CFOS AND OTHER FINANCIAL

PROFESSIONALS CAN HELP THEIR

COMPANIES ACHIEVE ORGANIZATION-WIDE

SAVINGS AND OPERATIONAL IMPROVEMENTS

WITH H&P PROGRAMS.

ARE H&P PROGRAMS FOR YOU?

health & productivity

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What are health and productivity (H&P) programs? Why are more and more organizations turning to this approach? Why is integrating certain programs good for business? How are substantial savings and corresponding return on investment (ROI) uncovered and realized? How do H&P programs increase shareholder value? Let's find out.

In this article, the authors give an overview of health and productivity programs and offer financial professionals some issues to consider before starting one. In their next article, they will delineate some cost savings and describe some sample programs.

Successful H&P initiatives have demonstrated substantial positive impacts on an organization's bottom line, both quantitatively and qualitatively, while simultaneously increasing the company's overall return on investment (ROI) at a rate as high as 10:1. ROI is increased by managing to a healthier workforce, which, in turn, leads to higher productivity. Higher productivity is achieved through reduced lost-time occurrences and lower health utilization costs. But knowing that H&P programs are proven to generate positive results is only the first step toward better long-term business practice using the H&P model.

Here are some key measures that underpin successful H&P programs:

◆ Creating an environment where H&P excellence is a corporate goal.

◆ Designing and delivering "best practice" programs that enhance management decisions.

◆ Integrating disparate programs and services successfully.

To accomplish these tasks, we must first examine what H&P programs actually seek to accomplish and what they are designed to do, as well as take a look at some other important considerations and issues regarding the ideal process of implementation.

DEFINE, INTEGRATE, AND CONQUER

The numerous H&P initiatives that are currently under way in the U.S. provide a wealth of learning opportunities and help to identify the ingredients for successful H&P programs. These ingredients are typically grouped under the title of best practices, which is defined as:

Best Practices—Those programs that, when compared to the best-performing programs, have achieved the greatest returns in health improvement, savings, investment, and employee satisfaction.

Though there are several ways to view, define, and implement H&P programs, here are the best-practice definitions of an H&P program and environment for the purposes of this article:

H&P Program—A strategy for achieving sustained cost savings through improving individuals' health and productivity within an organization by adopting an aggregate view of absence (scheduled and unscheduled), health (medical, Rx, vision, dental), disability (short- and long-term disability), workers' compensation, presenteeism, and wellness/preventative programs. The performance of the H&P program is measured against best practice and is designed to provide integrated solutions for the organization's unique needs.

H&P Environment—An organization that conscientiously works with its employees to provide best-practice-based programs and services to effectively manage all health- and productivity-related issues in order to create a working environment wherein everyone realizes greater productivity, health, and focus—all of which lead to greater overall business performance.

The previous definitions seek to integrate traditionally disparate programs—absence management, health, disability, and workers' compensation—to improve on conventional practices by freeing them from vertical silos and "one-off" management. Historically, companies manage each of the four areas independent of each other, thereby duplicating efforts and costs and missing opportunities. This view of H&P programs is characterized by horizontal integration of program features and elements. Two examples are integrated data management—the ability to understand the "true" costs of these programs on an integrated basis—and integrated disease management—managing asthma, diabetes, heart disease, etc.—whether it was caused by an illness or injury. Horizontal integration allows for more cost-effective, efficient best practices to emerge and enhances management's ability to allocate resources among the traditionally "siloed" programs to obtain a greater ROI by reorganizing staff, aligning the proper skills (behavior change), and consolidating the delivery of programs. This approach provides a new outlook about the four main H&P program areas, specifically:

Absence Management—Proactively managing all unscheduled time away from work. All absences are to be triaged and managed at the time of the occurrence to ensure a policy of early identification, early intervention, and early integration. For example, when an employee will be absent from work, he/she calls into the absence management call center—*early identification*. The call center asks a series of questions, identifies the type of absence (illness, injury, FMLA, personal), and manages the call accordingly—*early intervention*. If it is an illness or injury, medical case management starts immediately—*early integration*. The call center notifies the manager/supervisor of the absence, reason, and follow-up plan.

Health—Managing an integrated series of coordinated initiatives and interventions, such as case management, disease management, centers of excellence (for transplant operations), and Rx management, in order to help participants perform at the highest achievable levels of physical and mental health.

Disability—Proactively assisting all ill/injured employees in the most cost-effective manner available so that they are able to attain the highest level of health improvement they can and return to function/work as quickly as possible.

Workers' Compensation—Proactively managing and integrating risk management (primary prevention and safety) as well as loss control mitigation (proactively managing a WC case by working with the employee and provider of care to get the employee into case management and a return-to-work program as quickly as possible) in order to produce the best job demand/worker capability situation possible.

Consider an organization's typical direct cost/expense distribution in these four areas and annual U.S. inflationary trends (these trends generally apply to companies with 500 or more employees):

	Cost/Expense	Annual Trends
Absence	25%	7-10% (Source: CCH)
Health	55%	14-16% (Source: Donlon)
Disability	8%	4-7% (Source: Donlon)
Workers' Compensation	12%	8-20% (Source: WCP—Workers' Compensation Research Institute)

The true cost of these areas goes well beyond the typical cost associated with each one when indirect costs are considered. Therefore, this H&P approach and its subsequent application seek to, above all, integrate these areas in order to facilitate significant corporate-wide savings and increased ROI. This approach also directly impacts an organization's cultural, organizational, and operational issues, providing the skills necessary for effective program design and delivery. (A reassessment of the skills required to perform the necessary tasks to achieve the goals of the H&P program usually needs an organizational psychologist or cultural anthropologist to assist.) And it incorporates management-directed information-based behavioral change with the goal of improving workforce performance. In fact, empirical data support these claims, showing that, of the documented H&P initiatives to date, more than 60% have been subject to scientific scrutiny, with all but one showing favorable ROI. Studies by the Washington Business Group on Health show similar results, stating that companies using absence management programs have an absence rate that's 74% lower than the rate of companies that don't manage absence using H&P programs. Stated simply, H&P programs promote better business.

INITIAL QUESTIONS

Here are some initial questions to ask yourself as you consider implementing an H&P program:

◆ Will it generate greater ROI than if the organization invested the same amount on core business?
◆ Will it enhance shareholder/stakeholder value?
◆ Will it generate savings, cash, or working capital?
◆ Will the savings be realized? If so, when? Are the savings sustainable?
◆ Will it remove costs while maintaining competitive advantage?
◆ Will it need to be "sourced?"

◆ Will it improve quality?
◆ Will it improve the health of employees and their families?
◆ Will it enhance work environment, quality, and productivity?
◆ Will it simplify administration tasks?
◆ Will it succeed in a multidisciplinary, solution-driven framework?
◆ Will it be readily assimilated into an organization's culture?

If the answer to any of these questions is yes, you should sound the battle cry of H&P programs.
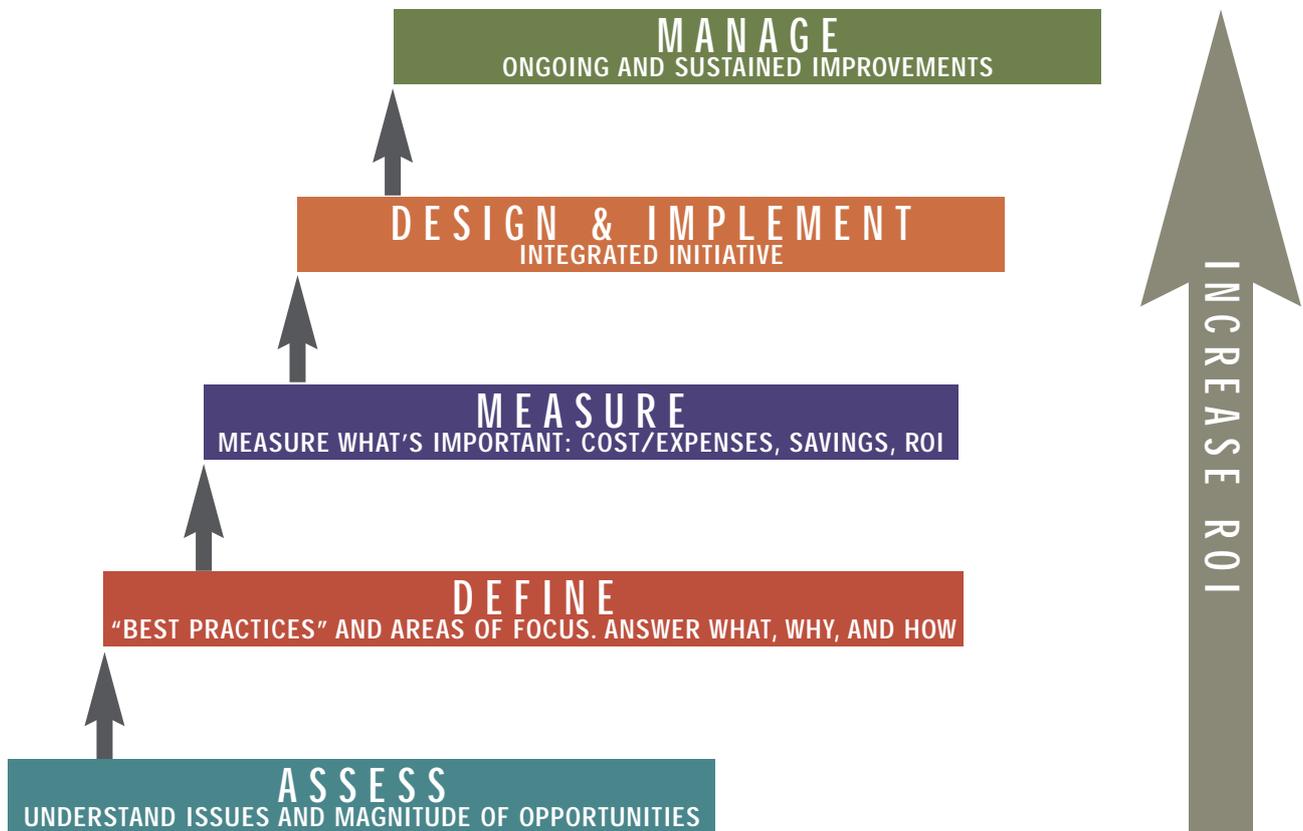
THE H&P PROCESS

Figure 1 outlines the H&P process. You'll need to take an approach to H&P programs that is based on a business plan. Successful H&P programs are able to offer solutions/interventions that are uniformly managed and address individual, organizational, and environmental factors simultaneously, thereby lending themselves to enhanced efficiency. Five primary initiatives for success are:

1. H&P initiatives need a sound business plan. Addressing the costs of absence, health, disability, and workers' compensation is often one of the most pressing issues for organizations. These areas are business challenges with substantial financial considerations, and, for many organizations, the combined annual cost/expense of absence, health (medical/Rx/dental), disability, and workers' compensation is surpassed only by employee compensation.

2. Horizontal integration instead of traditional "silo" structure. Typically, efforts to facilitate cost cutting in human resource (HR) operations have resulted in the outsourcing of various administrative functions, the consolidation of activities, and the shift of financial responsibilities from employer to employee. This traditional approach can lead and has led to increased fragmentation and a "silo" approach to program management, which then leads to significant, missed business opportunities by not managing the whole and looking for integration opportunities—the heart of H&P initiatives. To achieve maximum effectiveness while simultaneously avoiding these pitfalls, H&P programs need to integrate a wider variety of programs and services into a more cohesive, horizontal function, as we have discussed—absence, health, disability, and workers' compensation—and integrating management wherever possible—data, case, disease, etc. In essence, operational and managerial applications are to be performed on a more uniform basis using H&P programs, thereby restructuring opera-

Figure 1: THE H&P PROCESS

MANAGE
ONGOING AND SUSTAINED IMPROVEMENTS

DESIGN & IMPLEMENT
INTEGRATED INITIATIVE

MEASURE
MEASURE WHAT'S IMPORTANT: COST/EXPENSES, SAVINGS, ROI

DEFINE
"BEST PRACTICES" AND AREAS OF FOCUS. ANSWER WHAT, WHY, AND HOW

ASSESS
UNDERSTAND ISSUES AND MAGNITUDE OF OPPORTUNITIES

INCREASE ROI

tional functions to achieve maximum results. Part of the up-front H&P assessment is assessing existing functions and then managing to uniform protocols. This assessment is an opportunity to review how best to "source" all programs and services, develop vendor and consulting partner relationships, and position HR staff and corresponding skill sets to realize goals.

3. Greater clarity of purpose though the use of H&P programs. In many cases, resistance to change may be the result of the employer-based systems themselves. Employees believe it is their right to have comprehensive coverage and that their employer should pay for it. Employers have exacerbated this issue by not educating employees on the real costs of these programs and how they affect operating margins.

Despite their central role in financing and administration, many organizations view healthcare issues as a benefit to be bestowed upon the employees rather than an operational issue to be actively managed. In addition, a mind-set exists in which healthcare is seen as a cost

rather than as an investment in a healthy, productive workforce. As a result, organizations that focus their attention on their core business(es) and minimize efforts on benefit-related issues create a piecemeal, inconsistent approach to healthcare delivery decisions and frustrate and confuse employees and their family members. This mode of thought then leads to increased reliance on consultants and outside vendors to help companies make significant business decisions. All in all, this combination of thought processes can create an inefficient contracting process that doesn't optimize price-performance trade-offs. In fact, a vendor is unlikely to truly understand both an organization's core philosophy and overall business objectives. If a vendor doesn't understand its client's business and goals and objectives, which most never take the time to understand, then how can they be proactive in helping that client improve and achieve its goals? Clarity, therefore, becomes of paramount importance and is critical for success.

An organization that sees these issues as a business

opportunity to improve performance achieves competitive advantage by significantly reducing program costs and administrative expenses and by increasing productivity by concentrating on employee health.

4. Increased focus on technology development. The rapid advances in technology and health informatics (a wide variety of instantaneous health information that is now available to the consumer via significant advances in Web-based health information and decision making) are simultaneously creating significant opportunities and challenges. The opportunities lie in incorporating data from these systems in the development and implementation of effective H&P programs that can be assimilated into an organization's culture to promote better business performance. But merely collecting relevant information isn't sufficient because the information must be both valid and able to provide specific answers to all stakeholders involved—hence, the challenge. Therefore, technology needs to be positioned so as to provide all decision makers with substantial time-of-service and point-of-service information. We call this managing "the total episode of care"—what did the entire episode of care cost? For example, if an employee is absent, what are all the costs associated with that absence—lost time, replacement costs, medical costs—the "true" costs of an event?

5. Realizing the importance of data and information management. The heart of any well-managed program involves collecting, assimilating, reporting, and managing relevant, up-to-date data and information. Hence, the ability to focus on pertinent, accurate data is absolutely critical to all financial and program-related decisions. (One organization that provides effective integrated H&P data management services is Insurance Engine, headquartered in Waltham, Mass.)

BEFORE AND AFTER

With all of the issues on your agenda, why make H&P programs a top priority? Consider the following case. A large multidisciplinary company of 55,000 U.S. employees with a historically traditional approach to HR and program management embarked on an H&P process and discovered their annual costs in the following areas were:

Unscheduled absence	$ 69,000,000
Health	$ 224,000,000
Disability	$ 17,000,000
Workers' Compensation	$ 110,000,000

An H&P program developed for their workforce and

retirees that involved managing absence, health, disability, workers' compensation, and safety and environmental issues demonstrated, through a series of coordinated initiatives and interventions, annual best-practice savings targets and an aggregate ROI of:

Unscheduled Absence	$ 20,000,000
Health	$ 37,000,000
Disability	$ 3,000,000
Workers' Compensation	$ 41,000,000
	(+ release of $17 million in reserves)
Aggregate Net ROI	9.9:1

BEFORE YOU START

Based on a variety of organizations' use of H&P initiatives, we've compiled a list of things you need to do when setting up such a program at your company. These procedures will help ensure a successful program or at least eliminate some of the hurdles.

1. Begin the process by establishing a clear direction. Clearly articulating an H&P strategy is the foundation for success, as is creating specific objectives for the H&P initiative. In addition, H&P objectives must support and complement an organization's Vision/Mission/Objectives. Companies make frequent mistakes in this area by spending too much time and money on assessing their opportunities and readiness for change when the business opportunity for the organization can be determined rapidly. Instead, use time effectively and efficiently during this stage of the process, as the primary effort ought to be placed on design and implementation.

2. Use a business case approach. H&P matters are a business issue with significant financial consequences, so the focus of a health and productivity program needs to be on the organization as a whole to ensure a positive impact on organizational productivity and profitability.

The business-case approach ensures that the program design will generate ROI. While the program can be implemented in phases, the overall program design and evaluation metrics need to be in place from the start.

3. Establish success criteria at all levels. You must have clear, articulated, and documented success criteria. In addition, as a part of the initial process, it's necessary to ask key audiences: "In two years from now, why will our H&P program have been a success?" And though success criteria may vary depending on the audience, uniform criteria will emerge from all responses.

4. Create a best-practice environment. The use of best practices to help define the process is key and encompass-

es three general areas: design, finance, and administration.

5. Challenge the deliverables. It's crucial to understand exactly what will be delivered and on what criteria these deliverables will be based.

6. Assess the skills needed for success. It's important to understand what skills are needed to successfully assess, design, implement, and manage an H&P program. While this isn't easy to do, it's critical. Thus, you first need to inventory your company's internal skills and your employees' ability to work with regard to this process. Then, based on that evaluation, you can decide what external skills are needed. These include any skills utilized that are outside an organization, such as consultants, vendors, administrators, and the like.

7. Become sales driven. A successful H&P program must generate initial and then sustainable savings that are easily measured. Straightforward metrics that use a consistent financial model tend to be the most successful. Also, documented measurable returns—in your organization's terms—need to be realized within the first year of operation.

8. Develop common metrics. It's important to establish meaningful data collection, measurements, reporting formats, and timing. In addition, keeping the metrics simple and staying with aggregate data are a must unless there's a compelling reason to focus on specific data instead.

9. Keep it simple. Though an H&P initiative is traditionally broad in scope, you should focus on reducing it to the simplest terms for the end user—employees and their families. This can be accomplished effectively by listening to and engaging all key audiences with a well-thought-out communication and education program. Addressing behavioral changes in this way is also key.

10. Ensure consistency. Consistency is fundamental to acceptance, understanding, and making the right choices at all levels. Successful H&P programs are designed for existing and future employees so must be flexible while addressing key issues such as balancing work/life issues and the presence of an aging workforce.

11. Make it visible. To be successful, an H&P program must become an integral part of an organization's culture.

12. Define the terms. Defining key terms at the outset makes a significant difference. It's also important for you to tailor all definitions to your company's own, specific culture.

13. Seek out other internal success stories. Look for other corporate initiatives that have been/are successful. They can be a useful model, even if the companies aren't directly related. Also, understanding why other programs are working and how they are organized leads to greater overall understanding of the entire H&P process and will help you capitalize on the H&P initiative through a parallel structure.

14. Create efficient administrative solutions. H&P initiatives can help create competitive advantages by providing a "seamless" system for employees, that, in turn, will maximize productivity and minimize program costs for employers.

15. Foster partner-based relationships. Focus on market trends and issues, and understand potential vendor-partners, especially the capital, flexibility, and commitment they bring to bear.

It's vital that the incentives for all internal and external program vendors be consistent with their contribution to the success of the overall H&P program.

16. Focus on the individual. Understand that the ultimate "clients" are your employees, their families, and retirees.

A DIFFERENT APPROACH

H&P initiatives can be a viable alternative to the traditional corporate approach of cutting benefits and/or increasing employee contributions and co-pays. These "solutions" have led to poor morale, recruitment and retention issues, strikes, and loss of productivity.

H&P programs will still let you cut costs, but you'll also save morale, productivity, and the bottom line. ■

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