Publications: Health-care sector needs second opinion

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Japan's multi-trillion yen health-care sector reveals many of the institutional and cultural bottlenecks holding back Japan's domestic economy. Health care policy must, of course, consider factors that transcend free market principles, and as a result no nation has a totally unregulated health-care market. But according to John Wocher, Executive Vice President of one of Japan's largest private hospitals, much of what is simply commonsense good practice in the U.S. is absent or just barely emerging in Japan. Mr. Wocher's efforts to do things differently at Kameda Medical Center (www.kameda.jp) have helped build a $300 million business and serve as a beacon for health care reformers throughout Japan. JER recently met with Mr. Wocher in his office overlooking the ocean in the Chiba resort town of Kamogawa where he discussed Kameda's many accomplishments and the opportunities for Kameda and others to do even more.

- Before we get into the business, please tell us how a foreigner came to be EVP of a large Japanese hospital.

I was a medical service corps officer in the U.S. Navy for 30 years including many in Japan. I had contact with many hospitals here when we built a network for referring cases we couldn't treat at our base facilities. The Kameda family has for generations tried to run a hospital that provides both excellent health care and a solid financial base. Twelve years ago they felt the beginnings of a major shift and thought that my perspective could help lead them forward.

- Why was a different perspective so important?

You have to understand how narrow, traditional, and ingrained things are here in Japan. The Japanese hospital system is almost totally doctor- centered, not patient-centered. There are no economic incentives anywhere in the system for improving the quality of the care, no competition.

- How is that?

Under the national health care system, every medical procedure is reimbursed at a fixed price, regardless of the quality of the service delivered. In fact, if poor care in a hospital leads to further problems, the hospital can bill more for the additional treatment, so the incentive is backwards. Average hospital stays in Japan are the longest in the world. Meanwhile, little tracking is done of medical outcomes, so sub par facilities and practitioners are rarely identified and have no incentive to improve.

The doctor is too strong an authority figure here. If you ask to get a second opinion you imply a lack of trust, or doubt, and many patients are afraid to ask their physicians. The "sick" role differs in the two cultures. In Japan, the patient says, 'I'm sick now, take care of me. Tell me what I need to do.' In America we ask, 'What are my choices?' We want to take be in control and take responsibility.

Patients have little access to information to compare hospitals and doctors. This is not fertile ground for a robust "consumer" movement among customers of the Japanese health care system.

- But you say a major shift is coming.

Kameda believes that some form of managed care is coming to Japan within the next few years, whereby reimbursement will be based on the patient's diagnosis and not on each procedure the doctor chooses to administer. This will be a hybrid of managed care with a combination of diagnosis and procedure-determined reimbursement. In the United States this was called a DRG (Diagnosis Related Grouping) reimbursement system, and like the U.S., the introduction of a DRG-like system is intended in Japan for cost cutting.

- More like HMOs in the U.S.?

Exactly. So the hospitals that reduce errors and inefficiencies will improve quality and be more profitable, and the poor facilities will struggle to survive. Some will not survive. The profitable hospitals will be able to invest further to attract patients, creating a cycle that will separate the winners and losers. Kameda intends to be a winner.

- You've taken major steps in anticipation of this shift.

Following U.S. practice, we select, train, qualify and re-qualify our doctors much more carefully than many hospitals here, where they tend to rely on referrals from medical school professors they know and let many doctors perform any procedure they feel competent to perform. We attempt to practice evidence-based medicine, which supplements the judgment of individual doctors with the establishment of fixed protocols to standardize treatment of the same disease applying consistent best practices to achieve optimal outcomes. We have an American physician in charge of physician staff training to instill the concept of clinical practice guidelines and evidence-based medicine to augment experience- based medical practice. The concepts of credentialing and privileging are just taking root here in the more progressive hospitals.

Kameda is one of only about 10 percent of Japan's hospitals that has voluntarily undergone certification by a Japanese third party. We passed that twice and have ISO 9001 certification as well. We also encourage our doctors to go against the current economic incentives and apply "minimal appropriate care" rather than the usual "maximum appropriate care" that can lead to wasteful and sometimes harmful over treatment. In the future, under managed care, there will be shorter hospital stays and also much more same day out patient surgery, which is 85% of all surgical procedures in the United States. Japan is certainly technically capable of this, but cultural and institutional barriers, in addition to a lack of financial incentives, have kept this from happening here.

We have invested heavily in information technology. Our medical records are increasingly available on-line, on-demand in a highly secure environment. Our electronic formulary minimizes errors, making it technically impossible to dispense a drug dosage with power of ten errors by mistyping a decimal point or failing to see the patient's contraindications for a drug. We think that good people in good systems is the right formula for quality improvement.

We are trying to make Kameda into a magnet hospital that people will seek out from throughout Japan and other countries as well. Japan has more to offer Asia than just electronics and cars.

- How is all this being received?

On the medical side, we have a total focus on the patient. Our hospital is ranked in the top ten in Japan, out of a total of almost 10,000 hospitals nationwide, in two major surveys. And with 850 beds, we are in the top 1% in size nationwide. So we are maintaining this quality on a large scale. We have about 600,000 patient visits a year, on a par with the Mayo Clinic in the United States. We believe that a partnership with the patient is a sound strategy for success.

- But for now you're still under the fixed reimbursement system, so don't you lose money by being patient-centered?

We are profitable now and will be even more so when managed care arrives. On the administrative side, we have attacked the waste built into the entire hospital system here. This frees up resources to focus on the patient. We have been very creative and cost-conscious.

We carved out many of the non-medical functions in the hospital and made them into separate companies that are within the Kameda group. I call this "insourcing"...maintenance, materials management, IT services and the like. This lets us isolate the costs of those functions and work to make them more efficient. Also by taking these out of the regulated, non-profit medical part of the operation, we can operate them as profit- making businesses that sell to other customers besides our hospital. Our IT company made a multi-million dollar sale of our electronic medical records system to another facility. This helps directly recoup some of our IT investment, which we can't otherwise do because all health care is not-for-profit in Japan, and we are not allowed to sell business services. Meanwhile, our patients get the benefit of higher quality and more efficient care, because we concentrate on our core competency: health care.

In procurement, we had to dislodge the wholesaler that previously managed our inventory of pharmaceuticals and supplies from inside our warehouse. They charged us high markups on products that already come into Japan from overseas at inflated prices compared to what U.S. buyers pay. Various suppliers would actually remove from the box things like wiring diagrams so that we would be dependent on them for installations and calibration. Their only value was that they absorbed the inventory risk, but with the IT systems we have put in, we trigger auto-reorder right from the point of use, so we can minimize our inventory exposure but gain the cost and speed savings of controlling our own process. Supply chain management at Kameda is quite sophisticated and improving.

- All these efforts, plus a $100+ million investment in a major expansion of the hospital. What if your prediction about the coming changes is wrong?

We are not just predicting the future but influencing it. We helped found the Voluntary Hospitals of Japan, a group of 15 progressive, like- minded institutions throughout the country that are working together on lobbying for reform, group purchasing to cut costs and benchmarking of best practices. By data mining and looking at cost/outcome comparisons, we can actually prepare for the Japanese DRG environment, which is essential for financial survival. I also wrote a book about the deplorable state of hospitals here, and it has sold almost 10,000 copies.

- In Japanese, no less.

I wrote it in English, and one of my colleagues here translated it for me. It hasn't been published yet in English, but there is a Korean language version, too.

- Where do you see further entrepreneurial opportunities in the health care field in Japan?

Malpractice insurance here is very limited in coverage, is expensive for big hospitals and penalizes good ones because rates are not based on risk performance. Someone should press to open up the reinsurance market and offer coverage beyond the minimums. By charging premiums to match the risk of the hospital, you could build a very nice business.

With managed care, there will be a big need for coders to apply the diagnosis codes to each case for insurance filing. Training, staffing and outsourced services will be possible there. The same is true for the safety management and risk management functions that many hospitals don't currently have.

- Thanks, John. We should let you get back to looking after the 2,500 patients that will visit Kameda today.