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MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Global health management:

A competitive advantage for multinationals?

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Throughout the world, leaders of multinational companies – and their shareholders – are becoming increasingly concerned about the impact of rising health care costs and complexities on their companies' futures and fortunes. The sobering reality is that total health care costs in developed nations will likely double faster than anyone would like to admit.

Some companies have begun to do something about it. Others are thinking about it. But before a company embarks on a global approach to managing health benefits, it should think critically, identifying and evaluating the specific issues that will affect the outcomes. Without a thorough understanding of the total global picture, companies may incur unnecessary costs, and their "solutions" may become nothing more than a reactive "Band-Aid," resulting in neither a palliative treatment nor a cure.

Nonetheless, with the correct approach and appropriately targeted local delivery, multinationals with carefully conceived global health care strategies can get ahead of the curve and begin to deliver significant cost savings and value to their enterprise. The opportunities for increased employee productivity, profitability, cost control and the positive impact on talent management are too promising to overlook.

There is no off-the-shelf, quick-and-easy approach to global health care. No two nations are alike in how they finance and deliver health care and no two companies are the same in how they contribute to their employees' and their families' health care. Each company, therefore, will begin a discussion on global health care from a very different starting point, and must proceed in a way appropriate to its singular financial and geographic circumstances and workforce needs.

The challenges: From bad to worse

The medical, regulatory, social and political challenges of strategic global health care form a dynamic and costly matrix. Comprehensive solutions on a global scale are all the more important and urgent. Consider these facts:

- Nearly one in four CEOs globally place health care and benefits among their top three issues that affect shareholder value.
- The cost of absence from work must not be underestimated – 12 billion pounds lost to the UK economy annually.
- Per capita public and private spending on drugs in some countries can be as little as one-sixth of the cost in the US. Even within countries, the average prescription cost per patient can vary by a factor of five between physicians as a result of a self-perpetuating cycle of some doctors being more liberal about prescribing and patients favoring these physicians.
- The US leads the world in the percentage of GDP spent on health care. The challenge of increasing costs is everywhere, but the scale of the problem in the US is unique among developed nations.
- The public financing of health care can range from less than half in the US and Mexico to upwards of three quarters in Canada, Europe and the UK.
- Primary issues facing countries vary widely. In established markets, it is the cost of care and drugs and the rising expectation of the health consumer that dominate. In the emerging markets and the Third World, primary issues include tropical diseases (malaria, dengue and yellow fever) and often endemic levels of HIV, hepatitis B and C, and tuberculosis, which are on the increase. But in common across the world are the dual issues of the Western lifestyle-driven coronary heart disease, diabetes and obesity, and the chronic diseases related to aging populations.

All of the facts above support Mercer's position that developing a comprehensive global health care strategy may be one of the most complex undertakings a multinational may face in terms of cross-border integration. However, these challenges also offer the potential rewards of increased competitiveness in the war for talent, cost efficiencies, and enhanced employee satisfaction and retention.

Sources: The McKinsey Global Survey of Business Executives: Business and Society (2006), OECD 2005 and 2006, and UK Health & Safety Executive 2006.

Understanding the global context

While no two nations are alike, there are certain common health issues that are spreading across the world. The issues shown in Exhibit 1 have a significant impact on various geographies and businesses, but are of particular concern to multinational employers.

Understanding both the health factors and health care similarities and differences across geographies is critical to any business with cross-border activities. Developing a strategy that effectively addresses these can provide a sustainable competitive advantage.

Key drivers of the strategic global health care imperative

Despite the widely varied complexities, risks and objectives among multinational companies, there is commonality in five primary drivers of strategic global health care as summarized in Exhibit 2 and discussed in more detail below.

Delivering a one-company philosophy. A desire by leaders for consistency among employees across geographies is a common starting point for companies that have established or are considering a global approach to managing health care. These leaders want health care that supports their corporate culture and brand. A company's brand image is created over time through the impressions it makes at all touch points around the world with its constituencies. One of the most important constituencies, and often the one with the most influence on brand impressions, is the workforce. The health care and other benefits that a company provides to its employees will affect the way a workforce perceives and talks about the company, and thus will have a significant impact on brand image.

Creating a competitive advantage. In some countries, high-quality health care benefits or services are so important they can establish a company as the "employer of choice." So, health care benefits, at a minimum, are an added advantage in the war for talent. They can enhance acquisition and growth strategies through their impact on brand, and they can create differentiation in emerging markets, where skilled individuals may decline a move to another company for a small salary increase and remain with the current one because of its total rewards package, including health care benefits and services.

Responding to workforce mobility. Global companies have created "global employees" who may serve in several countries and who expect benefits to be portable. Many multinationals find they are now growing mainly, or only, outside of their home countries. In addition to complicating personnel and benefit issues, workforce mobility also presents additional risks for which multinationals must prepare global response plans within their overall health care strategies (for example, a pandemic).

Benefiting from shared best practices. When health care best practices can be transferred across borders, there is less reinvention of programs and more operational consistency. The principles of wellness and rehabilitation often are transferable, though execution must be tailored locally. The same may be true for treatment of occupational health issues that are the same anywhere an industrial process is repeated, and for overseas occurrence of health problems, such as obesity, that accompany adoption of Western lifestyles. As organizations look closely at how to cope with new health issues in a given country, they will do well to compare how other geographies are addressing similar health problems.

Maximizing global leverage. Advances in the standardization and portability of medical technology facilitate global delivery of health care across borders. Purchasing health care-related services that are available globally through reliable brokers is obtainable for some types of coverage in some regions. One example is global sourcing of employee assistance programs (EAPs) that support individuals with stress and psychological illnesses and provide advice on work/life balance and financial or legal matters. Another example is the value that can be derived from the appropriate use of risk pooling.

There is no denying the human, intellectual and financial opportunities created by the development of global health care strategies. Some of these are profound and important, with significant potential for adding value for the company, its employees and its shareholders. It's likely that five years from now, the road to strategic global health care will be better trodden and an essential part of corporate and human resource management. But this road has twists and turns, opportunities and hazards along the way. So it's best to scope out the terrain and develop a vision and a roadmap before setting out on a truly strategic global approach to health care.

Exhibit 1: Global health context

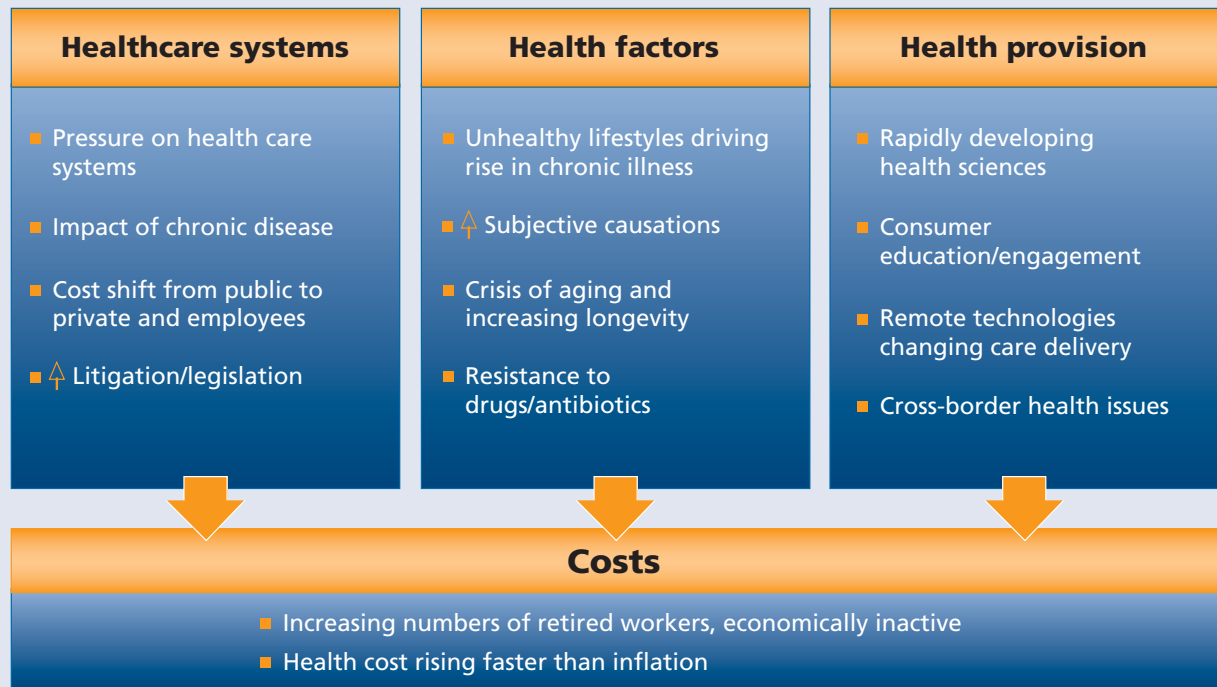
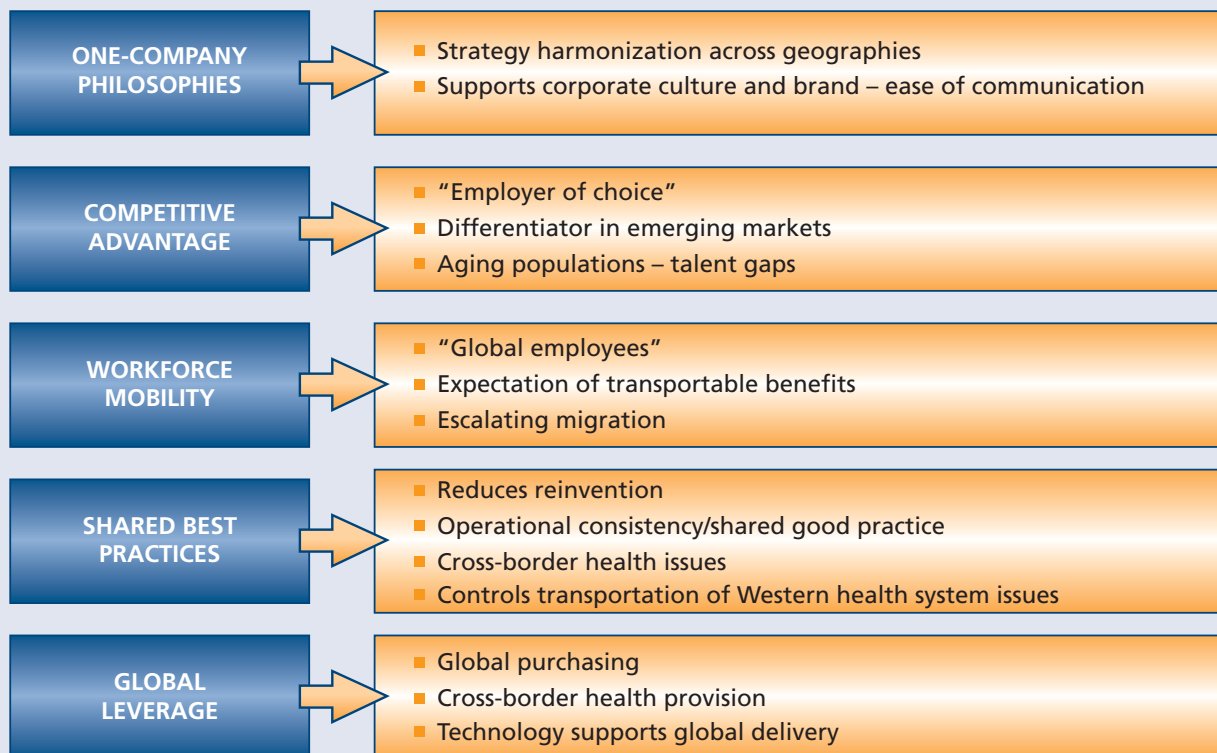


Exhibit 2: Key global health drivers



Getting started toward strategic global health care

Like any aspect of high-level corporate planning, strategic global health care begins with linkage to the company's overarching global vision and objectives, also applying this approach to each region and country.

The fundamental issues are how health care relates to, contributes to or undermines the company's ability to:

- Achieve its objectives (such as market penetration, market share, competitive advantage and profitability)
- Appeal to investors
- Manage its corporate image and brands
- Attract and retain highly qualified and mobile people with essential skill sets and also unskilled labor
- Influence employee engagement and productivity

A global health care vision results from the way a company addresses these issues and should be an integral part of its corporate philosophy. Turning the vision into a strategic plan requires considerable effort as well as global and local expertise. What's essential is an understanding of the health care continuum and the required actions needed to integrate all the elements. As depicted in Exhibit 3 below, this continuum covers wellness; lifestyles; behaviors; acute and chronic illnesses; occupational health issues; work absence patterns and their impacts; and disabilities and any rehabilitation approaches. How they work together is also influenced by sick-pay formulas; the scope of benefit programs; the demands of particular health issues; taxation; existing and impending regulation; local cultural practices and preferences; and the ease of access to, and quality of, both routine and special needs care.

Complex? To be sure. Plus, there is the organizational investment multinational companies must make to put a global health care strategy in place. But where there is complexity and a lack of integration, it is easy

Exhibit 3: Global health strategy



for costs and confusion to escalate. All health-related issues along the continuum, as well as the funding and cultural influences, must first be addressed before they can be integrated into the strategic global health care plan. The granular minutia of specific benefits such as copays and deductibles is quite a distance away from this more strategic approach.

To determine whether a company is ready for the significant changes – financial, technological and cultural – involved in delivering such a plan, the company should first consider conducting a:

- **Realistic readiness assessment** – This evaluation provides an inward look at the company’s strengths and weaknesses in each country in relation to
 - The top health issues that affect absenteeism and productivity
 - Health prevention and management
 - Health care sourcing
 - Health benefit plan design, implementation and on-going administration
- **Cost analysis** – Calculating the percentage of the company’s health care costs within each country in the context of the company’s objectives will help to quantify findings and determine approaches.

By taking these steps, a company can identify the priorities, issues and barriers associated with establishing global health care management. Getting a grip on all aspects of total health care in each nation where the company operates exposes the opportunities for both local and global leverage, which can be incorporated into the management approach. This can be accomplished by answering the following questions:

- What is transferable across borders and what is not – or at least not yet?
 - What can be purchased regionally and what cannot? In what areas are regional multicountry plans feasible?
 - What is becoming similar across the world (for example, health care treatments or diseases)?
- Where is it best to move the people to the technology and or the technology to the people?
 - Where is there internal best practice that is transferable?
 - Where are there opportunities to eliminate reinvention and duplication of effort?
 - Where are there no cross-border solutions and where is it best to keep benefits local to drive down administration costs as low as possible?
 - What financing formulas work well in one country and can be expanded regionally or adapted to another country?

These considerations will help the company build the business case for a global approach to health care – and cover the areas that will eventually provide the cost savings and benchmarks that CEOs and CFOs want to see, and that HR executives must demonstrate. Many answers will not be readily apparent. Eventually, there will be metrics and cost data to demonstrate performance, but don’t expect them right away. At first it will be difficult enough to know what to look for, much less how to get at it and then validate it. But one thing is certain: The costs and complexities are there, so rigorously following this evaluation process will help companies develop the right strategy.

Learning from others and moving ahead

Companies are learning some important lessons as they have begun to implement strategic global health care.

1. **Piecemeal is not a recipe for success.** Addressing wellness here, benefits there, and services over there may seem like a reasonable start, but companies are finding that this approach creates gaps and forces them to play catch-up when competitive pressures dictate a more holistic approach. So starting with a unified approach that a well-considered strategic global health care plan provides will establish a sound working foundation.

2. **Developing a roadmap eases the pain.** Moving forward with a strategic global health care plan involves carefully thought-out stages and realistic timelines. Typically, there are four phases that will take a few years to complete: 1) global strategy development, 2) global design and rollout plan, 3) in-country implementation, and 4) ongoing global measurement and management. Aspects of each of these four phases are detailed in Exhibit 4.
3. **Health care is always local and always different.** Expect complications involving financing, regulations, medical practices, delivery systems and culture. Outside expertise familiar with in-country issues across each nation and region will be essential. In addition, expect to face a variety of financing formulas. (See Exhibit 5.) The maturity of financing systems varies greatly by country as do the funding methods (how much public/tax funding, how much private insurance, how much employer paid vs. employee paid).

The future is critical

With respect to health care, companies can count on two things. One is that health costs will increase faster than inflation. The other is that the burden will continue shifting from the public to the private sector and to employees and retirees as pressures mount on health care systems worldwide, due to chronic disease in an aging population, with increasing proportions of retired, economically inactive people. These trends have significant implications for companies trying to achieve success on a world stage while meeting the needs of their workforce. Companies can either buckle under this burden – or they can get ready to tackle global health care by addressing their specific global context and working successfully within it.

Exhibit 4: Strategy, design, implementation and management

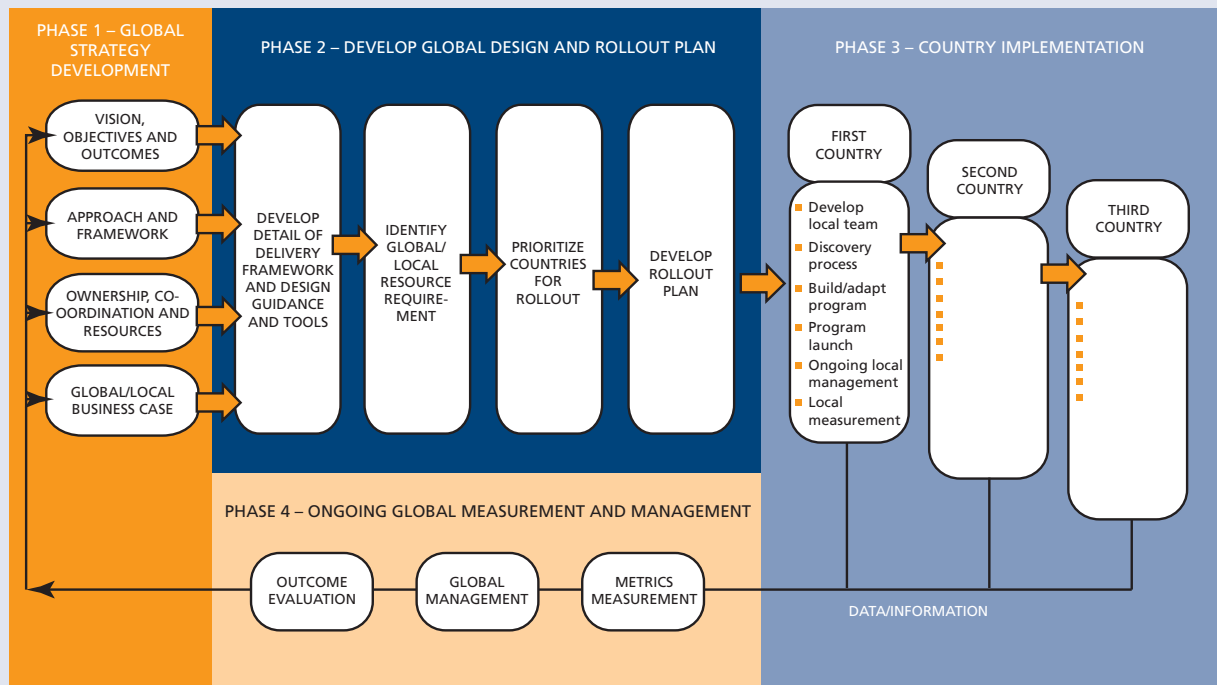
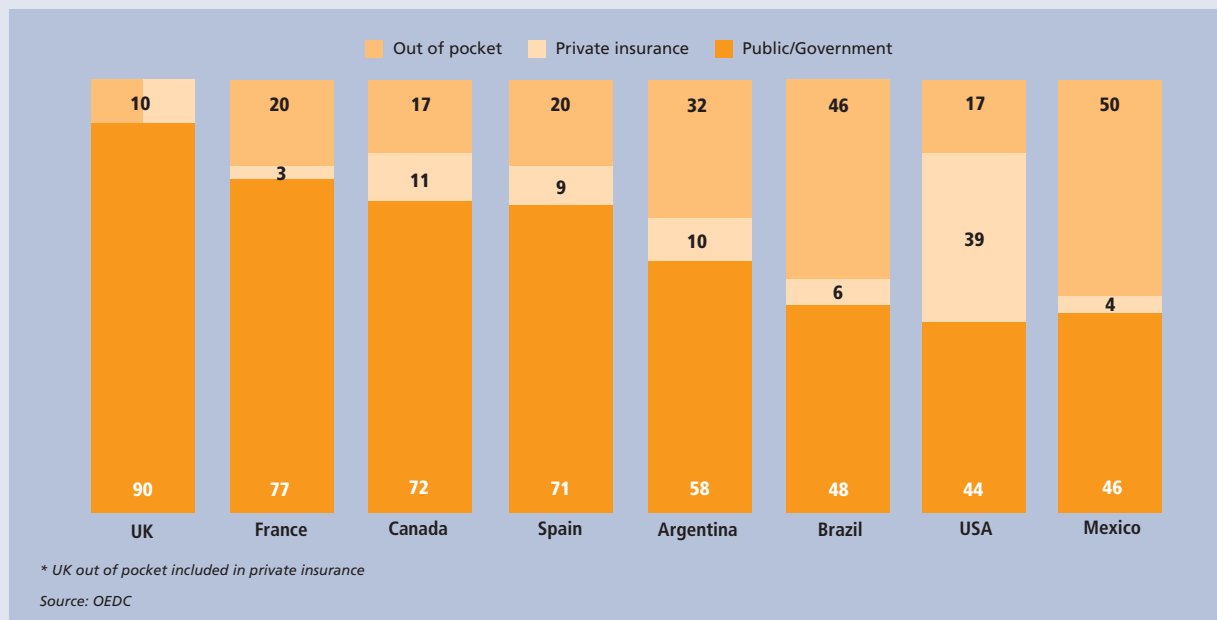


Exhibit 5: Funding shapes are significantly different



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MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

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Mexico

Netherlands

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