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Designing an Effective Corporate Health and Wellness Strategy

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With all the regulatory changes, this is a big moment for employers to take drastic action in their health and wellness strategies. Many employers saw a big jump in medical plan premiums for 2014 renewals. As health benefits are discussed daily in the media, they also have become a frequent topic of discussion among corporate executives.

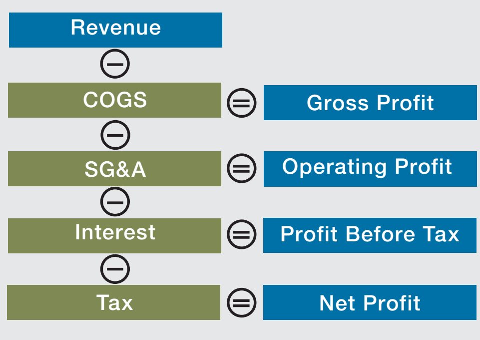
This is the moment that HR or compensation and benefits managers will have to come up with a strategic framework for their health and wellness initiatives and guide other executives, such as the CEO and CFO, to the right decisions. (For the sake of brevity, this article will refer to anyone who manages a benefits program as an "HR manager.") However, HR managers are often put on the defensive for the existing benefits programs that include a long list of items from medical, dental and vision plans to behavior and alternative-medicine packages, life and long-term care insurance, Employee Assistance Programs (EAPs), work-life initiatives, concierge services, onsite gyms, weight-loss programs and the list goes on.

Under the cost pressure of rising medical-plan premiums, some executives may demand HR managers cut programs such as wellness initiatives, while other executives interested in talent attraction may ask HR managers to add new programs. In addition, HR managers receive countless calls from benefits brokers, all with ideas how to solve the cost problem by dropping employees to a public exchange, changing the coverage design or moving to self-funding. HR managers also receive calls from vendors who are developing tools in such areas as wellness, engagement and benefits management.

In this environment, it is a daunting task for HR managers to develop a health and wellness strategy that can articulate all the programs in the portfolio and obtain buy-in from other executives. Particularly if HR managers are entrenched in the operational aspects of these programs, they will have a hard time communicating with other executives who have no domain expertise in health and wellness benefits.

The key is to first develop a health and wellness strategy that supports, and can be explained from, the overall business strategy of the company in the language of the CEO and CFO. Whatever health and wellness programs HR managers put in place, they have to make sense and be easily understood by CEOs and CFOs who are looking at issues from the perspectives of running the company.

Table 1 | The World of CEOs and CFOs



In publicly traded companies, CEOs and CFOs are ultimately in charge of delivering and reporting a profit to their shareholders. Driving innovations, achieving efficiencies, and reducing costs are goals that generate more revenue and reduce expenses, and ultimately deliver more profit.

But indeed, in all annual strategy sessions, budget sessions, investor presentations and business manager performance reviews, CEOs and CFOs are ultimately looking for ways to improve the profitability of the company.

The first step to making the connection between the HR operation and the world of the CEOs and CFOs is to understand the company's business focus designed to improve its profitability. Is the business focusing on innovation and growth? Is it focusing on operational efficiency? Then, as the second step, it is important to examine the implications of the business focus to the HR operation and health and wellness strategy.

Next, the article will look at two contrasting companies, Safeway and Google. These two companies are often used as examples in corporate health and wellness case studies for their active investment in wellness programs.

As Table 2 shows from a financial viewpoint, 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.

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.

Table 2 | Comparing Google and Safeway

	Google	Safeway
Revenue (2012)	$50 Billion	$44 Billion
Number of Employees	46,000	171,000
Revenue Per Employee	$1.1 Million	$260 K
Revenue Growth Rate	32%	1%
Gross Profit Margin	59%	26.5%
Operation Profit Margin	25%	2.5%
% of Health-Care and Workers Comp Cost in Revenue	= 0.5%	= 3.2%

Source: Annual Reports, Yahoo! Finance

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

Table 3 shows Cisco, another high-tech company, which is in Silicon Valley and is highly profitable, and PG&E, a large utility company that is modestly profitable and has a lower growth rate. The data show Cisco is not growing so much anymore.

PG&E cannot be put in the same category as Cisco. Again, it is important to further read through PG&E's annual report to understand the company's business focus, which is very much on risk management. The example of the gas pipeline explosion in San Bruno, Calif., on Sept. 9, 2010 highlights

Table 3 | Comparing Cisco and PG&E

	Cisco	PG&E
Revenue (2012)*	$49 Billion	$15 Billion
Number of Employees	75,000	20,600
Revenue Per Employee	$650 K	$730 K
Revenue Growth Rate	5.5%	0.6%
Gross Profit Margin	61%	26%
Operation Profit Margin	23%	11%
% of Health-Care and Workers Comp Cost in Revenue	= 1.5%	= 1.5%

Source: Annual Reports, Yahoo! Finance
*The figure from Cisco is from FY ending July 2013

the importance of risk management for PG&E. The company reported it incurred cumulative charges of about $1.83 billion related to the San Bruno explosion.

Table 4 | Value Creation Framework

Marketing Creation (new clients, products and markets)	**Efficiency in Operations** (cost control)
Risk Management (License to operate, supply chain and reputation)	**Leadership Quality** (development of leaders/long-term decision making)

VALUE CREATION FRAMEWORK: CEO/CFO LANGUAGE

There is a framework that helps to articulate the contribution of the health and wellness strategy to the business by using the language of the CEO and CFO. The framework shown in Table 4, developed by McKinsey & Company and the Boston College Center for Corporate Citizenship (2009), explains how corporate social responsibility or sustainability strategies contribute to the business in the four dimensions of value that the financial market usually assesses: market creation, efficiency in operations, risk management and the quality of the leadership.

The framework can be useful to explain a company's business focus. "Market Creation" characterizes a company like Google; "Efficiency in Operations" characterizes a company like Safeway; "Risk Management" characterizes a company like PG&E; and lastly "Leadership Quality" characterizes a company like Cisco.

How can the framework be leveraged to explain the contribution of the health and wellness strategy to the business? Depending on the company's financial focus, the benefits should be developed accordingly and can be explained as follows:

- A company like Google that focuses on **market creation** wants healthy and engaged employees who are able to launch new products. Health and wellness initiatives will concentrate on team activities, concierge services, fitness and stress-related programs.
- For a company like Safeway that wants **efficiency in operations**, the incentive to keep employees healthy is to keep costs down. Coverage redesign, prevention and disease-management strategies will be key components of the health and wellness portfolio.
- Utility companies similar to PG&E are concerned about **risk management,** so employee safety is very important. Such companies will focus their health and wellness initiatives on activities that keep employees safe, such as EAPs, safety programs and ergonomics.
- Finally, companies like Cisco that rely on the **leadership quality** of employees don't want high turnover. They will develop health and wellness benefits focusing on attractive coverage, work-life, career development and other programs, so that they attract and retain the best talent.

DEVELOPING A HEALTH AND WELLNESS STRATEGY

There are four steps involved in developing an effective health and wellness strategy.

Step 1: Understand the company's business focus

As demonstrated earlier, the first step in developing a health and wellness strategy is to understand the company's business focus. If a company is publicly traded, corporate documents such as annual reports, Securities and Exchange Commission filings, investor presentations and press release are accessible. An HR manager may feel he/she understands the company being there day in and day out. Nonetheless, the HR manager will still want to read those documents because they explain the company at the high level in a language that is familiar to the CEO and CFO.

But most important of all is to listen carefully to the CEO and CFO. The HR manager may reach out to the CFO for his/her perspectives on the direction of the business.

Table 5 shows examples of metrics to examine regarding a company's business focus.

Step 2: Understand your population and develop your health and wellness strategy

The next step in designing a successful health and wellness strategy is to understand how the business focus intersects with the company's workforce.

This is an area that HR managers traditionally manage, and they have great expertise — the question to ask now is, "Who are the employees?"

If the company's business focus is on market creation, it's likely it will want

Table 5 | Metrics to Measure a Company's Business Focus

Market Creation	Efficiency in Operations
• Percent of revenue from new launches • Year-to-year revenue growth > 10% • Number of new innovations, products and services a year • Workforce percent is high in innovative jobs • Revenue/employee > $500K	• Very few new launches a year • Percent of operating profit margins < 10% • Year-to-year revenue growth < 5% • Workforce percent is high in blue color/repetitive jobs • Revenue/employee < $500K
Risk Management	**Leadership Quality**
• Potential magnitude of any one safety incidence caused by any one employee is very high • Number of safety incidences a year is high • Regulatory safety compliance is critical in operations	• Workforce percent is high in knowledge work which is highly technical and where experiences matter • Headhunting of talents among competitors happens often

Table 6 | Employee Population and Health and Wellness Strategy

		Business Focus			
		Market Creation	Efficiency in Operations	Risk Management	Leadership Quality
Population Nature	Type A	***Examples*** Fitness, wellness and emotional support to keep employees productive and engaged	***Examples*** Benefit restructuring, health intervention to reduce medical leaves and absenteeism	***Examples*** Safety, ergonomics, and EAP	***Examples*** Good benefits, work-life programs, convenience services to attract and retain talents
	Type B				
	Type C				

to hire creative workers. But if the workers the company is trying to attract are mostly Generation Y male engineers or Generation X female marketers, this could make a big difference to the health and wellness strategy. Programs that are appreciated by different populations are different. Work-life options may be more appealing to Gen X female workers who may also be caregivers, whereas an onsite gym would appeal to Gen Y male engineers.

The impact of population difference can be highlighted by the different ways Google and Cisco approach their health and wellness strategies. According to a workplace survey, the average age of Google employees is around 31 years while that of Cisco employees is 40. Cisco is known for its investment in one of the most cutting-edge onsite medical centers in the United States that includes a radiology center, pharmacy and diagnostic laboratory, while Google is known for its onsite meditation rooms, massages, various sports activities and organic cafeterias in addition to its onsite medical staff. The difference between the two health and wellness strategy approaches makes sense considering that Cisco has an older population of employees who are at the stage of developing chronic illnesses.

Table 7 illustrates some directions an HR manager may want to take into account based on population profiles. The more insights gained in order to find best ways to engage employees, the more successful the programs become.

Step 3: Build a return on investment (ROI) case for a health and wellness strategy

In order to gain buy-in from the CEO and CFO, the next step is to build an ROI case that connects the health and wellness strategy with the profit of the company.

Table 7 | **Factoring Employee Population Into Health and Wellness Strategies**

Older (>40) vs. younger (>40)	Older employees may be more motivated about their health issues while younger employees engage better with positive messages of fitness and wellness.
Blue collar vs. white collar	Blue-collar workers may not have access to technology-based solutions while at work compared to white-collar workers who are always connected.
Male vs. female	For female workers, specific attention needs to be paid to pregnancy care, lactation support and women's health as well as family care giving to some extent (as more women play this role than men).
Remote workers vs. office workers	Remote workers won't be able to participate in onsite programs, hence specific attention needs to be paid to leverage technologies and local resources.
Native English speakers vs. non-native	Programs in their native languages will likely engage non-native English speakers better. Also programs need to be adjusted to culture, particularly around lifestyle (e.g., diet/cuisine, types of fitness activities).

In order to do so, the HR manager should go back to the corporate accounting concepts of revenue and expense. Step 1 identified the business focus of the company and the business metrics the company is using to measure that focus. Now, HR metrics need to be connected to those business metrics.

For example, a company's business focus is on market creation and the identified business metric is the number of new product launches during a year. How will the HR manager connect this business metric with the health and wellness strategy?

HR managers need to identify HR key metrics that could contribute to the business key metric that has been identified. Key HR metrics could include high employee engagement, low sick days, low presenteeism, low team conflicts and high team cohesiveness.

Health and wellness programs will deliver against these HR metrics that deliver against the business metric under the business focus. Now, the HR manager can quantify the benefits of the health and wellness programs. For example, how much more revenue will be added when the health and wellness programs improve employee engagement and help the company add one more product launch a year?

By connecting these metrics to the ultimate business focus and corporate profitability and quantifying them as much as possible, HR managers can effectively and confidently present their health and wellness strategy and explain why it makes sense to the company.

ROI CHALLENGES OF HEALTH-CLAIMS DATA

Among various focuses of health and wellness strategy, health-care cost reduction is considerably more challenging than any other area. Even tracking and monitoring team engagement and engineering productivity can be easier.

Health-claims data analysis can be obtained from the carriers and/or benefits consultants. Such data can help identify the target conditions or risk factors that affect sizable population. Ideally, premiums would go down if the HR manager can successfully intervene to reduce those claims.

In reality, many companies are not able to get the full analysis of health-claims data, or even if they do and could implement a program, they may not see their premiums go down.

RAND (2013) highlighted these challenges. The study reported most employers couldn't formally evaluate health-care cost reduction because of lack of access to data, limited capabilities to prove causal relationships and methodological questions. In addition, RAND projected that the programs would likely be cost-neutral (no positive ROI) after five years.

There are a number of factors associated with this challenge:

- It's often challenging to attribute any change in health-care cost to programs.
  - It requires complex data tracking to see claims reductions among program participants compared to those who did not participate.
  - Claims could go up in one area and go down in another area but the link is challenging to prove (e.g., more diabetes claims due to participations in screening but reduced claims in acute cardiac incidents).
- Health-care cost can go up even if there's an improvement.
  - Even if the number of diabetic employees is reduced, if the treatment cost per diabetic employee goes up, the health-care costs go up.
  - Even if the total cost of diabetes claims is reduced, a few new incidents of cancer may wipe out those savings.

From these perspectives, it is critical for HR managers to understand all other possible goals that could contribute to company's business strategies beyond health-care cost reduction. For example, if the efficiency in operations is important and health-care costs are a critical issue, the company is likely facing issues with workers' compensation costs, costs associated with medical leaves and absenteeism, and lost productivity from presenteeism.

Can ROI be gained from those factors and not just health-care costs? Can other metrics be traced? Can programs be justified in this broader picture while taking steps to tackle benefits designs with brokers and consultants?

Step 4: Track and monitor the outcome of the new strategy

The last step is to start collecting data on all the identified metrics and track them over the years so the HR manager can actually ensure the health and wellness strategy is delivering the expected results or is able to adjust them accordingly.

In tracking data, the HR manager would like to examine not only HR metrics but also the target business metrics that connect the health and wellness strategy with the company's business focus.

Some data, such as the level of employee engagement, may not be easily quantifiable. Even then, HR managers should still develop a way to make an objective and measurable assessment. The health and wellness strategy is critical enough to establish a data dashboard to facilitate the review process in years to come.

CASE STUDIES

Case studies from the authors' experiences illustrate how this works.

Case Study 1: Levi Strauss

In the past 25 years, Levi Strauss has been at the forefront of the retail industry because of its innovative and progressive approach to health and wellness. The company has taken a strategic view of health and wellness issues with the purpose of improving employee health and shareholder value. When Levi still had factories in the United States, the health and wellness strategy varied according to the different divisions that had diverse goals and populations.

At the corporate office, the business focus was on developing fashionable products that brought good revenue. Health and wellness practices that fostered innovation and creativity were key to keep the workforce, composed of designers and administrative staff, engaged. The health and wellness needs of the professional population were very different according to jobs. Designers who traveled, often without advance notice, were looking for a safety net for emergency travel, while administrative staffers wanted to have control over their hours. The company established a dependent-care travel policy that was welcomed by designers and summer hours to the delight of employees at headquarters.

At the manufacturing facilities, the company was highly focused on operational efficiency, augmenting productivity and reducing the cost of making a pair of pants. Team conflicts due to the inability to negotiate work-life conflicts affected productivity. At the Levi plants, workers had received training to work in self-directed teams, but training was not offered, nor were guidelines established, to negotiate work-life conflicts within the team. Within an average team of 40-50 people and a workforce with many single mothers, absenteeism was likely to occur due to a sick child or lack of child care. It was difficult to provide coverage for an absent employee, so productivity suffered due to team conflicts. The portfolio of health and wellness solutions for this population included work-life training at the team level, child-care resource and referral services, a child-care voucher to help pay for the services and financial support for child-care community agencies near the plants.

This is an example that shows how a company's business focus and diverse needs of its population can drive the health and wellness strategy. The success of this case was in understanding that within Levi there were two distinct businesses with different goals and populations, and in the HR manager's active participation in high-level discussions with the division leaders.

Case Study 2: A premier hotel

The hotel industry is ahead of other industries in launching wellness programs, with leading examples like Marriott and Westin. Their goals are often:

- Reducing workers' compensation claims (efficiency in operations)
- Stabilizing worker turnover (leadership quality).

In the hotel industry, each site's revenue growth is limited by the number of rooms and pricing levels of competitors in the same area. Once marketing presence is established to fill rooms, the business is very focused on efficiency and workforce management to ensure positive customer experiences.

This particular hotel is a premier hotel that was experiencing almost $4,000 per employee per year of workers' compensation costs, including all associated costs (e.g., accidents and remediation, building engineering). In addition, the frequent work-related injuries were causing disability claims, medical leaves and high turnover, which could affect the quality of customer service. Despite efforts to improve the work environment (e.g., equipment) for workers, work-related injuries continued to be filed.

Led by the general manager, hotel leaders implemented a comprehensive ergonomic behavior program, focusing on the task behaviors and fitness of workers. Ergonomic experts made full analysis of tasks and risks associated with those tasks for each of various job functions and provided behavior and fitness training programs to all employees based on their job functions. The final report and recommendations of how to continue internal training were provided to the management. As a result, workers' compensation costs, including all associated costs, have been reduced by 50%. The ROI was more than 20 times the project cost. Based on other cases the authors have observed, the hotel industry realizes an average of 20% to 30% reduction in workers' compensation costs with wellness programs. So, this program surpassed the expectations.

SUMMARY

The next few years are critical for employers to take drastic action in their health and wellness strategy. However, a company's business focus, not regulatory changes, should drive health and wellness strategy. HR managers should engage in a discussion with their CEO and CFO and understand the company's business focus and business metrics they are ultimately expected to support. By understanding and connecting the company's business focus with key HR metrics, the HR manager will ascertain what is required of the health and wellness strategy. HR managers can develop their health and wellness strategy, evaluate programs, determine new programs and guide senior executives effectively, without being entrenched in tactical and operational matters. ▮

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