

# Consumer-Directed Health Care: Implications for Health Care Organizations and Managers

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This article uses a pyramid model to illustrate the key components of consumer-directed health care. Consumer-directed health care is considered the essential strategy needed to lower health care costs and is valuable for making significant strides in health care reform. Consumer-directed health care presents new challenges and opportunities for all health care stakeholders and their managers. The viability of the health system depends on the success of managers to respond rapidly and with precision to changes in the system; thus, new and modified roles of managers are necessary to successfully sustain consumerism efforts to control costs while maintaining access and quality. Key words: *consumer-directed health care, health care managers, health care organizations, health care reform, high deductible health plans*

**I**N THE CURRENT health care environment, ambiguity and uncertainty are constant themes as numerous challenges revolve around the issues of cost, access, and quality. Health care reform efforts have been incremental since the failed attempt by the Clinton administration in 1993. Now, as President Obama aims to transform the health care system with comprehensive reforms leading to universal access for every American citizen, again, the obstacles are overwhelming as an uphill battle ensues over viable options.

Universal access can be achieved through a single payer or public option plan, or insurance co-op approach. Although the solution is not clear at this time, one thing is for certain: The existing system cannot continue as is. Remaining in status quo only prolongs the burden of escalating costs for all purchasers of health care so that consumers will be incapable of affording or accessing care. Without major reform, the eroding system will not

be able to support the needs of those with insurance or the millions of individuals who currently lack insurance. In the foreseeable future, reforms will require major changes in financing and delivery.

This article is intended to provide some insight on the evolving mind sets of those involved in the system. No matter how reforms will be achieved, there are major features of the system that must remain intact for sustainable solutions to occur. The first part of the study discusses the importance of consumer-directed health care (CDHC) as the essential strategy needed to lower health care costs and supports its widespread adoption for making significant strides in health care reform. The focus of this article is to describe the key components of CDHC and discuss the expanded roles of health care organizations and managers to successfully sustain consumerism efforts to control costs while maintaining access and quality.

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## BACKGROUND

In an earlier study,<sup>1</sup> the pros and cons of CDHC were examined, as well as the overwhelming evidence in support of CDHC as the solution for viable reforms to take place.

To briefly summarize, opponents believe that CDHC creates adverse selection so that only the wealthy and healthy are able to enroll in consumer-directed health plans (CDHPs); thus, those enrolled are in better health and are not price sensitive, which would not impact price, utilization, and quality.

Another argument holds that consumers lack health information and would be unable to make reasonable decisions regarding their health. On the other hand, supporters of CDHC have shown positive data indicating that consumers who enroll in CDHPs experience dramatically reduced costs and utilization, became more health conscious, and sustain those changes over time. To counter the argument against limited access to information for consumers, comparisons have been made between the automotive industry and the health care industry.<sup>2</sup>

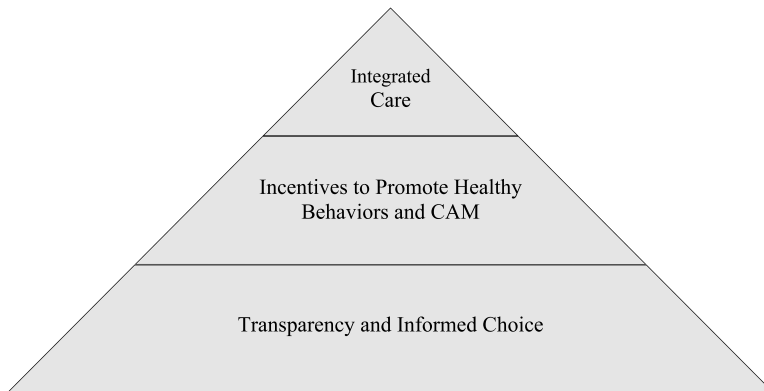
Because Americans are capable of making excellent decisions about purchasing cars, they are equally capable of making choices about their health plans as long as there is adequate information available. In fact, there are more available choices for purchasing cars than health plans, so choosing the right plan should theoretically be easier than selecting a car. However, without detailed explanations about how consumer-directed health care works, reforms will not be implemented appropriately. All health care stakeholders bear responsibility for putting change into action. This is not only the case for consumers but for all health care

provider organizations, insurers, and government entities. By putting sound CDHC strategies into practice, the result would positively impact the system.

**KEY COMPONENTS OF CONSUMER-DIRECTED HEALTH CARE**

Health care reform involves systemic change, and initiatives should focus on reducing health care costs while attempting to provide universal health care. Bigalke and Keckley<sup>3</sup> recommend that for systemic health care reform to become a reality, 4 interdependent areas of focus are needed. Changes must be made to provide better health care information technology, more evidence-based medicine, improved coordination of care, and most importantly, the increased use of consumerism. In describing the consumerism focus, they advocate for CDHPs, transparency, incentives, and values. Furthermore, they support the use of personal health records, heightened transparency, and linkages to incentives so that the result would lead to more engaged consumers, decreased health costs, and improved health outcomes.

In this article, the proposal is to apply consumer-directed health care to reform the health care system. For CDHC to effect change, there should be a progression of 3 key components. As shown in Figure, these 3 essential elements are made up of (1) transparency and informed choice, (2) incentives to promote healthy behaviors and the increased use



**Figure.** Consumer-directed health care: 3 key components. CAM indicates complementary and alternative medicine.

of complementary and alternative medicine (CAM), and (3) integrated and coordinated care by all providers.

Combining the 3 essential components of CDHC can effectively change the US health care system. Following is a discussion of each crucial element in detail.

### **First level: Transparency and informed choices**

Consumers are much more engaged in their health plans now than in the past. Before the mid-1980s, consumers were generally passive recipients of care and faithfully followed the recommendations of their physicians and allowed the system to take responsibility for decisions about their care. Health plan purchasers (ie, government and employers) controlled how and where care was provided, who received the care, and how much the costs were for premiums, deductibles, and co-payments. However, in the recent decade, more educated and informed consumers have been changing the culture of passivism and demanding access to information and choice from providers and plans, engaging in more self-management and demonstrating more interest in health care decisions.

Herzlinger<sup>2</sup> suggests that the quantity and quality of information currently available in health care through volunteer measures (ie, through accrediting agencies) are deficient and do not work; transparency needs to come from commitment by all stakeholders. She believes the features that health care consumers want include fair prices to reflect all publicly available information where consumers can use this information to reward effective organizations and penalize ineffective ones. However, current health care consumers do not have adequate information about the quality of their providers. To be more transparent and enable consumers to make better informed choices, she proposes a single regulatory independent agency to be charged with overseeing the public dissemination of all health outcomes and clinical measures. That is, all providers must publish audited price and outcomes data, and this information would be made public for easy consumer access and

understandability. Furthermore, this agency has the responsibility of penalizing those who are not in compliance and are engaging in unethical participation.

In addition, consumers have increased access to information through newspapers, television, computers, radio, magazines, and books. Especially with the widespread use of the Internet, more and more consumers are able to seek advice and compare health plan data (ie, satisfaction, cost, and quality information). For example, 5.4 million Americans purchased drugs from other countries over the Internet in 2006.<sup>4</sup> In response to long waiting times, many health plans are offering Internet-based services for medical advice such as 24-hour online nursing and physician services, and medical advice is available through WebMD. Although a wealth of health information is available to consumers, it is crucial that information be accurate and reliable to enable consumers to make right choices regarding their health. As proposed by Herzlinger,<sup>2</sup> a single regulatory agency could filter information and monitor compliance so consumers could truly be able to make informed choices.

As another example, Bolt et al<sup>5</sup> illustrate the use of Internet technology to transform the health care market based on the principle of consumerism. Their case study of Blue Cross and Blue Shield of North Carolina using an innovative, user-friendly Internet-based consumer store front to target an underserved customer base, grow revenue, enhance process efficiency to provide consumers with coverage more quickly, and improve management reporting processes. Through this innovative approach, Blue Cross and Blue Shield of North Carolina has been able to significantly improve its sales-reporting capabilities, overall management of the sales and application processing functions, and centralized data collection of underwriting and enrollment information; provide for real-time reporting across all departments; and allow every department to enter, track, and manage information and activities, which has increased the speed and effectiveness of communications. As a result, this example of CDHC has shown that technology and the Internet can help to create new, cost-effective

options for health plans with substantial benefits, thereby giving consumers better access to reliable and accurate information and transparency so that they can participate even more in their health care purchasing decisions. The results have provided consumers with easy access, flexibility, customization, speed, and lower cost solutions.

As shown by the foregoing examples, the first level of transparency can be achieved, and it will then be possible to make informed choices using multiple approaches by health care providers and insurers to provide accurate and reliable health information for consumers to access.

### **Second level: Incentives to promote healthy behaviors and CAM**

Once the first level has been firmly established, the second tier should focus on providing incentives to promote healthy behaviors and lifestyles. From the first level, it is shown that CDHPs can work as increased transparency and access to technology will lead to the availability of more reliable information that allows consumers to make informed choices. This level focuses on 2 types of rewards, one for changing consumer health behaviors, which involves active and direct consumer involvement with learning and rewards, and the other provides incentives through government legislation. Government must provide significant tax incentives and credits toward the purchase of health insurance. Those who cannot pay for health care should be subsidized.

Another important way in which government can help is to increase reimbursement to providers for treating sicker patients as compared with healthy patients. In other words, this calls for a switch from the managed care model, which pays the same amount for sick or healthy patients, to the CDHC model, where providers are given incentives for promoting healthy behaviors, and they are paid higher fees for treating sicker patients. Providers will then be willing to treat sicker patients and monitoring their health to slow the progression of disease.<sup>2</sup>

Changing consumer behaviors can be effected through preventive health, where the

increased awareness of the benefits of preventive health focuses on planning and taking action to prevent the onset of disease or health problems. Primary prevention activities such as health education and health promotion programs forestall the onset of illness or injury. Health promotion is more encompassing than health education; it is a planned effort by educational, political, environmental, regulatory, and organizational mechanisms that support actions and conditions of living conducive to the health of individuals, groups, and communities.<sup>6</sup> Employers and health plans have demonstrated that specific disease management programs improve patient care and reduce complications. The most effective programs combine information with financial incentives, and this is necessary to change consumer and health behaviors. More specifically, Bachman<sup>7</sup> advocates for rewards in CDHC and argues for the creation of health incentive accounts that accumulate from incentives and rewards only. Health incentive accounts can be added to any plan design with account additions developed from “shared savings” that result from individual participation and compliance with wellness and disease or condition management programs. He believes that consumers should be rewarded for compliance or “pay for compliance” for consumers who engage in healthy behaviors. By the same token, providers should receive reward reimbursement or “pay for performance” for practicing outcomes-based medical care and treatment. Bachman<sup>7</sup> believes that using these 2 concepts is essential to the success of CDHC.

Another approach involves developing incentives for consumers who maintain healthy living through the increased use of CAM. Complementary and alternative medicine is viewed as a valuable approach for promoting health lifestyles, prolonging quality of life, decreasing the likelihood of serious illnesses, and obtaining relief from chronic diseases. Complementary and alternative medicine is an eclectic collection of philosophies and practices that are centered on the holistic view of the patient, the healing properties of the body and prevention, and treatment of disease.

Alternative medicine practitioners use herbs and vitamins, acupuncture, spiritual healing,

massage, hypnosis, and stress release. Eisenberg et al<sup>8</sup> found that between 1990 and 1997, adults seeking alternative therapies increased from 34% (60 million) to 42% (83 million). Whereas the estimated number of visits to primary care physicians remained stable, visits to alternative medical practitioners increased by 47%, and \$21.2 billion was paid to these practitioners, of which more than 50% comprised of out-of-pocket payments. Although more health insurance companies are covering acupuncture and chiropractic care, not all CAM services are covered. Under the proposed CDHC model, as the use of CAM continues to grow, it is recommended that all CAM services be covered by insurance and that CAM be regulated, such as through a single regulatory agency established for maintaining the integrity and quality of care provided by CAM providers. However, more rigorous research-based evidence is necessary to validate the efficacy and safety of CAM so that it can be recognized for its holistic and integrated healing approach to health promotion, disease prevention, and management of chronic conditions. With the establishment of the pay-for-compliance and pay-for-performance approaches to target both consumers and providers, realistic incentives can then bring out positive changes in lifestyle and reforming the health care system.<sup>7</sup> Thus, emphasis on incentives is needed to reinforce consumer consciousness and develop better personal health management; this will lead to a culture of health, well-being, self-help, and shared responsibility by all stakeholders, which will ultimately have a significant positive impact on consumer health behaviors and outcomes.

### **Third level: Integrated and coordinated care**

The third level stresses the importance of integration of the health care system to better coordinate the care of consumers so that a full continuum of care is provided. Medical services are generally categorized into 3 broad categories: curative (ie, medication, treatment, and surgeries), restorative (ie, physical and occupational therapies), and preventive (ie, health promotion). Because health services are not confined

to hospitals and physician offices, many new settings (ie, outpatient surgery centers, alternative medicine providers, long-term care facilities) have emerged in the health care system. As a result, there are various types of health services for delivering a comprehensive continuum of services. These range from preventive care, primary care, acute care, long-term care, subacute care, rehabilitative care, and hospice care. Under CDHC, a major shift in emphasis is necessary to transform the US health care system.

Specifically, health promotion is the most influential factor in CDHC. From the previous level, the shift from disease and illness treatment model to an increased focus on wellness, prevention, and health promotion can be seen. At this level, the fragmented care offered by a range of independent institutions will shift to integrated systems, and service duplication will be reduced through a continuum of services. An integrated health system offers a comprehensive set of services for a defined consumer group, contracts directly with consumers to provide services, pools risks and profits back into the system, and evaluates the performance of each component of the system based on quality and cost control.<sup>9</sup>

The primary reasons for joining an integrated system or network are to form economies of scale, become more competitive, and place emphasis on cost-effectiveness and operating efficiency. Through integration, providers are able to increase the range of services offered; they can better coordinate referrals and consumers moving within the network or system. Full coordinated care avoids duplication, fragmentation of services, and inefficiencies. Integrated systems provide more efficient and effective care coordination, integrated information systems, and integrated financing. Ultimately, through CDHC, fully integrated and coordinated health systems will be able bring out a cost-effective and efficient delivery system.

### **IMPLICATIONS FOR HEALTH CARE ORGANIZATIONS AND MANAGERS**

Consumer-directed health care presents new opportunities for all health care stakeholders

(ie, health care providers, insurance companies, government agencies, community health organizations) and their managers to play a much larger role in the health care system. Specifically, managers must be able to understand the macro environment as they make strategic decisions to impact the efficiency, quality, and cost-effectiveness of services. The viability of the health system depends on the success of managers to respond rapidly and with precision to changes in the system. They must consider the impact of changes on their organization's long-term survival.

With the increased use of CDHC, the implications for managers are enormous. Health care managers must be positioned to understand their own organizations in response to the macroenvironment. Senior managers are especially needed to assess systemic changes and how they fit within the new CDHC continuum. New functions and modified roles are required. For instance, management is responsible for empowering and educating employees and consumers about their health care choices, providing the right incentives, and developing clear, concise, and accurate communications.

Furthermore, training existing or newly hired staff to be able to meet the needs of a variety of consumers is necessary. For CDHPs to work, it is vital for organizations to research health plan design and benefit costs and understand how these plans operate and what it takes to administer these plans. An organizational culture of consumerism needs to be developed to encourage consumers to be informed about the choices they make when it comes to their health. Consumers are much more satisfied and engaged when they believe that their health plans provide useful information, and employers provide incentives and wellness programs and develop online tools to allow consumers to compare the quality and cost of different treatments and providers.<sup>10</sup>

Successful CDHPs require more effort, energy, and involvement by all health care stakeholders to sustain. With CDHC, positive behavior changes and cost savings will be seen over time. And even then, organizations need to continue to monitor CDHPs and make adjustments as

necessary. Therefore, for health care organizations and managers to be strategically prepared for CDHC, the key to success is acquiring and maintaining the organizational culture appropriate for success.

Culture is an attitude, a way of doing things, and a set of values that is internalized.<sup>2</sup> Everyone in the organization must have a positive and shared vision. Rather than being negative or passive, the organization must be action oriented. Culture promotes shared beliefs, goals, and activities. Instead of looking for fault or blame, the focus should be on finding solutions, serving consumers, and resolving conflicts. Herzlinger<sup>2</sup> believes that health care organizations are lacking in shared culture, and without it, organizations cannot succeed. Imperative for successful organizations is intervention and analysis by upper managers and a plan to correct problems through new processes, incentives, and education.<sup>2</sup> Therefore, for CDHC to change health care, senior managers are responsible for developing and implementing strategic plans that address the needs of all consumers. Specifically, new and modified roles of managers in health care organizations must include being:

1. *Risk takers.* Because of multiple challenges in the system, organizations must constantly evolve and adapt to changes. To understand the environment, managers are responsible for managing with uncertainty and ambiguity. New strategies developed by managers require flexibility, innovation, and speed. In fact, these strategies are considered entrepreneurial. In other words, managers must recognize and practice entrepreneurial management in their long-term strategic vision to be successful.<sup>11</sup>
2. *Innovative decision makers.* Rather than resisting change, seek opportunities to modify the behaviors of those who are uncomfortable with change. Develop innovative and creative solutions for problems. Managers who are effective decision makers are knowledgeable about themselves and other individuals, as well as possessing technical expertise or industry knowledge. A manager who knows his/her own weaknesses and strengths and others' needs is

more likely to make a decision that is accepted by others.<sup>12</sup>

3. *Effective communicators.* An effective manager must develop strategies to improve his/her communications to foster better understanding among employees, minimize conflicts, and influence attitudes and behaviors to maintain positive workplace interactions. Managers must be able to express and integrate organizational goals with personal values. They can actively and positively influence events.<sup>13</sup>

Moreover, senior managers must focus on issues of transparency and informed choices in CDHC. They should pay close attention to regulatory scrutiny. With CDHC, integrated systems must align incentives and strengthen partnerships to provide advice for consumers and publish outcomes-based evidence. Most importantly, senior managers will experience new challenges and opportunities, for they hold unique positions in the system; they are responsible for leading and for providing the momentum for positive change. Leaders must be able to transform organizations. By combining strategic vision and tactical implementation, successful CDHC will emerge and be essential for reforming the US health care system.

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## CONCLUSION

The emphasis on consumer-driven health care must be realized to effectively change the health care system. With increased and unreasonable demands on the current system, status quo cannot be maintained; the burden is too great to sustain the present system for all individuals in the United States. As a result, CDHC should be implemented to ensure successful reforms. With CDHC strategies in place, consumer behaviors will change, and cost savings will be realized. The combined use of the key components of CDHC outlined in this article is necessary for overhauling the system.

Furthermore, successful CDHC requires the involvement of all health care stakeholders to uphold, and especially by senior managers who can positively influence organizational culture. Although CDHC presents new challenges and opportunities for organizations and managers, the viability of the health system depends on the success of managers to respond rapidly and with precision. Thus, new and modified roles of managers are recommended as essential to transforming the existing system into one that is truly accessible and affordable and provides the highest quality for all Americans.