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Issue Brief

How Does Quality Enter into Health Care Purchasing Decisions?

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A number of employers, business consortia, and public purchasers are promoting "value-based purchasing" as a way to improve the quality of patient care. Some purchasers are using publicly available information on health plan and provider performance to make their health plan and provider choices, while others are using their market power to drive improvements in patient care and safety. From a review we conducted of published literature on value-based purchasing, six key strategies used by purchasers emerge:[1]

1. Collecting information and data on the quality of care provided by health plans and providers.
2. Selective contracting with high-quality plans or providers.
3. Partnering with plans or providers to improve quality.
4. Promoting "Six-Sigma" quality, an industry-based model for minimizing errors and waste.
5. Educating consumers on quality issues.
6. Rewarding or penalizing through incentives or disincentives.

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Although it appears that a number of purchasers are beginning to initiate or join value-based purchasing efforts, the majority of purchasers are not active participants. Moreover, there is little evidence to date that these activities are achieving a real impact. This issue brief, which is based on interviews with selected experts in the field, examines the extent of current value-based purchasing efforts and identifies the key obstacles to achieving broader engagement and greater impact, from the basic lack of a "quality-improvement culture" to more tangible barriers, including inadequate plan and physician performance data.[2]

While purchasers, particularly large employers, have yet to exercise fully their market power to demand better health care, many observers believe that they are precisely the group that is most likely to bring about measurable improvements down the road. Finding ways, then, to foster their role in raising the quality of care is crucial to the success of value-based purchasing as a viable model.

VALUE-BASED PURCHASING: FINDINGS FROM A SURVEY

To learn more about existing value-based purchasing (VBP) programs, find successful models, and identify the factors helping and hindering their success, we conducted a telephone survey of experts involved in some way with the VBP movement. Fifty-seven individuals took part in the survey, including 16 employers, 11 executives from insurance companies and health plans, 10 officials with support organizations (e.g., professional societies, consumer and industry advocate groups, and think tanks), seven federal and state government workers, seven academic researchers, and six health care consultants.

Model Value-Based Purchasing Programs

Participants were asked to provide examples of successful VBP programs: they named six business consortia and 12 individual employers.[3] While the examples do not comprise a complete or representative sample of VBP programs nationwide, they did provide a context for the discussions. In a second phase of research, we will investigate existing VBP programs and identify successful program components.

The experts we interviewed pointed to the following factors that contribute to the success of these programs:

- Leadership's commitment to pursuing VBP as a long-term strategy, including investment of human and financial resources.
- Availability and credibility of data to guide identification of better quality and monitor impact of quality improvement interventions.
- Availability of accurate and reliable measures of quality.
- Provider and other key stakeholder involvement in planning VBP activities.
- Incorporation of performance measurement on a provider level, and development of non-punitive feedback mechanisms.
- Use of financial incentives (e.g., bonus payments) to drive quality.
- Development of strategies to educate consumers and empower them to select higher-quality health plans and providers.
- Having sufficient local and regional purchasing power to garner the attention and cooperation of health plans and providers.
- Creation of a corporate culture that makes quality a priority across the entire organization.

Barriers to Value-Based Purchasing

Respondents identified a range of barriers that prevent purchasers from engaging in VBP activities, including problems with incentives, leadership, and data availability. Specific barriers are listed below by category.

General Barriers

- Lack of consensus on what constitutes quality of care.

- Lack of an organization-wide culture in which quality is viewed as an important strategic policy.
- Lack of a business case for quality improvement—i.e., evidence that investments in quality will yield economic rewards.
- Lack of a forum for talking about quality.
- Legislative and political limitations, such as issues related to the Health Insurance Portability and Accountability Act (HIPAA), which could restrict access to data needed to monitor quality and the impact of quality improvement measures.
- Lack of leadership.
- Lack of communication among stakeholders—e.g., between purchasers and insurers and between health plans and participating doctors.

Barriers Related to Quality-of-Care Data

- Limited availability of data.
- Burden associated with collecting or obtaining data.
- Generally poor quality of data, including insufficient level of detail (e.g., physician information) and lack of timeliness.

Barriers Related to Quality Measurement

- Lack of agreement on standardized performance measures.
- Difficulty in interpreting existing performance measures (e.g., what they actually measure; what the expected level of performance is; how important any one measure is in relation to others).
- Lack of consistency in findings across multiple measures.
- Measures focused on care processes rather than patient outcomes.

In addition, the experts we interviewed identified barriers to growth in value-based purchasing that are specific to different stakeholders. According to some respondents, employers are focused primarily on costs rather than quality; are mainly interested in short-term rather than long-term results; are unwilling to invest in quality; and either do not demand quality or do not see themselves as being in the business of health care improvement. Many respondents argued that consumers do not understand quality; choose access and cost over quality; do not actively make decisions about their health care or choice of providers; and tend to overutilize health services. Finally, many respondents said that providers are reluctant to cooperate with efforts to measure quality; are resistant to dissemination of quality information; and question the validity and reliability of current quality measures. Several respondents noted that the lack of financial incentives for providers to furnish higher-quality care is a major barrier.

Factors Affecting Purchasing Decisions

The expert group was asked to rate the extent to which various factors currently enter into health care purchasing decisions. They rated each factor on a scale of 1 to 9, with 1 being the least influential and 9 being the most influential. In decreasing order of importance, the factors they cited as influencing purchasing decisions were cost, geographic coverage of the network, access to care, customer satisfaction, quality of care provided, and information technology capability (Table 1).

Respondents were asked to rate which stakeholders in the health care system could drive improvements in quality and safety. The results are shown in Table 2.

Participants were also asked about the respective roles of public and private purchasers of health care in driving quality. The general consensus was that both parties have potential roles, perhaps even complementary roles, in bringing about lasting change. Public programs were seen as having the most potential market power; one respondent described such programs as "the 800-pound gorilla." However, numerous barriers to using this

Table 1. Ratings of Factors Cited as Influencing Purchasing Decisions

	Mean Rating (9=highest; 1=lowest)	Standard Deviation
Cost	8.6	0.8
Geographic coverage of the network	7.4	1.3
Access to care	7.1	1.3
Customer satisfaction	6.4	1.5
Quality of care provided	4.7	2.0
Information technology capability	4.4	1.9

Source: Goldfarb et al., Office of Health Policy and Clinical Outcomes, Thomas Jefferson University.

Table 2. Ratings of Stakeholders' Ability to Drive Improvements in Health Care Quality and Patient Safety

	Mean Rating (9=highest; 1=lowest)	Standard Deviation
Large employers (>5,000 employees)	7.3	1.3
Government purchasers	7.1	1.9
Consumers	6.9	2.0
Health care providers	6.8	2.1
Insurers	6.3	1.7
Midsize employers (500–5,000 employees)	5.6	1.9
Small employers (<500 employees)	3.5	2.2

Source: Goldfarb et al., Office of Health Policy and Clinical Outcomes, Thomas Jefferson University.

market muscle were noted: public programs have to justify all purchasing decisions; they cannot selectively direct patients to providers judged as offering higher quality; they face higher accountability and political sensitivities; and they cannot be as innovative or nimble as can private purchasers.

Many of those representing public purchasers commented that they are looking to the private market to demonstrate the effectiveness of interventions, which could then be adapted for use in the public sector. Meanwhile, several private purchasers suggested that they would like to do more to influence their local markets but need the greater visibility and market power that only the public payers can wield.

Many of the experts argued that midsize and smaller employers are unlikely to serve as agents of change. Some respondents noted, however, that midsize employers with a concentrated local presence might have greater influence than the large, national employers with lesser presence in any one local market. Several respondents also noted that many of the nationally visible value-based purchasing initiatives currently operating may not be relevant or feasible models for local markets.

Finally, respondents rated the extent to which they believe value-based purchasing is currently having an impact on quality and safety, as well as its potential impact in the future. The results, using the same 1 to 9 scale, are presented in Table 3. As can be seen, respondents felt that value-based purchasing is not currently having a high impact (4.3 mean rating across all respondents), but that its potential impact is significant (7.8). Employers were the group most likely (5.6) to feel that value-based purchasing efforts are already having an impact ($p=.002$).

Table 3. Ratings of the Impact of Value-Based Purchasing on Quality and Safety

	CURRENT IMPACT		POTENTIAL IMPACT	
Constituent Group	Mean Rating (9=highest; 1=lowest)	Standard Deviation	Mean Rating	Standard Deviation
All respondents	4.3	2.0	7.8	1.4
Academic researchers	2.9	0.9	5.8	1.9
Consulting organizations	3.7	2.9	7.5	1.0
Employers	5.6	1.8	8.4	0.6
Federal and state government	4.6	1.6	7.4	1.4
Insurers and health plans	4.0	2.0	8.2	1.2
Support organizations	3.7	1.4	8.0	1.2

Source: Goldfarb et al., Office of Health Policy and Clinical Outcomes, Thomas Jefferson University.

CONCLUSIONS AND RECOMMENDATIONS

Following our survey of experts, a national advisory group composed of a subset of respondents was convened to discuss the implications of the poll results as well as findings from the published literature.[4] Several conclusions and recommendations emerged from the discussion.

Defining Value-Based Purchasing

The advisory group we convened agreed that value-based purchasing should be defined broadly to include the full range of ways purchasers might influence quality. It should include, for example, the dissemination of information to consumers about the quality of care provided by health plans and physicians. Furthermore, it would also be helpful to develop a taxonomy of value-based purchasing efforts that matches individual strategies with the specific issues they are intended to address. The standards for measuring the outcome of VBP efforts need further development as well: in addition to measuring their impact on costs and quality of care, researchers should gauge indirect benefits, such as employee productivity and retention.

Policy Issues

The VBP movement is predicated on the belief that purchasers can use their market power to drive quality improvement. It remains to be seen, however, whether purchasers can succeed in this regard and whether other constituencies—consumers, providers, payers—can help effect change. Public purchasers look to private purchasers to establish the evidence base for VBP efforts, yet private purchasers in most regions lack the market clout to affect health care delivery and financing systems. Public purchasers, moreover, face political and legal constraints to experimentation with VBP activities.

One of the keys to improving the quality of health care is to realign financial incentives. According to advisory group members, purchasers could play a major role in shaping payment systems that emphasize prevention and well care, and that reward payers and providers for delivering quality. Having uniform performance measures also is critical. However, at present, few exist, and those that do, such as the Health Plan Employer Data and Information Set, have been criticized for being focused largely on processes rather than outcomes, and being of limited use in guiding development of specific quality improvement strategies.

Another impediment to the use of VBP is the lack of a clearly established relationship between cost and quality in health care. Many VBP efforts are based on the assumption that a business case for quality does indeed exist, and that the return on investment in VBP efforts can and should be demonstrated. However, the business case for quality is largely theoretical and has yet to be proven

through empirical observation. Some believe that quality may ultimately cost more, and that the focus of VBP should be on "doing the right thing"—ensuring the best possible health care for patients—rather than on controlling long-term spending.

Role of the Employer

Employers engage in VBP activities for a variety of reasons. Some do so out of the belief that they have not been getting value for their money, others out of a sense of duty to provide their employees with good-quality care. Some employers are convinced that VBP activities will lead to direct savings or to indirect benefits such as increased productivity.

So far, large employers with a national presence and regional purchasing coalitions have been the driving forces of the VBP movement, although smaller employers could potentially play a greater role in driving quality within their own markets. Coalitions, in particular, offer several advantages. In addition to greater financial resources, they enjoy a heightened market presence, more extensive and reliable performance data, and a forum for sharing experiences and ideas. In order to foster the development of purchasing coalitions in local markets, a better understanding of their costs and benefits is needed. Answers are needed to a number of questions: Why are employers in coalitions and what do they get out of it? How do coalitions work? Who are the leaders and who rides the coattails? How can a group of employers get started? How do coalitions support each other?

The fact remains, however, that few employers nationwide have VBP programs in place. Although little is known about why more of them do not, several possible explanations have been advanced, including employers' unwillingness to become involved in the health care industry, lack of market power or financial resources, and the dearth of evidence showing that VBP affects costs and quality. If VBP were proven to be effective in raising levels of quality and safety, what would it take to turn more employers into participants?

In the meantime, escalating health care costs are likely to have an immediate effect on the VBP movement. Some employers are already capping their financial commitments to health care through defined contribution plans and thus may have less of an interest in quality. Employers in the early stages of VBP may shift their efforts to cost control. If employers are to be expected to continue investing in quality and safety, establishing a business case for quality will be essential.

Role of the Consumer

The experts convened were in general agreement that consumers have the potential to drive quality improvement. While some argued that consumers do not understand quality, others claimed that consumers are savvy about their health care choices. Many had questions, though, about whether and how to encourage the "end-user" to hold providers accountable for the care they provide. Most concurred that consumers will pay more attention to quality considerations as they become more exposed to out-of-pocket costs—provided they have access to comprehensive, and comprehensible, information on health care providers.

Evaluation of Value-Based Purchasing Activities

The growth of the VBP movement depends to a large extent on evidence of its impact on quality, safety, and costs. Such efforts, however, may take years to produce results, and some of the evaluations currently under way—such as one of the Leapfrog Group's program that is being funded by the Robert Wood Johnson Foundation and the Agency for Healthcare Research and Quality—may be premature. Despite such concerns, there was a general interest expressed in taking a closer look at the VBP initiatives that have reported success. Detailed case studies were mentioned as an important way to document the experiences of those involved in VBP, even if the experiences of national and large employers may not always be applicable at the local level. Case studies, which could serve as the basis for an eventual purchaser

"toolkit," would help generate answers to such important questions as:

- What is working and what is not? What are the criteria for determining if something is working?
- How much time does it take to produce results?
- What infrastructure is needed to create and maintain VBP efforts?
- Which models work in different markets?
- What barriers to VBP were encountered and how were they addressed?
- What impacts did the VBP activities have on insurers, providers, and consumers?

SUMMARY

Efforts on the part of several large employers and business coalitions are beginning to demonstrate health care purchasers' commitment to quality. The Leapfrog Group, for example, has developed a small number of quality-improvement expectations for inpatient providers and plans to continue broadening the scope of its initiatives over time. However, for this and other nationally visible initiatives, it appears that many purchasers are either choosing not to participate, or are passive participants. As one of the respondents to our survey commented, "The pioneers have blazed the path, but not many have followed."

This issue brief has highlighted obstacles to growth of the value-based purchasing movement, including data limitations, measurement concerns, administrative and financial barriers, and stakeholder behaviors and attitudes. Future research should focus on increasing our understanding of how these barriers can be overcome and how the purchaser's role in driving quality improvement can be fostered.

Notes

[1] See Vittorio Maio, Neil I. Goldfarb, Chureen Carter, and David B. Nash, *Value-Based Purchasing: A Review of the Literature*. The Commonwealth Fund, May 2003. Available at http://www.cmwf.org; Midwest Business Group on Health, *Reducing the Costs of Poor Quality Health Care through Responsible Purchasing Leadership*. 2002 Report. Available at http://www.mbgh.org. Accessed December 22, 2002; Meyer, J., Rybowski, L., Eichler, R, *Theory and Reality of Value-Based Purchasing: Lessons from the Pioneers*. Agency for Health Care Policy and Research. Pub. No. 98-0004, 1997.

[2] We are currently conducting a more expansive survey of the purchasing activities of midsize and large employers. The project is being supported by The Commonwealth Fund.

[3] The consortia named were: The Alliance; Buyers Health Care Action Group; Central Florida Health Care Coalition; The Leapfrog Group; Lehigh Valley Business Conference on Health Care; and Pacific Business Group on Health. The individual organizations named were: Dell Computers; Ford Motor Co.; General Electric; General Motors, Honeywell; IBM; Kaiser Permanente; State of New York; Union Pacific; U.S. Air Force; Verizon; and Xerox.

[4] Advisory group members included: **Diane Bechel, Dr.P.H.,** Six SigmaHC Blackbelt, Ford Motor Company; **Robert Berenson, M.D.,** Senior Advisor, Academy for Health Services Research & Health Policy; **Becky J. Cherney,** President & CEO, Central Florida Health Care Coalition; **Charles M. Cutler, M.D.,** Chief Medical Officer, American Association of Health Plans; **Catherine Gallagher,** President, Lehigh Valley Business Conference on Health Care; **Christopher Gorton, M.D.,** Chief Medical Officer, Office of the Medical Director, Pennsylvania Department of Public Welfare; **Maggie Mellen, M.A.,** Senior Vice President of Healthcare, Board of Pensions of The Presbyterian Church (USA); **James Mortimer,** President, Midwest Business Group on Health; **Lee N. Newcomer, M.D.,** Executive Vice President and Chief Medical Officer, Vivius, Inc.; **Carolyn Pare,** Chief Executive Officer, Buyers Health Care Action Group; **Jeffrey Rice, M.D., J.D.,** Executive Vice President, American Healthways; **Gerald Shea,** Assistant to the President for Government Affairs, AFL-CIO; **David M. Spratt, D.O.,** Vice President and Medical Director, Crown Cork and Seal; **Donald Steinwachs, Ph.D.,** Professor and Chair, Johns Hopkins University, Bloomberg School of Public Health; and **John P. Sullivan,** Vice President, Administration, Thomas Jefferson University.

Methodology

In the spring of 2002, a telephone survey was conducted with value-based purchasing experts identified through a literature review, Internet search, and preliminary conversations with selected thought leaders identified through literature review. Separate questionnaires were developed for each of the six constituent groups (academic researchers, consulting organizations, employers, federal and state government, insurers and health plans, and support organizations), although the majority of questions were identical. The primary qualitative, open-ended questions included:

- What is your role in value-based purchasing activities?
- Have you seen any successful models of value-based purchasing? If so, where?
- What factors make them successful?
- What do you see as the key barriers to value-based purchasing?

All quantitatively scored questions were identical across all versions of the questionnaire. Respondents rated factors on a one to nine scale, with one being lowest and nine being highest. The questions included:

- To what extent are each of the following factors entering into purchasing decisions: cost, access, information technology, geographic coverage, customer satisfaction, and quality of care?
- To what extent is value-based purchasing currently affecting quality of care, and to what extent does it have the potential to affect it?
- To what extent can each of the following stakeholders drive improvements in quality: consumers, providers, government purchasers, insurers, and small, midsize, and large employers?

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