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The Last Mile:

**The Role of HPM in Rounding Out
the Enterprise Human Resource
Management Mission**



HPM INSTITUTE
HEALTHCARE PERFORMANCE MANAGEMENT

Introduction

Active management of health-care delivery and health-care cost control has not typically been seen as an integral part of the mission for human resource (HR) departments. But changing times -- and skyrocketing costs -- have pushed Healthcare Performance Management (HPM) center stage for companies that want to boost productivity, while investing benefit dollars in better health outcomes for their employees.

This shift away from traditional ways of managing employee health benefits stems from a clear and universal reality: Rising health-care costs increasingly pose a core business challenge. Indeed, U.S. health-care spending approached \$2.25 trillion in 2007 -- more than 16 percent of the gross domestic product according to the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services.

Employers increasingly are feeling the bite of those rising costs. A 2008 study conducted by the health policy journal Health Affairs showed that average annual premiums increased 5 percent to \$4,704 for single coverage and \$12,680 for family coverage. The study's data was derived from interviews with 1,927 public and private employers.

New research echoes those trends. According to a December 2010 report from RNCOS Industry Research Solutions "U.S. Healthcare Sector Forecast to 2012", national health-care spending is expected to grow at a compound annual growth rate of around 5 percent during 2010-2013.

Redefining The Health Benefits Value Proposition

The key for organizations seeking to stay ahead of the curve may well lie in changing the game. Rather than simply paying out rising medical and pharmacy claims, employers increasingly are addressing health benefits challenges in a more holistic manner by investing in a more comprehensive strategy for employee health.

While traditionalists may view an employee's health as primarily his/her own concern, savvy companies are realizing that the benefits associated with making their employees healthier far exceed the dollars-and-cents calculations of insurance premium costs. According to the Change Agent Work Group (CAWG), employers have a vested interest in promoting good health by fostering a healthy work environment and offering incentives and disincentives to their employees.

It all starts, CAWG believes, by viewing the issue of employee health and benefits differently. The group suggests that companies define value as the full health-related benefit achieved for the worker and the employer in terms of medical cost savings verses the money spent on health-related costs and lost time and lost productivity.

"The ability to add value to the business through better management of employee health may be the largest untapped source of competitive advantage," CAWG believes. To this end, the group has developed a roadmap to help organizations capture that advantage.

A growing number of companies are automating their HR operations to gain greater efficiency in transaction-based processes. This presents an opportunity for companies to integrate more strategic initiatives such as HPM into their HR missions.

Making the paradigm shift from a tactical HR focus to a strategic focus will require top-down executive support and an organizational culture that promotes a high-performing workforce in a high-performing workplace. While no single factor can ensure true bottom line success, every organization needs to have healthy and productive employees if they want to remain competitive.

CAWG contends that workforce health and productivity translate into direct and indirect costs for every employer. Both the workplace environment and the lifestyles of employees and their families influence those costs. "While employer-sponsored health insurance plays a part in maintaining employee health, any approach that relies primarily on providing medical services after employees get sick is a failed strategy," according to the group's Employer Health Asset Management Roadmap. "Enlightened employers are looking for creative ways to help employees and their families improve their health -- or simply stay healthy."

While some health-care reform advocates see cost shifting as a way to alleviate the problem, the total cost of an unhealthy workforce extend far beyond increases in medical and pharmacy claims to lost productivity. Increasingly, the high costs of absenteeism and presenteeism (a decrease in job performance due to health problems) are taking their toll on companies of all sizes. To address this effectively, companies must start to view employee health as a strategic priority. The best way to do so is to take a top-down approach that addresses employee health within the context of a company's human capital asset management strategy.

As important as top-down support is to taking an integrated approach to human capital management, it is equally important that a company's culture be able to support such change and effectively communicate its benefits to employees and their families.

Strategic Impact Analysis

One thing is certain: This new value paradigm of HPM is fueling an evolution of HR management away from a tactical focus towards practices that are far more strategic. Traditionally, the role of HR has been more transaction and data-oriented to support the logistics of critical activities throughout the employee lifecycle, such as: hiring, payroll, vacation, leave management, etc. HR teams input large amounts of data to support processes throughout the employee lifecycle such as getting people hired and paid – essential tasks to be sure, but often viewed by upper management as a necessary cost rather than a potential value-add to the organization.

Many companies automate or outsource these routine processes. HR departments are then freed up to pursue projects with more strategic benefit to their companies' productivity. That is where HPM comes in. Advances in technology have combined with a second dynamic: organizational leaders' recognition that their human assets -- employees -- are of strategic value and should be treated as such.

"We have seen a rise in the number of strategic HR processes applied across the organization," said Chris Mueller, vice president of channel sales, Healthcare Interactive (HCI). "Research tells us that Healthcare Performance Management is irrefutably one of those strategic processes necessary for high performing organizations. It can have an immediate and positive impact on an organization, which helps HR maintain or gain their seat at the table. This is important."

"From an historical perspective, HR has never really been a strategic part of the organization," said Michael Bekiarian, general manager of Sapien LLC, a provider of human resource management systems (HRMS). "Now through technology and being able to extend our HR arm to employees through self-service portals, employees are now engaged and participating directly in their organizations' HR and talent processes."

Morristown, NJ-based Sapien is a total solution provider of HRMS through its software-as-a-service (SaaS) model. "We try to help HR departments become strategic within the organization by integrating all of an organization's core indicators and talent initiatives," Bekiarian said. "Because our solution is an integrated suite of HR and talent-management functionality, we can manage the entire lifecycle of the employee with the organization."

The integration of HPM into the HR environment is a perfect example because of the relationships between employee health, employee productivity and the organization's ability to compete and generate profit. "Our talent management processes are designed to maximize the performance of our people to achieve organizational goals, but it assumes we have engaged, healthy people," Mueller said. "You cannot do the rest of it unless your workforce is healthy and productive at the outset."

Operational Impact Analysis

As organizations connect the dots, what will an integrated HR/HPM environment look like? A couple of years ago, the focus was on how workforce analytics could be used to better manage employees and gain further insight into the workforce and its level of productivity. Today, the focus is shifting to talent management and health and wellness. "That tells me that HR has recognized the role of wellness in high-performing organizations, but we also need to be able to transform health-care data into actionable insight and measure the effectiveness of our wellness programs," Mueller said.

On the one hand, health and wellness can be viewed as an individual responsibility – employees doing the right things to enhance their own health and that of their families -- but organizations can generate far greater value and outcomes by integrating HR and HPM. “What if, through a process such as HPM, we were able to identify the actual health risks in our organization based on claim data?” said Henry Cha, president of Healthcare Interactive. “Or what if we were able to identify the health behaviors that are real in our organization through health risk assessment or other real data sources such as lab data or biometric data?”

Cha noted that organizations could leverage that data to go beyond generic wellness initiatives and take targeted, strategic steps to intervene before catastrophic health conditions arise. “We can start to create campaigns and initiatives around the true health risks in our organization,” he said. “Now that we have the data, we transform it into actionable insight. Just as we measure everything else in HR, that strategic insight and targeted wellness will actually help us effect change in our organization.”

Because health and wellness programs have not traditionally been a function of HR, organizations typically will partner with a third party to develop content, programs, and deliver the needed subject matter experts.

“There’s a lot of analytics that can be produced from this data,” Cha said. “It comes down to not only accurate interpretation, but the right application of strategies for the right opportunities that organizations are finding in their workforce. Some larger HR organizations that have the culture of wellness will probably be equipped to do this, but those that are getting started will likely need help.”

Leading the Charge for Change

As with any strategic initiative, HR/HPM integration must have top-down support if organizations are to reap the true benefits. “The decision makers have to be involved in the investment in health care and productivity,” said Steve Barger, past president, International Foundation of Employee Benefit Plans and member of the Change Agent Work Group. “Of course, you will have the HR segment of the corporation involved. But we’ve got to have the C-suite tied into the process and committed to the improvement of the quality of life and better health care for employees and plan participants and their families.”

There also needs to be effective communication about the benefits of the change to employees. Such initiatives are most successful when executive leadership sees the big picture, then empowers HR to look at their employee population, make decisions based on that population and communicate with the workers and their families before they actually develop and implement wellness programs.

Such empowerment yields dividends for the organization, Barger believes, because HR can then examine their employee population prior to developing a benefit plan or a schedule of benefits. “And even if they already have a benefit plan in place, they can take another look at it,” he said. “The process ensures that an organization’s benefit design will bring value through healthier population and better delivery of medical care.”

Because HPM enables organizations to tailor these health and wellness initiatives to the specific risks present in their populations, they cannot only ensure better health outcomes for their employees, but boost productivity as well. And higher productivity beefs up the bottom line.

Benefits Extend Beyond Lowering Health-care Costs

That value proposition is confirmed in recent research by the Integrated Benefits Institute (IBI), which found such practices have a positive impact on sick-day/disability absences, medical/pharmacy costs and health-related lost productivity. The research found that one best practice, nurse case management, has an unambiguously positive impact on all three health and productivity outcomes.

Five other practices; transitional return to work (RTW), health risk coaching, on-site providers, participation incentives, and weight management, have shown positive impacts on two health and productivity outcome areas. IBI found that employers consider the impact of weight management programs to be unambiguously positive for reducing both medical/pharmacy costs, as well as lost productivity.

Sapien's Bekiarian is convinced of the strategic benefits of integrating HR and HPM. The company has a relationship with HCI to connect the dots and leverage health-care information into the HR system, producing greater value while remaining compliant with regulatory requirements.

"We're very excited about HCI and the [HIPAA-compliant] data they're able to collect," he said. "We're very serious about the masking of identity for any kind of medical history. The part that makes it so exciting is that HCI has figured that part out -- the data is masked beautifully through HIPAA, so we can be perfectly compliant. We don't have to worry about anybody tying that medical information back to the member that is in our system."

This capability offers advantages in several critical areas including, but not limited to, health plan cost and design, employee health and wellness, and productivity. Sapien's system offers the full menu of plan design modules in its HRMS tool including benefits administration, open enrollment, the management of deductions, etc. The integration of HPM into this robust offering allows Sapien to go the extra mile in helping its clients see -- and manage -- the entire employee lifecycle. "We've never been able to provide this level of visibility to the employer before," Bekiarian said. "How else could you design the plan that best suits the employee?"

Integrating HPM functions into the HRMS tool can help organizations not only more effectively manage their workforce, but develop a healthy and productive workforce as well. "We have the member data, the enrollment data, eligibility data, the absence data," Bekiarian said. "Then you tie all that back into the medical data -- not by person, but by strata of health or potential health risk."

Because the software allows organizations to stratify their employees into low, medium and high-risk populations, they can reduce the risks of advancing illnesses or conditions through the addition of wellness programs or by changing plan design to better meet the needs of the workforce.

"You're able to alter behavior by introducing opportunities for employees to live healthier lifestyles, and also to use their insurance in more preventative ways," he said. "Very rarely does an organization get to impact any of the other areas of an employee's life [outside the office] that could really help that employee form a work/life balance."

Because HR departments can measure that impact and make it actionable, the benefits to the organization are profound. For example, if HR can report that absentee rates within a department are down by 40 percent and those reductions can be tied to measures such as improved health or a new preventative wellness program, it can also be said that those initiatives have increased productivity. And increased productivity leads directly back to the bottom line.

"Using HPM tools, HR can demonstrate how a measurable decrease in absenteeism results in greater productivity," Bekiarian said. "Now you can really tie the value together and tell the story. Using HCI through a HRMS, all the data is here, now we can complete the big picture."

Getting Started

In light of the established benefit of integrating HR and HPM, how should organizations best proceed in initiating change? The Change Agent Work Group offers some answers in its Employer Health Asset Management Roadmap.

“Basically, we’re looking to improve the health status of the workforce talking about how you can provide incentives to help employers and trust funds reinforce goals for a more productive workforce,” Barger said. “We lay out how organizations can evolve in three phases to actually deliver the quality medical care and health care that can help the workers, the participants, the fund, and the bottom line of the employer.”

The roadmap for Employer Health Asset Management involves seven main elements, each of which requires involvement and accountability from employers and employees. They are:

1. Develop and embrace an organizational vision of health
2. Senior management participation and commitment
3. Workplace policies and the work environment
4. Diagnostics, informatics and health metrics
5. Health goals and program elements
6. Value-based plan design
7. Patient-centered medical home (PCMH) / chronic-care management

“Executives who achieve the greatest success begin with a vision of health for their entire employee population,” the CAWG report said. “They focus on achieving measurable outcomes -- health management outcomes and business outcomes -- in a defined timeframe. Successful organizations begin with the following steps:

- Establish a three-year vision
- Assess the current status on each of the seven roadmap elements
- Set 12-month goals to improve performance on those elements deemed to be most critical
- Include ongoing review of progress on the roadmap in the strategic planning process

“For a long time we’ve known that the decision makers, the C-suite or the co-chairs of the fund need to be involved, but for years health care was seen as a bottom line cost,” Barger said. “Decision makers need to look at health care and quality of life as an investment that’s going to have a very positive impact on the bottom line -- not just in the area of health care, but in productivity and quality of life. If you’ve got a healthy, happy population, you’re going to do better as a business.”

Organizations that apply the proven principles, technologies and operational practices of HPM executives across industries -- in both the public and private sectors -- are in a position to launch a process that can bend the cost curve down while improving the overall health and wellness of their employees.

HR executives are in a position to play a pivotal role in this process. They can significantly increase their strategic contribution to their organizations by ensuring that the key moving parts of HPM are in place, including:

- Effective strategic frameworks, which proactively identify and respond to risk factors that can affect the health-care spending of their enterprise.
- Constructive health-care partnerships with vendors that are incentivized and structured to engage early and often with plan members in manner that is appreciated by employees and generates bottom line results for employers.
- Software-enabled processes that track monitor and manage the constantly changing health-care picture of an organization. Annual, or even semi-annual, assessments of an organizations health-care spending are not good enough. What is required is a frequent -- if not constant or real-time -- window into the health of an organization’s work force and dependents covered by a plan

About the HPM Institute

The Healthcare Performance Management Institute (HPM Institute) is a research and education organization dedicated to promoting the use of business technology and management principles that deliver better and more cost-effective health-care benefits for employers who cover their employees. The institute's mission is to introduce and develop a new corporate discipline called Healthcare Performance Management (HPM) — a technology-enabled business strategy that tackles the challenge of controlling healthcare cost and quality in much the same way that enterprises have optimized customer relations, supply chain management and enterprise resource management. HPM provides C-level executives with visibility and control over company health-care benefits spending trends and risk management postures, while protecting individual employee privacy.

For more information, visit www.hpminstitute.org.

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