

# THOUGHT LEADERSHIP PROFILES

A CLOSER LOOK AT THE PEOPLE AND IDEAS THAT DRIVE MEANINGFUL CHANGE IN BUSINESS

## SPOTLIGHT

### REGINA E. HERZLINGER

Nancy R. McPherson Professor of Business Administration, Harvard Business School



Regina E. Herzlinger was the first woman to be tenured and chaired at Harvard Business School and the first to serve on a number of corporate boards. She is widely recognized for her innovative research in health care, including her early predictions

of the unraveling of managed care and the rise of consumer-driven health care and health care focused factories, two terms that she coined. Money has dubbed her the “Godmother” of consumer-driven health care.

Her research has been reported in numerous industry journals and business publications. Her newest book, *Who Killed Health Care?*, published in June of 2007, is on the CEO Best Seller List. Her previous book, *Consumer-Driven Health Care: Implications for Providers, Payers, and Policymakers* (San Francisco: Jossey-Bass, 2004) received the 2004 American Journal of Nursing Book of the Year award for History and Public Policy. Her other books include the best-selling *Market-Driven Health Care* (Paperback: Cambridge, MA: Perseus, 2000), and *Financial Accounting and Managerial Control of Nonprofit Organizations* (Cincinnati, OH: SouthWestern, 1994).

Modern Healthcare readers have selected her as among the “100 Most Powerful People in Healthcare” each year since 2003 and Managed Healthcare named her one of health care’s top ten thinkers. In recognition of her work in non-profit accounting and control, she was named the first Chartered Institute of Management Accountants Visiting Professor at the University of Edinburgh. In addition, she has delivered many keynote addresses at annual meetings of large health care and business groups and been selected as one of the outstanding instructors of the Harvard Business School MBA Program.

Professor Herzlinger has served on the Scientific Advisory Group to the U.S. Secretary of the Air Force and as a board member of many private and publicly-traded firms, mostly in the consumer-driven health care space, often as chair of several Governance and Audit sub-committees. She received her Bachelor’s Degree from MIT and her Doctorate from the Harvard Business School.

**Q** *As employers shift their healthcare-related burden, and as HSAs and HRAs grow more rapidly than early 401(k) accounts, will the same type of consumer-driven evolution occur over time in healthcare, without the need for major structural upheaval?*

**A** The next president will enact tax law changes so that individuals can buy health insurance with the same tax-protected monies as corporations. As a result, many employers will shift to a 401 k type of health insurance market: they will cash out their employees, depositing the equivalent of their current spending on health care, and provide employees with many differentiated choices of insurance policies and with considerable information and support.

Employees may benefit substantially from this change. Many will likely switch to a lower-cost policy than the one their employer is currently purchasing and save the difference in tax sheltered savings accounts. Others will find policies with the benefits they need—for example, long-term care for baby boomers—and switch out of policies that give them benefits they do not want—e.g. IV fertilization. New policies will reward those who work at staying healthy too. These innovations are much more likely to emerge in consumer-driven markets than in employer-driven ones. Contrast the quantity

of choice of automobile models, hundreds, books, hundreds of thousands, and blogs, tens of millions, with the choice of one insurance policy that most employers typically offer.

Employers will benefit too: first these transfers will likely inflate with salaries or wages, not with health care costs; thus reducing the increases in the employers' costs and enabling greater predictably of income. Secondly, they will be rid of the expensive infrastructure that accompanied their purchase of health insurance. Outsourcers like those that provide 401k markets—such as Fidelity and Vanguard—will provide similar services in the health care space.

**Q** *What’s the likelihood that the healthcare industry’s existing supply chain will be significantly disrupted by a new intermediary that’s not currently a healthcare industry participant, but maintains a strong franchise—in terms of trust and accessibility—with large numbers of consumers? Who might that be?*

**A** There are two new intermediaries that CDHC will require:

- new market places, as described in my response to the first question, and
- new sources of information and support.



The **market places** can be created by insurance firms, financial organizations or data processing firms. The insurers are an obvious choice, but they have some major negatives: they are not great product innovators for fear of cannibalizing their existing products. They have also alienated consumers and are mistrusted by them, and the employers may prefer market places that are firm agnostic. The financial firms, in contrast, have none of these obstacles. They also have some major positives, such as experience in creating marketplaces for 401(k)s and similar retirement plans, and they already sell to the employer. Data firms such as Google bring few crucial skills to this new niche.

The **sources of information and support** must be competent and neutral. That leaves out the insurers, because they are not neutral. The New York State Attorney General who sued insurers for providing consumers with misleading information is an indication of the suspicion they elicit. Although the data firms bring little of value to this task, clones of *Consumer Reports* could do well here.

**Q** *Based on what you now know of the declared presidential candidates, which one is most likely to drive the type of beneficial changes in healthcare that you are calling for?*

**A** At the time of this interview, Hillary Clinton has not announced her full health plan. However, I believe that she will push the other presidential candidates to be more specific about their plans for healthcare.

On the Democratic side, Barack Obama has essentially adopted John Kerry's plan, not universal with a Federal Employees Health Benefits Program (FEHBP) type of market. John Edwards calls for universal health care, implemented via exchanges that resemble those advocated by Hillary in her first go around on healthcare.

On the Republican side, none of the candidates advocate universal health care and all advocate some form of tax deduction or credit to enable individuals to buy health insurance with tax-sheltered funds.

What is interesting is that ALL the presidential candidates' plans involve consumer choice. None of the major candidates are pushing for single payer. And all of them want to change the payment formula in order to reward those providers who make people healthy, rather than merely paying for care of the sick.

These are crucial elements of consumer-driven health care.

**Q** *Some market research suggests that, even armed with relevant price and performance information, this transparency does not materially change consumer behavior. How will establishment of an impartial "truth agency" (such as your suggested SEC model) change that market dynamic?*

**A** To the contrary, most research is either irrelevant in regard to transparency or shows profound changes in consumer behavior. Transparency is irrelevant if it is not coupled with choice or is not tied to an immediate decision. Hospital quality information, for example, is irrelevant unless it is tied to a physician and available to the patients at the time that they need hospital care, and to those who have a large range of hospitals in their network. When transparency is coupled to choice and relevance, as it is in high deductible health plans, people change their behavior profoundly. All the industry studies and those done by McKinsey & Co., for example, show that people who have switched to high deductible plans have more yearly check-ups and far greater usage of medications for chronic conditions than before.

But we will not have the immediate, authoritative, unbiased information we need about the performance of health care providers without an independent health care regulatory agency—similar to the financial market's Securities and Exchange Commission (SEC). Before the SEC was established in 1934, this level of disclosure in the financial markets did not exist.



**Q** Several large plans are currently building out their direct-to-consumer capabilities. Do you consider this an early indicator that insurers are accepting the reality of consumerism?

**A** The existence of high deductible health policies and UnitedHealth Group's expenditure of more than a billion dollars on companies like Golden Rule, that sell direct to consumers, is the strongest evidence of which way that wind is blowing.

**Q** What's preventing the market from being truly consumer driven?

**A** The market will be truly consumer-driven when individual consumers, rather than their employers, make the purchasing decision regarding health insurance. The greatest impediments to this change are those institutions that benefit from maintaining the status quo, such as the hospitals, which dominate markets by oligopoly rather than competition, and insurers, which offer consumers no meaningful choice. Academics who have control over health care pricing and delivery decisions—a dynamic unmatched in any other American business sector—are also part of the problem.

**Q** In *Who Killed Health Care?* you call every segment of the industry to task for its failure, with the exception of physicians. Why are doctors not part of the problem?

**A** When it comes to health care policy, the American Medical Association has been remarkably short-sighted. It feeds at the government reimbursement trough and wages turf warfare against innovations that can help consumers, such as retail medical clinics, staffed by nurse practitioners. And, as in any other profession, some individual doctors have been greedy and incompetent.

But the doctor is at the core of health care. They are the ones who provide the service; not insurers, not hospitals, not governments, not academics. The medical profession has become increasingly unattractive as a career path. Medical school applicants have declined by 20%, and my MBA classes have ever more students with medical degrees in them. They have abandoned the practice of medicine largely because of the loss of autonomy. We need to ensure that the best and the brightest are attracted to medicine. Continued attacks on their professionalism by the status quo players are the problem, not the solution.