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Health & wellness strategy in CFO's language

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By Celina Pagani-Tousignant, MA, Director of Corporate Consulting, MEvident, Inc. and Asako Tsumagari, MBA, CEO, MEvident, Inc.

(We will be presenting this topic including various case studies and strategy toolsets at the HR West Conference. A white paper is also available upon a request at info@mevident.com.)

The year 2014 is a big year for large employers to take drastic action in their health & wellness strategy. This is the moment HR managers will have to come up with a strategic framework for their health and wellness initiatives and guide other executives, such as the CEO and CFO, to the right decisions. It is a daunting task for HR managers because CEOs and CFOs have no domain expertise in health & wellness benefits.

CEOs and CFOs are ultimately in charge of delivering and reporting a profit to their shareholders. In all annual strategy sessions, budget sessions, investor presentations and business manager performance reviews, they are looking for ways to improve the profitability of the company. The challenge for HR managers is that the discussion of health and wellness strategy and the discussion of corporate profitability often get too disconnected. In this environment, HR managers have to develop a health & wellness strategy that can be explained from the overall business strategy of the company in the language of CEO and CFO.

The first step to make the connection is to understand the company's business focus that was put in place to achieve its profitability and improve the current profit margin. Are they focusing on innovation and growth? Are they focusing on operational efficiency?

Let's take a look at two contrasting companies, Safeway and Google. These two companies are often used as examples in corporate health & wellness case studies for their active investment on wellness programs. However, the nature of the business is very different between the two companies. Safeway is a low margin business, with low profitability and low revenue growth rate, while Google is a high margin business with high profitability and high growth rate. For Safeway, the cost of health benefits and workers compensation is more than 3% of revenue while operating profit is only 2.5% of revenue. For Google, the cost of health benefits and workers compensation is negligible in the total financial picture.

For a company like Safeway, it is critical to achieve operational efficiency to maintain its profitability, and hence, managing the healthcare cost is a critical issue. For Google, the focus is on innovation and talent acquisition in order to support the high revenue growth. Consequently, what these two companies do in the health and wellness area is driven by completely different motivations.

But if Safeway is a low margin business where efficiency in operations is critical, how could Safeway invest so much in health & wellness programs? In reviewing Safeway's recent annual reports it was highlighted that the health & wellness programs were all geared towards healthcare and workers compensation cost reductions. The first step Safeway took in 2008 was launching a self-insured health plan that rewarded healthy behaviors, a plan design that itself already reduced significant costs of the operating health benefits. With this move, Safeway successfully created additional budget to invest in their wellness strategy. Then, the company focused on three areas: 1) managing highly costly chronic illnesses such as heart disease and cancer, 2) launching an online tool that makes healthcare costs transparent, and 3) addressing obesity that was prevalent among their employee population and was causing costly diseases and many work-related injuries.

There is a framework developed by McKinsey & Company and the Boston College Center for Corporate Citizenship, that explains how corporate social responsibility or sustainability strategies contribute to a company's business focus. This framework can be also leveraged to explain the contribution of a health and wellness strategy to the business.

The framework explains a company's business focus in four dimensions. “Market Creation” characterizes a company like Google, “Efficiency in Operations”, characterizes a company like Safeway, “Leadership Quality” characterizes a company like Cisco and lastly, “Risk Management”, characterizes a company like PG&E and public transportation companies that emphasizes safety programs.

Once you understand the business focus of the company, now you can break it down to the business metrics and make connections with your HR metrics. Do we need to attract better talents? Is cost reduction more important? What programs attract better talents? For example, let's say the focus of your company is market creation and the revenue growth. Let's say the company is focusing on increasing the number of new product launches during a year like Google does, in order to grow its revenue. Growing the revenue is the business focus and the number of new product launches during a year is the business metric. As a next step, what HR key metrics could contribute to such a business metric? The list could include metrics like high employee engagement, low sick days, low presenteeism, low team conflicts and high team cohesiveness. So your health & wellness programs need to deliver against these HR metrics. How about some onsite team fitness activities to improve team work?

By connecting these metrics to the ultimate business focus and corporate profitability, HR managers can effectively present their health & wellness strategy with confidence and explain why it makes sense to the company to their CEOs and CFOs.

Speaker Bios

Celina Pagani-Tousignant, MA is Director of Corporate Consulting at MEvident, Inc. She is also CEO of Nomisur International, a corporate sustainability consulting firm. She has managed an internal EAP department at Pacific Gas & Electric Co., worked as Manager of Work/Family Initiatives at Levi Strauss, and held a position of Global Health and Quality at Levi Strauss. She was President of the EAPA SF Chapter, Vice Chair of Examinations of Employee Assistance Certification Commission, and Co-Chair of the Friends of Langley Porter Psychiatric Institute Board at UCSF. She teaches wellness and work/life courses at Boston College, John F. Kennedy University, and institutions in Chile, Mexico and Germany. She is a licensed Marriage Family Therapist, and holds a master's degree in Psychology from John F. Kennedy University.

Asako Tsumagari, MBA is a CEO and Founder of MEvident, Inc, a technology-enabled network of wellness providers. She has been serving the corporate wellness program market for the last four years with its comprehensive HRA platform and onsite provider services. Asako is an expert of corporate strategy and organizational management through her experiences as a management consultant at McKinsey Company as well as Senior Director of Consumer Health and Wellness at Philips Electronics. She holds an MBA from the University of Chicago.