The Pricing of EAPs

Viewing the pricing of EAPs in ethical terms can help program vendors break free of the price-driven mentality and help educate employers to purchase programs on the bases of value and quality.

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"Why not go out on a limb? That's where the fruit is."
—*Mark Twain*

J. D. Kleinke, in his book *Oxymorons: The Myth of a U.S. Health Care System* (Jossey-Bass, 2001), argues that managed care is fighting a losing battle on both the quality and cost fronts. Could this also be the case for employee assistance programs?

A recent national study on the most critical ethical issues facing the EA profession suggests that the price-driven market may be the single most influential factor preventing the field from adopting improved business ethics practices (Sharar, White, and Funk, 2002). Respondents viewed underbidding (also known as "low-balling") as one of the most common causes of quality erosion in the EA field. This quality erosion occurs when vendors agree to provide EA services within a capitation rate that is insufficient to fund the program as proposed, adversely affecting the quality of the EAP and contributing to a climate where the EAP is vulnerable to ethical breaches.

Although some EA professionals are reluctant to view the problem of EAP pricing in terms of ethics, looking through the "lens" of ethics may refocus our strategies for addressing this issue and help clarify the professional values that are at stake. By "ethics" we do not mean traditional EAP ethics, which involve codes of conduct that primarily address the counselor-client relationship. Within the context of pricing EAPs, ethics offer a way to examine conflicting values when the financial interests of employers, EA vendors, and individual clients compete with one another.

Current Marketing and Pricing

Even though enrollment in EAPs has risen significantly in recent years, revenue per covered employee per year has actually decreased during the same period (Open Minds, 2001). While rates for employer-sponsored health plans have increased steadily and sometimes dramatically over the past 10 years, the average per-employee per-year (PEPY) price for an EAP has declined. Thus, the growth in EAP enrollment during an era of rising health care premiums has not translated into greater revenues or increases in PEPY rates (Open Minds, 2001).

What is preventing EAPs from raising prices? The pricing problem appears to be due in large part to intense price competition, causing EAPs to wrestle with slim margins and, in many cases, operating losses. The consolidation of large vendors and aggregation among regional vendors should have, in theory, generated significant benefits in terms of economies of scale and a reduction in the oversupply of EAP vendors, thus improving the industry's financial status. But as large vendors have battled for market dominance and local/regional vendors have scrapped for a slice of the market, the employee assistance field has been unable to relate the cost of an EAP to the value it produces.

Just as Wal-Mart is committed to everyday low prices, EAP vendors seem compelled to sell their programs at everyday low prices. According to the U.S. Bureau of Labor Statistics, the Consumer Price Index (CPI) has increased an average of 2.75 percent each year since 1993 and the Employment Cost Index (ECI) has increased an average of 3.4 percent annually for the same time period. The price of an EAP, however, has remained constant, meaning that either increased efficiencies have created greater value or core services have been sacrificed to keep prices low, thereby eroding value.

As a field, we need to ask ourselves why prices do not generally rise as programs improve access or implement innovative forms of service delivery. More importantly, what proportion of the capitated rate is actually spent on direct service delivery versus profit loads and administrative overhead? Is the percentage that is spent on direct services, both for employers and employees, getting bigger or smaller over time? (Paradoxically, if the percentage spent on direct services is getting smaller and program services are eroding, the benefits that EAPs market as their strengths—improved retention and productivity, lower absenteeism, reduced accidents and claims, and enhanced morale—will become weaknesses.)

Purchasers of public-sector managed behavioral health

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care are now so concerned about excess administrative overhead and profit being set aside at the expense of client care that profit/administration caps are commonplace in contracts (Croze, 2000). In the EAP world, however, there is an almost sacrosanct wall of secrecy surrounding the percentage of dollars spent on client care and service, with frequent references to ownership of "proprietary information."

Many respondents in the national study expressed a high level of weariness over continual efforts to persuade employers to buy EAPs on the bases of quality and value when the decision seems always to boil down to price. Consider the following statements offered by respondents:

- "Employers don't usually bother to question exaggerated claims of superiority from one EAP to another. Since so many vendors look the same on paper, they (employers) focus on the lowest price."
- "Since all programs want to avoid a deficit, they end up trimming services in order to make up for lost profits resulting from low bids."
- "The current marketing environment in EAP is 'Sell them what they want, deliver what you got, and assume they won't notice the difference.'"

The tendency to under-price and over-promise seems to occur in the following manner: The employer (purchaser) wants to obtain a really good deal for his or her company and establishes an inadequate expectation of a capitation rate, usually based on an informal market analysis, for the type of EAP s/he wishes to buy. The competing EAP vendors submit proposals and marketing materials that are more alike than different. As the vendors look the same on paper, the purchaser establishes cost as the deciding factor. The eager EAP vendors respond in kind, with the winning vendor submitting an unreasonably low capitated bid in order to capture greater market share and reap the public relations victory of procuring a new contract. The winning vendor then squeezes the program to keep costs within the capitated rate.

Occasionally this formula of "under-price the product and under-resource the program" will return to haunt the vendor, but most times the purchaser is too unsophisticated or apathetic to notice that services are not being provided as promised. An invested and informed purchaser will recognize when an EAP is failing to meet customer needs and will respond by selecting a vendor better able to deliver on the bases of quality and higher standards of service. Most customers, however, terminate and hire vendors on the basis of cost, because EAPs have become commodity products and low price is all too often the deciding factor.

This environment of under-pricing and over-selling is compelling some who market and negotiate EAP contracts to risk some form of deception, concealment, or exaggeration of one's actual intentions, according to more than one in five survey respondents who identified "bidding and fee setting" as the most critical ethical problem facing EAPs. When do EAPs, because of their commitment to being socially responsible, intentionally make decisions expected to result in lower profits (or losses) in order to avoid under-serving or harming clients? Conversely, when do EAPs deliver substandard services in order to minimize financial losses?

Although these questions have not been empirically examined, the capitated model of funding EAPs can place the needs of clients and employers in conflict with the financial interests of the EAP firm. This is not to suggest that capitation is not an effective way to finance EAPs, but rather that the field needs ethical safeguards to determine (a) that the rate of payment is sufficient to provide all services needed to actually be labeled an "EAP," and (b) that the rate reflects the program needs and expectations of the employer customer.

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Cowboy or Stakeholder Capitalism?

The EAP market, as currently financed and structured, rewards a kind of "predatory competition" and tends to avoid the type of procurement process that is a prod to real excellence and quality. It should be considered that what currently drives growth in EAP enrollment, including the benefits and imperfections of a price-driven market, will not likely curtail our increased vulnerabilities to ethical breaches.

This does not mean that business ethical problems can be diagnosed as stemming from competitive, free market forces. Rather, perhaps the field has succumbed to what Gilmartin et. al. (2002) refer to as "cowboy capitalism," which conceptualizes business (including the business of health and social services) as a competitive jungle characterized by self-interest and an urge for competition in order to survive. This view, which reaches into the deepest recesses of American culture, represents a "free-wheeling, anything-goes" approach to win in the struggle that is new business development.

When cowboy capitalism is applied to the cause of helping the troubled or distressed employee return to emotional health and productivity, the values that led many to choose the EA profession seem cheapened. Few people received training and entered the EA field in the hope of "making up the difference with volume by meeting sales quotas," in the words of one survey respondent.

The demoralization of EA professionals is accelerated when the gap widens between available revenues and resources needed to successfully respond to client problems. While our marketing materials trumpet the need for employers to invest in their most important asset—their human capital—our own focus seems to be on financial metrics rather than on client services. Could our pricing tactics be contributing to the increased disenchantment and growing loss of the best and brightest EA professionals?

There is no doubt that EAPs are solidly business endeavors, but as practitioners of the "helping" disciplines, do EA professionals have an obligation to operate at a higher moral standard? If the answer is yes, how does our profession practice concepts like fidelity (keeping promises), stewardship (using resources wisely to achieve the greatest good), and honesty (being truthful and factual in making representations)?

In contrast to cowboy capitalism, Gilmartin proffers the concept of stakeholder capitalism, which may be a more useful approach to pricing EAPs. This concept coalesces around the notion that "organizations can be conceived of as interactions of groups who have a stake in the organization" (Gilmartin, p. 9). The stakeholder theory posits that managers and practitioners need to understand the consequences of their actions on all affected parties—i.e., they must "manage for stakeholders." Since business decisions can harm or benefit various stakeholders, business ethics is highly relevant to stakeholder theory, which holds that stakeholders should be a part of the processes that meaningfully affect their lives.

This common-sense approach is plainly evident within superior EAPs, where the establishment of joint EAP committees ensures employees, managers, and key departmental representatives have a voice in evaluating, designing, and promoting the program. When an EAP is relegated to a position of low status with low stakeholder participation and is ancillary to a company's benefit plan and human resources strategy, then low price will probably be the main criterion for selecting an EAP vendor. The authors suspect that EAPs that are sustainable and have higher PEPY rates are partners with employers, not simply outside vendors, and have found ways to innovate and measure achievements that produce lasting, collaborative relationships with stakeholders.

Breaking Free of a Price-Driven Market

The EA field's challenge is to reform the price-driven market and implement stakeholder capitalism. The field needs more leaders and managers who are willing to "go out on a limb to pick the fruit" by developing business strategies that emphasize a reasonable price based on meaningful performance characteristics, measurable outcomes, and stakeholder engagement.

The crucial test of an EAP is not the size of its profit margins or market share, but rather how well it performs when distressed, anxious, or impaired employees are coping with personal problems and under-performing on the job. Of course, all EAPs want and need to be profitable, but market dominance must be understood as only one measure of organizational performance, not the defining goal of the EA field.

This proposed reform requires persuading employers to buy EAPs on the basis of compliance with quality standards, not the lowest bid. If the field is to save itself from financial suicide, then EA professionals must educate employers that EAPs are worth the investment of additional resources. We also must migrate toward the development of universal standards regarding essential business practices.

Employers may be less inclined to focus on price if EAP vendors provide better measures of quality and value and give employers a reason to have a stake in the future of our field. No amount of new "add-on" products, less expensive alternatives to in-person services, or new marketing and branding campaigns can overcome the ethical problems arising from inadequate capitation rates and no price increases for core service. It's time to identify and celebrate EAPs that are doing the ethical thing by reasonably balancing the competing values of quality and price. And it's time for our field to collect and share data to help our customers and clients better understand the relationship between the price and value of EAPs.

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