence lifestyle choice, personal behaviors, thus keeping individuals from having to use the health care system);
- **Information dissemination** (particularly through employer/employee communication channels and health plan websites);
- **Evidenced based benefit design**, which refers to approaches that tier medical treatments/interventions (e.g. Pitney Bowes) and/or providers (e.g. high performance networks) by clear evidence of efficacy and performance. This strategy employs the use of co-pay incentives to steer individuals towards effective treatments and high value providers.

(Note: Many coalitions are participating in and leading community based collaboratives for health promotion and disease prevention. Coalitions are also expressing an increased interest in evidenced based benefit design approaches as an alternative to high deductible plan designs (e.g. HSAs, HRAs).

***What is the Role of Business and Health Coalitions in Value Based Purchasing?***

Without employer leadership that is fully engaged both at the individual company level and at the community level, the vision of value based purchasing as a transformational strategy for health care delivery system will not be realized. No other stakeholder in the health care system has more at risk and more to gain than employers, from writing the checks that pay for health care services to depending on that very same system to help produce a company's most competitive asset – a healthy and productive workforce. If employers do not step forward, it is hard to imagine that anyone else will fill this leadership vacuum.

Business and health coalitions have a unique role to play in advising employer members on strategies to deploy as individual employers. But as the collective voice of employers in a defined geographic area, coalitions are increasingly embracing a more significant role: convening and leading value based purchasing strategies at the community level. This role will bring all stakeholders to a common table, will forge multi-stakeholder agreement on a common set of performance measures, will organize data aggregation and public reporting initiatives; and will develop principles and innovative approaches to payment reform and benefit design that motivate providers to improve and consumers to make better decisions. NBCH hopes that this vision of health system reform, through value based purchasing, community by community will be embraced by all NBCH members and that we will work together, as that common community, to get there.