

# Innovations in Health System Funding Models

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# Three Frameworks

**I. System Alignment**

**II. Value**

**III. Disruptive Innovations**



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## **Turnaround at the Veterans Health Administration (A)**

Nearing the end of his four-year term as Under Secretary for Health—a position in which he directed the United States Veterans Health Administration (VHA)—Dr. Kenneth W. Kizer, awaited news from the Senate about his reappointment. The veterans' health care system, administered by the VHA, was the largest integrated health care system in North America. When he took the helm in late 1994, Dr. Kizer inherited an antiquated post-World War II-era management system fraught with problems. He immediately made plans to re-engineer the VHA into a modern, responsive, efficient, and effective health care organization. By the end of his first term, he had made substantial headway, but in doing so he had shaken an entrenched bureaucracy to the core, seriously challenged numerous vested interests and taken on members of Congress. However, whether the changes implemented would be enough to take the VHA into the next century remained uncertain. As the Senate deliberated over his confirmation for a second term, Dr. Kizer reflected on the previous few years.

# Realigning Systems

(Golden & Martin, *Healthcare Quarterly*, 2004)

**Operational  
Strategy**

**Structure**

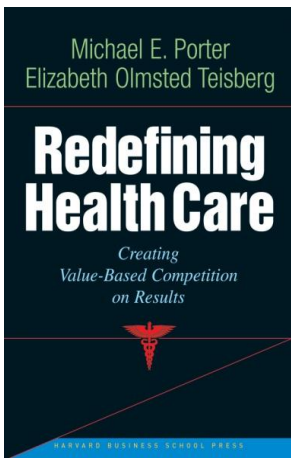
**Performance**

**Information  
&  
Decision Support**

**Rewards**

**People/HRM**





**Organize into Integrated Practice Units (IPUs) around the patient's / client's condition**

**Measure outcomes and cost for every patient / client**

**Reward providers based on results**

**Move to Bundled Prices for Care Cycles**



**Information**

**Organization**

**Measure**

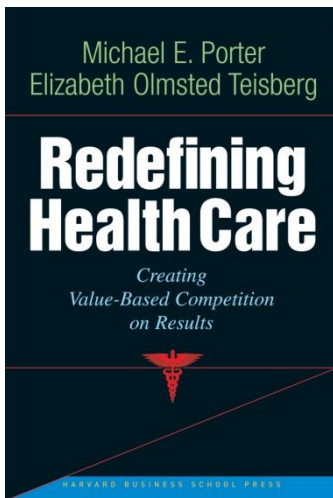
**Positive Competition**

**Bundling**

**Size**

**Create Enabling Information Technology**

**Realize value through learning and scale economies;  
Grow by expanding excellent IPUs**

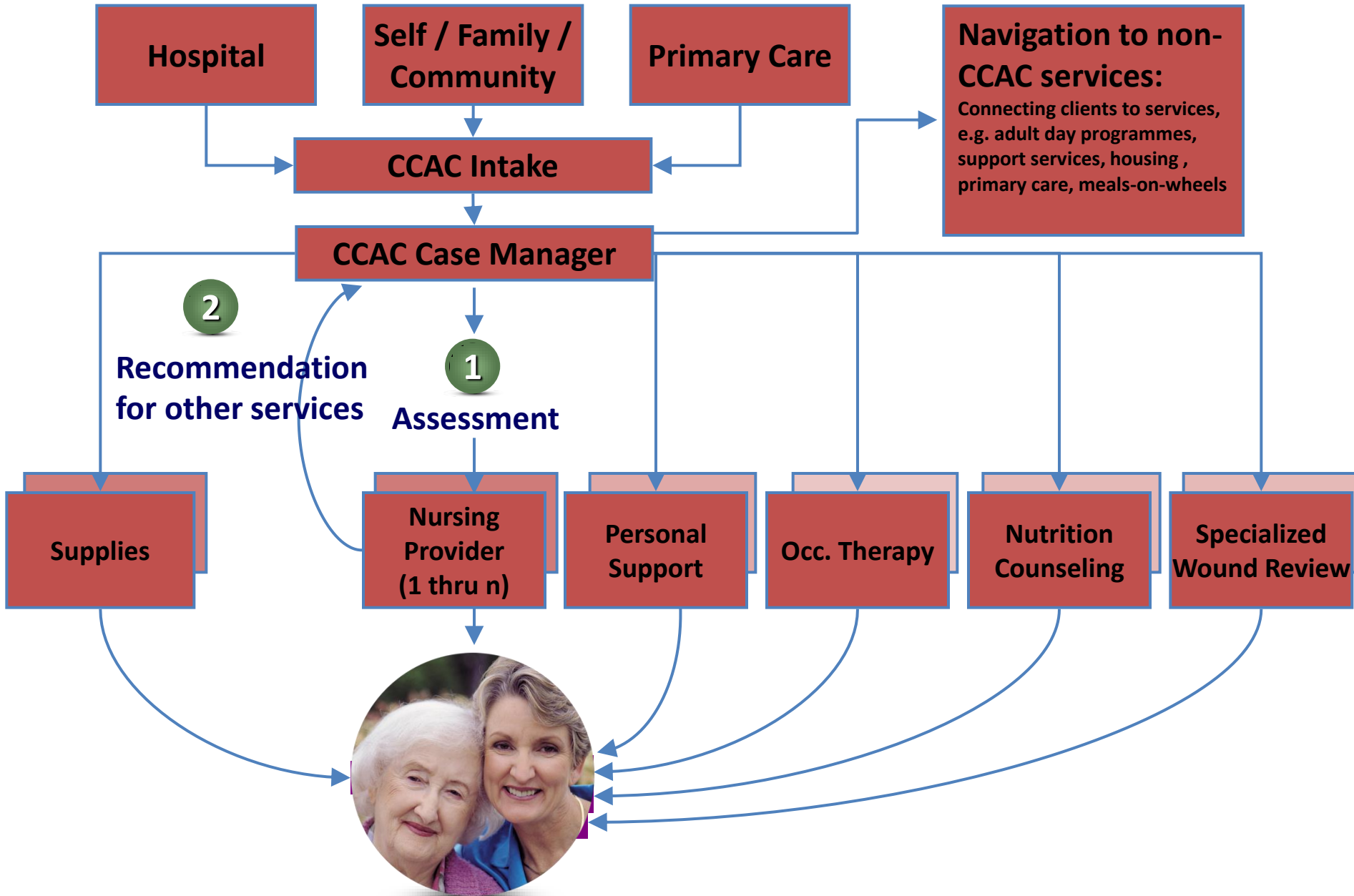


**Broad expertise develops over the care cycle for the patient.**

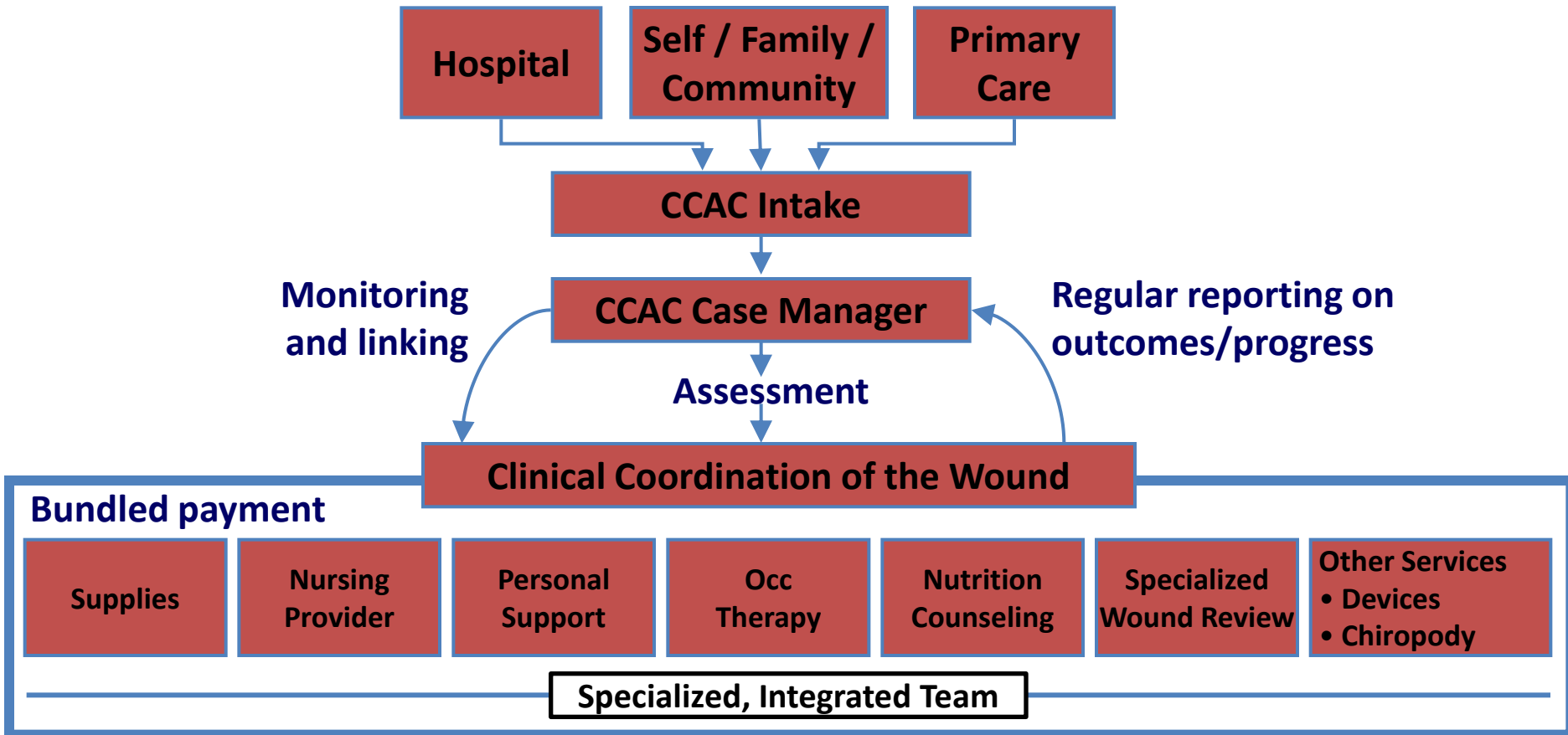
**Attention to results enables and encourages improvement.**



# Current State for Diabetic Foot Ulcer Clients

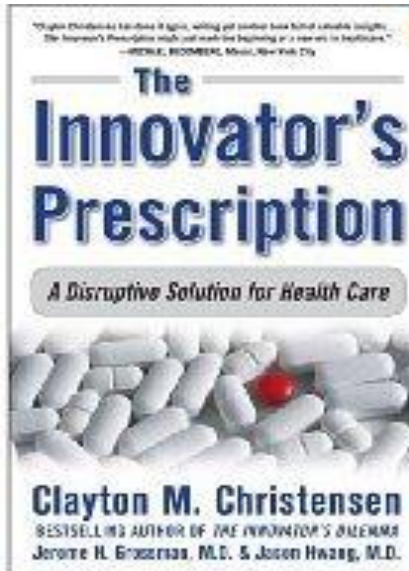


# Future State for Diabetic Foot Ulcer Clients



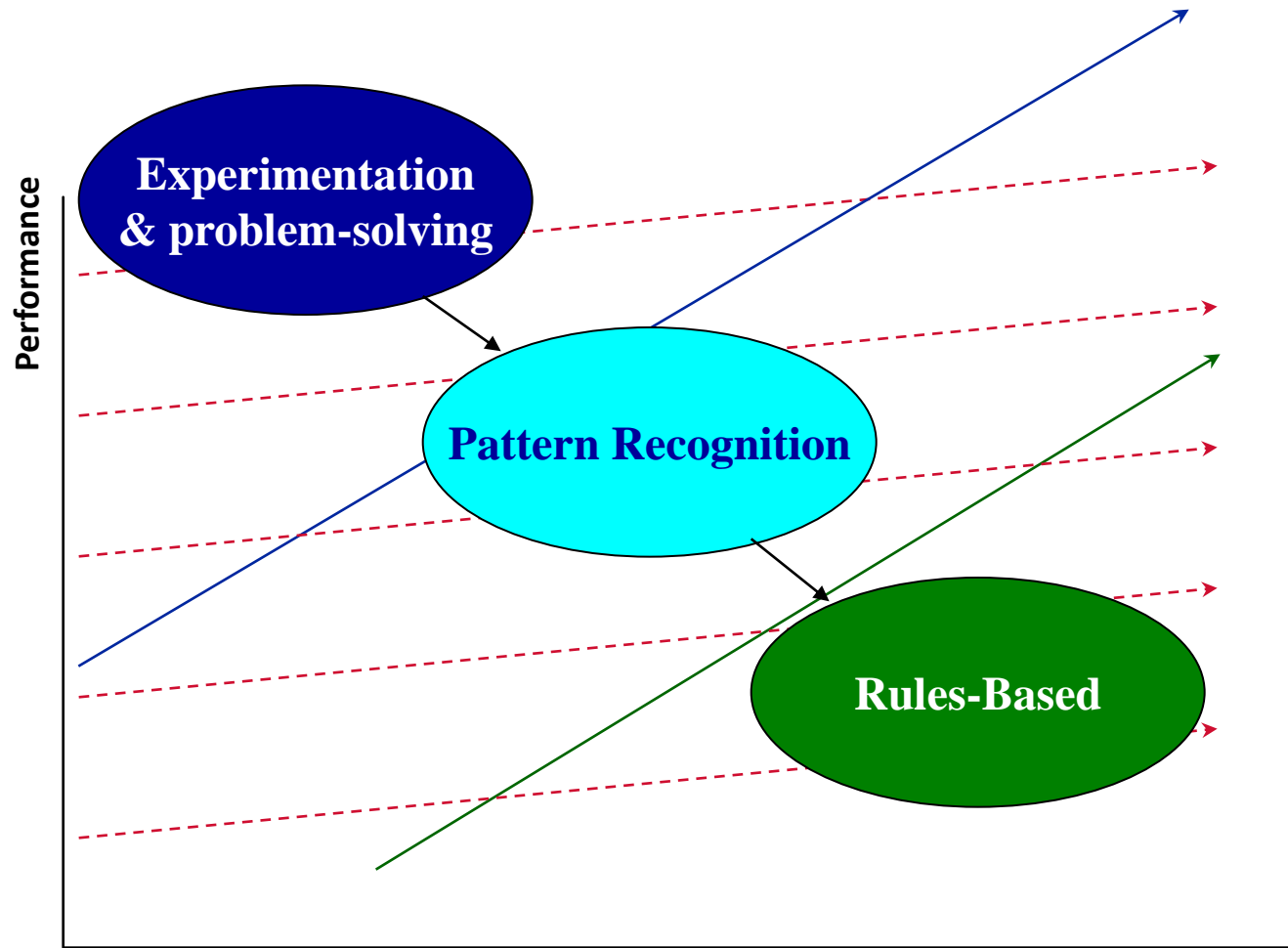


# The Three Enablers of Disruption

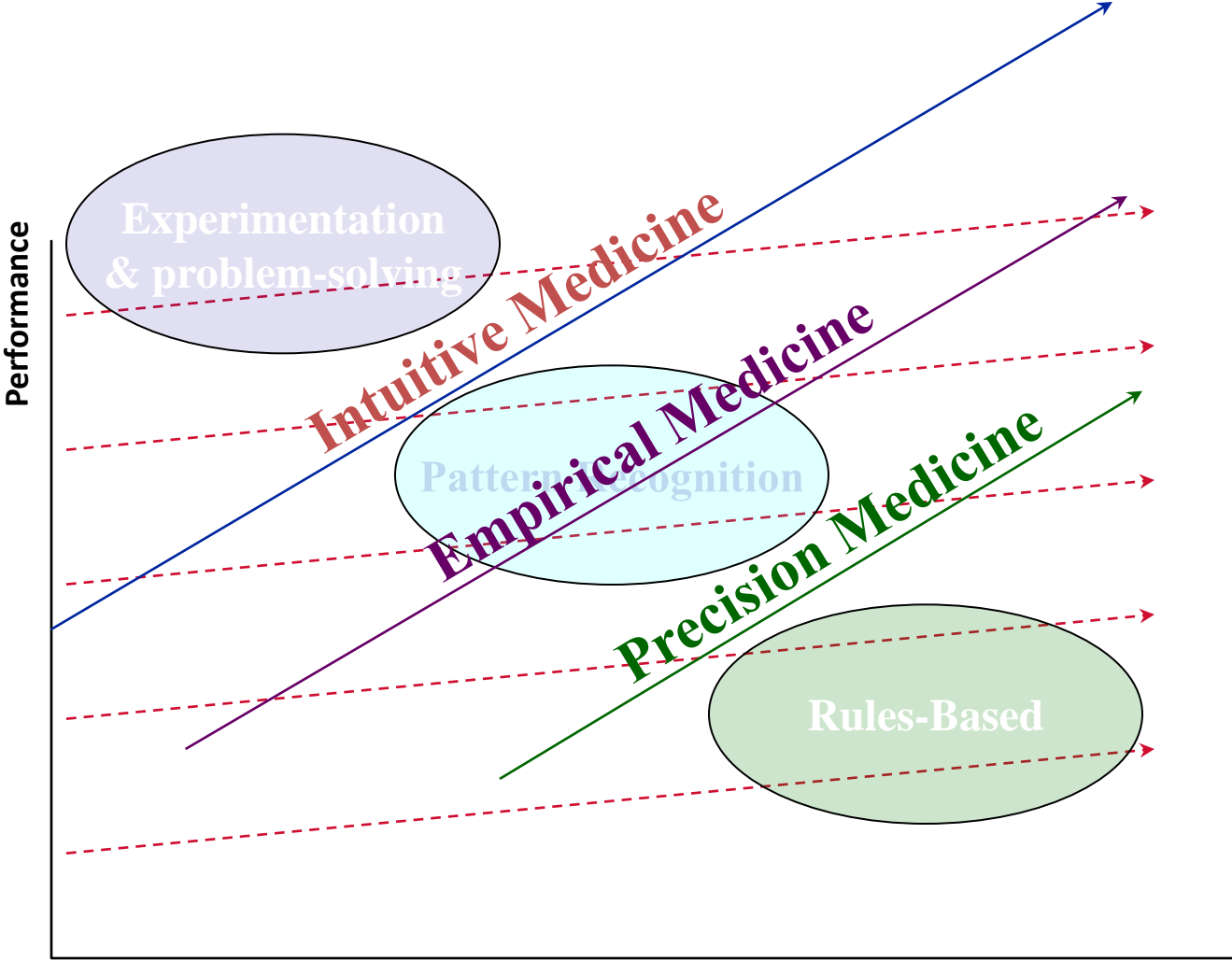


- Technological
- Business Model
- Commercial System

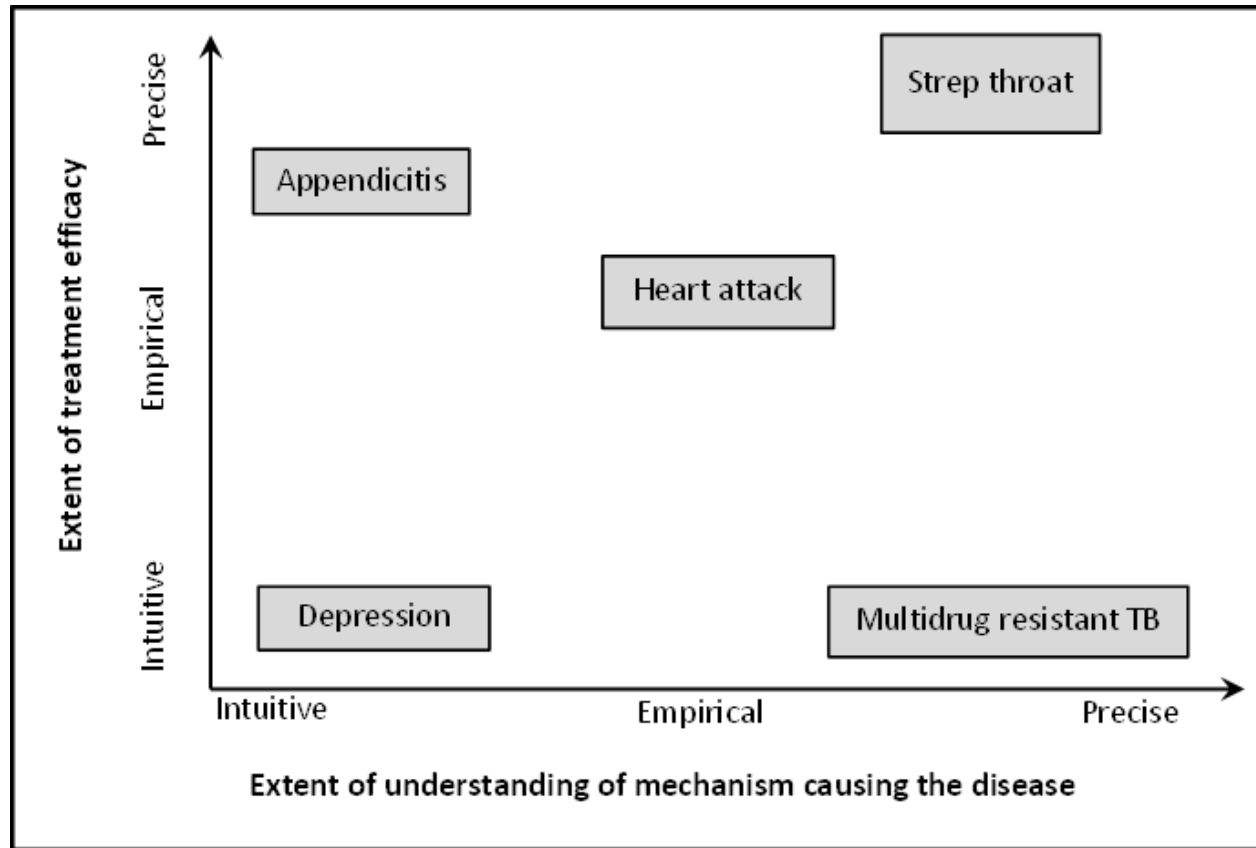
# Disruption is facilitated when historically valuable (and expensive) expertise becomes commoditized



# From Intuitive to Precision Medicine



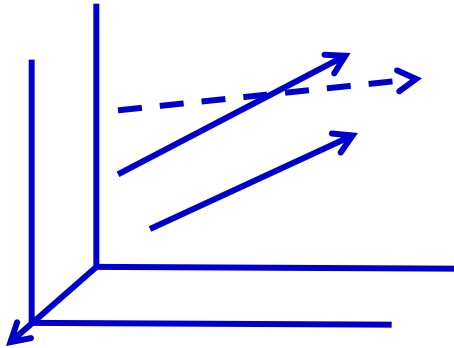
# Intuitive, Empirical, and Precision Treatment Efficacy vs. Understanding of Mechanisms Five examples (simplified)



*(Adapted from Christensen et al , 2009)*

# Three Types of Business Models

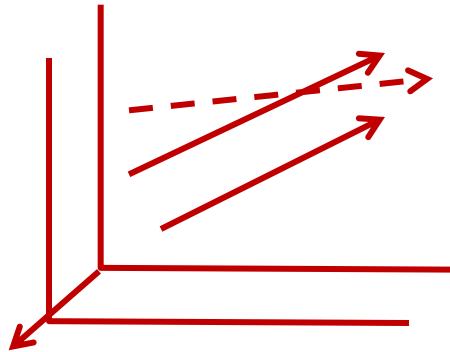
## SOLUTION SHOPS



- Consulting firms
- High-end law firms
- R&D organizations
- Diagnostic activities of hospitals

**Fee for service**

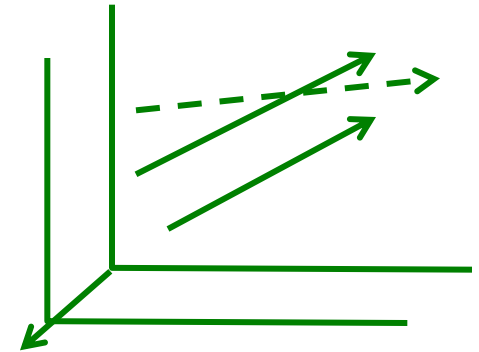
## VALUE-ADDING PROCESS BUSINESSES



- Manufacturing
- Food services
  - Retailing
- Medical procedures

**Fee for outcome**

## FACILITATED USER NETWORKS



- Telecommunications
  - Insurance
    - EBay
- D-Life (for diabetes patients & families)

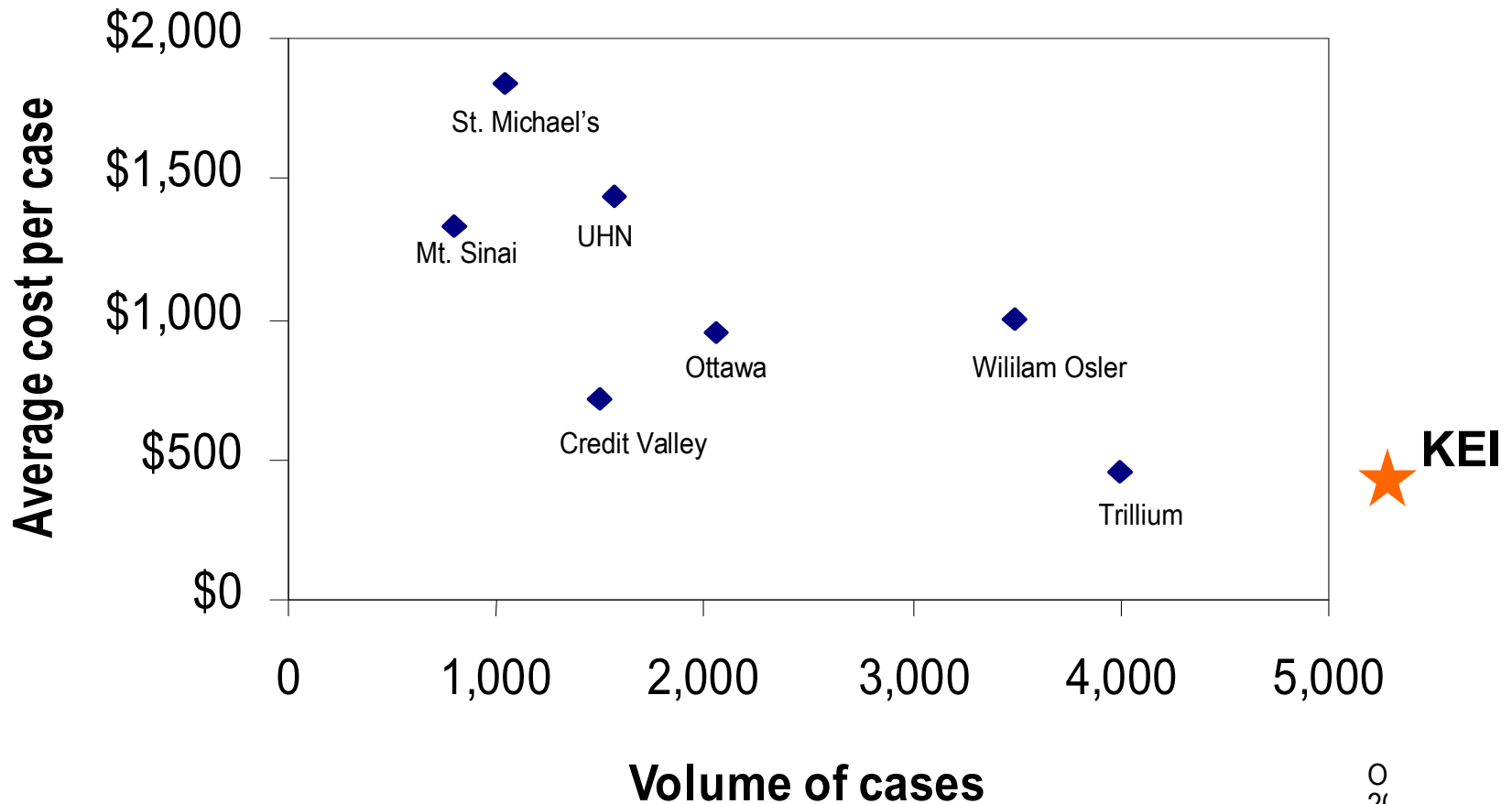
**Mixed fees**

# Kensington Eye Institute

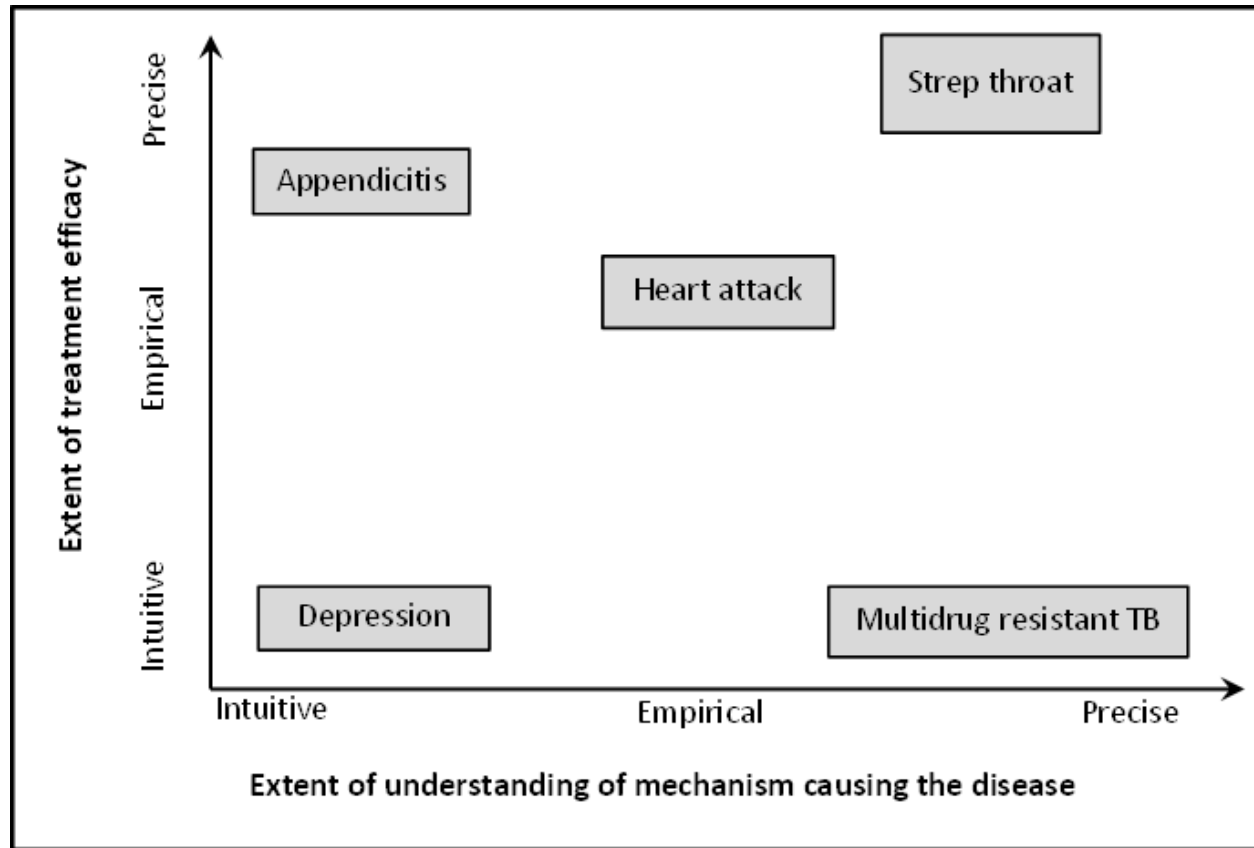
- A non-profit independent health facility that specializes in cataract surgery
- Performs 6700 cataract surgeries a year
- “...efficiency so great that most surgeons are finishing their slate by one or two o’clock in the afternoon’ (Report from the Kensington Eye Institute External Review Committee, 2007).
- Able to perform cataract at **\$580 per case**, well below “Wait-Time” prices

# Kensington Eye Institute

## Cataract Removal 2007-08



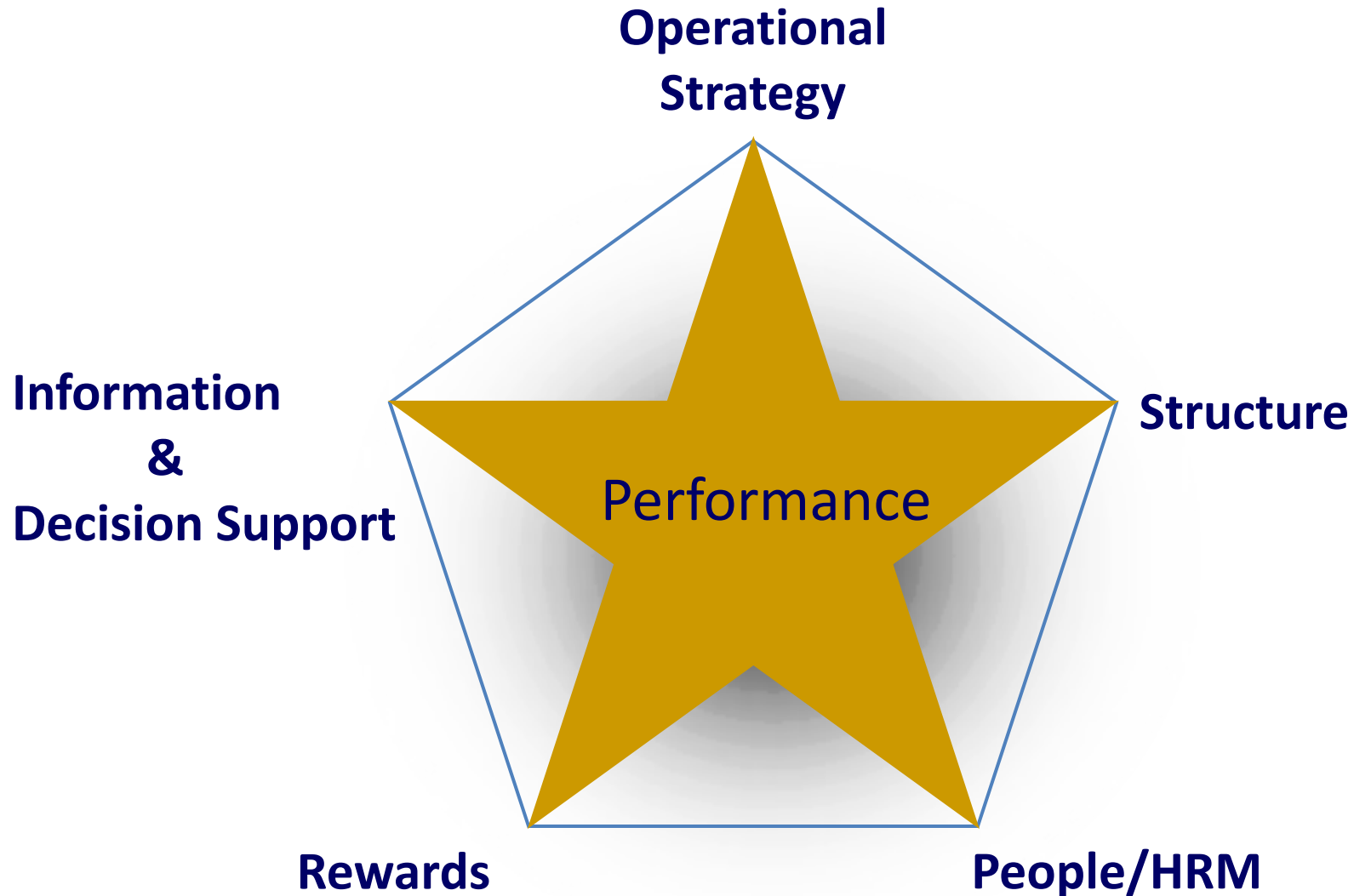
# Opportunity: From Bottom Left to Top Right



*(Adapted from Christensen et al , 2009)*



# (Re)aligning the Stars: Some Implications and Directions



Health, Behavior, and Society  
Health Systems Research

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# Thank you

