Changing Human Behavior:
The Next Wave in Transformative HR Management

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Executive Summary

It was a sign of our times. Three Detroit auto manufacturers turned over almost $45 billion to a Voluntary Employee Benefit Association (VEBA) managed by the United Autoworkers Union that will fund healthcare benefits for 800,000 retired autoworkers.

It’s an enormous sum of money. But for the manufacturers, it made perfect sense, because it relieved them of the burden of dealing with escalating healthcare costs for retired employees.

For the retirees, however, the VEBA agreement marks a new era, because they will have to adapt to the fact that funding available for their long-term healthcare needs is not unlimited.

In essence, it’s a watershed moment in the history of employee benefits. After all, most organizations today cannot afford to keep pace with escalating costs for healthcare, retirement and other benefits. So they face a challenging dilemma. They must either accept the risk of causing employee dissatisfaction and productivity losses by limiting benefits traditionally viewed as entitlements. Or they must empower employees to adapt successfully to the new realities.

No question about it. This is a major problem for HR executives. But innovative companies like Safeway are finding novel solutions. This California-based supermarket chain decided to launch a self-insured healthcare plan that rewards healthy behavior. Backed up by an aggressive, multi-faceted education and communication program, the company put the lid on rising healthcare costs, helped employees take action to improve their health and well-being, and maintained employee satisfaction at the same time.

“At Safeway, we are building a culture of health and fitness,” wrote Steven Burd, the CEO of Safeway, in an article published in the Wall Street Journal on June 12, 2009. “The numbers speak for themselves. Our obesity and smoking rates are roughly 70% of the national average and our healthcare costs for four years have been held constant. When surveyed, 78% of our employees rated our plan good, very good or excellent.”

According to Burd, the key insight that led to the success of the program was the recognition that “70% of all healthcare costs are the direct result of behavior.”

Other companies are following Safeway’s lead by launching HR programs designed to help employees change their behaviors related to health and financial management.

This effort is vitally important to the future. In fact, it represents the next wave in transformative HR management. And it will give innovative HR leaders the opportunity to play a more vital and strategic role in the future of their organizations.
Rising costs rule the day

One of the critical goals in the management of HR benefits is to strike the right balance between the needs of employees and the budget limitations and long-term strategy of the company.

But today this balancing act is under tremendous pressure. First of all, organizations in the U.S. must contend with the uncertain impact of the healthcare reform bill which was passed in March 2010. The goal of the bill is to expand access to healthcare and improve the efficiency of one of the world’s most expensive healthcare systems.

What that means for businesses and other organizations has yet to be determined. In fact, experts still debate the merits of the bill and whether it will increase costs to employers. Most people agree, however, that it will result in new rules and regulations that will complicate the administration of healthcare benefits. That comes with the territory with a sweeping legislative reform.

In addition to healthcare reform, companies still have to contend with escalating healthcare costs. In fact, a 2010 survey from PricewaterhouseCoopers LLP estimated that medical costs for employers would go up about 9 percent in 2011. In a challenging economy, any increase in costs is hard—if not impossible—to absorb. And that’s why many organizations are passing on a larger share of healthcare costs to employees.

Pension reform raises similar issues in both the public and private sector. According to an article in the June 27, 2010 edition of The New York Times Magazine, as many as 20 state pension funds will be depleted by 2025. That’s why a growing number of states and municipalities now consider reform an essential component of their efforts to achieve a balanced budget.

Many companies are also facing the prospect of future shortfalls in pension funding. In fact, one well-known airline company recently discovered that it had less than half the amount needed to cover future payouts.

The problem with funding pensions promises to get even more difficult in the years ahead due to the aging workforce in many developed countries. According to some estimates, one-third of the American workforce now consists of “baby boomers” born from 1946 to 1964. If they retire in droves, a large number of companies will be unable to sustain their current pension and retirement programs.

Of course, many of these boomers plan to continue working. And if that happens, there’s another fallout: Healthcare costs will skyrocket as these older workers face the increasing number of health problems that inevitably accompany the aging process.

Managing these complicated, benefit-related issues is a major challenge for HR leaders, because they must make decisions that are sound from an economic, regulatory and ethical standpoint, beneficial to employees and aligned with company goals.

1 Behind the numbers: Medical cost trends 2011, PricewaterhouseCoopers’ Health Research Institute
Challenging times demand strategic leadership

When you assess the dynamic factors involved in benefits management today, one thing becomes crystal clear: Maintaining the status quo is a recipe for failure. It is simply unsustainable.

Instead, HR leaders who aspire to play a strategic role in the life of their organizations must take action to transform the entire landscape related to benefits management so that employees are empowered to make sound choices about the management of their health and financial future.

With the right strategies, infrastructure and communication and education programs in place, it is possible to change the behavior of employees in ways that are mutually beneficial. The following stories make that point eminently clear.

Signs of success at Safeway

As we noted before, Safeway made headlines with its voluntary “Healthy Measures” program which offered employees financial incentives—essentially rebates on health insurance premiums—to encourage healthy behavior.

According to the Healthy Measures section of the company’s Web site, “we use these incentives to motivate employees to reduce weight (body mass index), lower their cholesterol, quit smoking, maintain healthy blood pressure levels and keep blood glucose at safe levels.”

From a strategic standpoint, this program directly addresses the issues and conditions that generate a majority of the company’s healthcare expenditures, including cardiovascular disease, diabetes, obesity and cancer.

But financial incentives are only part of the Safeway solution. The company also launched a major employee communications effort to promote health, wellness and prevention. And the results have been impressive.

According to the January 21, 2010 edition of the blog Corporate Wellness Insights:

- 30% of former smokers stopped using tobacco.
- The number of employees considered obese declined by 5 percent.
- 40% of program participants who failed the blood pressure test in 2008 passed it the following year.
- 17% of participants who failed the 2008 cholesterol test passed in 2009.

Although it’s impossible to quantify the long-term impact of these improvements, it’s clear that many Safeway employees are now living healthier lives and lowering the cost of their health insurance. Those results prove that it’s possible to initiate behavioral change with a carefully designed program that combines the right incentives with a multi-faceted employee education and communication program.
Improving the health of employees at a leading pharmaceutical company

A large pharmaceutical company has also had considerable success in re-engineering its culture to promote health and wellness.

After an intensive data analysis effort, the company discovered that the high cost of claims made by a small number of employees—less than one percent—accounted for 25% of the total cost of the plan. The company also found that 18% of its annual healthcare costs are due to the personal lifestyle choices of employees.

Further analysis indicated that the company could save more than $7 million per year by encouraging employees to live healthier lifestyles. That finding established a powerful business case for a comprehensive health and wellness campaign that includes everything from a health risk survey and benefits-related incentives to walking paths on company sites and a focus on healthy foods in company cafeterias and vending machines.

The program will shift its focus every year to highlight different issues that have a major impact on employee health and healthcare costs, including obesity, stress and diabetes.

Since effective communications are essential for success in any behavioral change initiative, the company invested in the development of a unique logo and branding, a dedicated Web site, and signage for the cafeteria that reinforces key messages and encourages employees to make healthier lifestyle choices. Executive level support was also critical to the success of this award-winning health education program.

Extending the concept of wellness to financial management

A well-known retailer—one of the world’s most famous brands—took another approach to the concept of behavioral change by launching a major campaign to raise awareness about the importance of sound financial management.

The campaign was a natural extension of the company’s commitment to the health and well-being of employees. It also reflected research that came from the President’s Council on Financial Literacy a few years ago showing that employees who are financially healthy are more productive.

The campaign included a variety of educational resources on topics ranging from home buying to retirement planning and other major “life events.” It also included a seminar on the company’s retirement plans and a statement showing the value of each employee’s Total Compensation.

According to a 2009 edition of Benefits Quarterly, one employee assessed the impact of the program this way: “This has been very valuable to me. The information I learned will help me manage finances in my everyday life.”

In other words, the mission was accomplished in terms of employee empowerment and behavioral change.
Strategic transformation yields other business benefits

In addition to helping employees improve their health and financial well-being, companies that take a transformative approach to benefits management often achieve other goals that are vitally important to the future of their organizations.

Maximized investment in employee benefits: The right benefits management program will help you maintain employee satisfaction and productivity within a realistic cost structure. That’s the key to maximizing your organization’s investment in benefits.

Improved talent retention and acquisition: Since “people power” is the ultimate engine of success, it’s essential to make sure that your approach to benefits management is an advantage—not a liability—in the global competition for talent. A carefully designed, well-managed program will help you attract and retain the best and brightest. It will also help you generate favorable word-of-mouth advertising about your organization from your current employees. That’s a powerful recruitment tool in the age of social media where peer opinions carry more weight than ever before.

Increased process efficiency: If you initiate your transformation effort with an in-depth analysis of your current state, you will identify opportunities to lean out your processes and reduce waste. You can then re-design these processes for maximum efficiency. Proven methodologies like Lean Six Sigma are valuable tools for analyzing and optimizing complex business processes and workflows in the benefits management field.

Reduced operational costs: When you optimize the processes involved in benefits management, you typically reduce your operational costs. You can also find other opportunities for savings by re-thinking your approach to employee communications. For example, you can re-engineer your Benefits Summary Plan Descriptions to improve comprehension, which will help you reduce the number of costly employee calls to your call centers. Communication and education programs can also be designed to increase the use of cost-effective digital documents, reduce fulfillment and distribution costs, and maximize the reuse of content.

Improved compliance and risk management: When you design a benefits program to change employee behavior, you have to carefully consider the potential impact on your approach to corporate governance, enterprise risk management and regulatory compliance. This assessment provides the opportunity to fine-tune your policies to improve compliance and help reduce your risks.

A guide to the key competencies required for an effective behavioral change program

No question about it. You can achieve a variety of important organizational goals when you develop a new model for benefits management based on employee empowerment. But this transformation is a complex undertaking. And to be successful, you need the following competencies:

1. Clearly defined people strategies. Since your behavioral change program will be designed to support your organization’s long-term goals, it’s essential to have a sound set of people strategies in place that are supported by the senior leadership team.
2. **An in-depth understanding of the latest rules and regulations.** To set the stage for a new paradigm, you have to understand how all of the current and proposed rules and regulations will impact your industry, your organization and your plans for change. You also need to carefully consider how a new approach to benefits management will affect your compliance and risk management profile.

3. **A centralized approach to data management.** Organizations typically store valuable HR data in multiple repositories spread throughout the enterprise. To develop the right strategies and tactics, you need to bring this information together and combine it with relevant data, information and best practices from external sources. This information will fuel the development of sound strategies and tactics.

4. **Sophisticated data analytics to drive actionable insights.** Once you have collected the right data and information, you need to analyze it to identify and prioritize the specific outcomes that will be most beneficial to your organization and your employees. Those outcomes will be the goals for your behavioral change initiatives.

5. **Action-oriented, one to one communication and education programs.** Many organizations spend a fortune on benefits-related education and communication programs that fail to produce concrete results. One of the problems is that many of these programs provide well-intentioned information that is too generic to inspire behavioral change. A more effective approach is to provide concise, action-oriented educational information that treats each employee as an audience of one.

   For example, if your goal is to encourage employees to lose weight, you can craft communications that help employees compare their weight to national averages or the average for their peer groups. They can then see the opportunity for improvement for themselves. That realization often provides the initial motivation for behavioral change.

   In terms of financial management, you can create personalized charts that help people understand the long-term implications of their current savings rate and see how their retirement holdings compare to their peers. When you make educational information truly relevant to the recipient on a one-to-one basis, you enhance your chances for success in terms of inspiring behavioral change.

6. **Interactive, multi-channel media strategy.** In addition to creating action-oriented educational content, you need to develop a multi-faceted distribution strategy that recognizes the media preferences of different generations of employees. A comprehensive effort typically includes “self-serve” Web or intranet portals that allow employees to access information at their convenience, email and printed communications, social media, and content designed for mobile computing platforms. In addition, call centers are an important part of an optimized solution, because they provide a comfortable human interface and informed, person-to-person guidance for complex issues related to major life events.

7. **The right infrastructure.** To support the sophisticated data management and multi-channel communications capabilities required for a behavioral change program, you need a robust infrastructure that incorporates innovative technology and optimized processes and workflows. Client organizations typically have three options for gaining access to this infrastructure: Buy it, build it or lease it through HR outsourcing services.
8. **Practical experience in change management strategies and tactics.** Changes in your approach to benefits management will have a ripple effect on your employees, outside partners and other stakeholders. So it’s important to manage the change process in a disciplined way to prevent potential problems and build a strong foundation for success.

9. **Data-driven management methodologies.** Whenever you launch a major change initiative, it’s important to establish disciplined systems to identify gaps, track results, and collect and assess feedback. This information will help you improve the efficiency and effectiveness of your benefits management program on a proactive and continuous basis.

In combination, these resources, capabilities and expertise provide the basic requirements for developing, launching and managing a transformative approach to benefits management.

**Overcoming the barriers to transformational change**

Although the economic realities of our times make it imperative to help employees evolve from an entitlement mindset to a more empowered role in the management of their benefits, many HR leaders are kept from taking action by forces beyond their control.

The uncertain state of the global economy has forced most HR organizations to sharpen their focus on cost reduction. As a result, HR leaders have to manage their responsibilities with smaller staffs and limited resources.

Financial constraints also make it difficult—if not impossible—for HR leaders to find funding for the internal implementation of innovative technology and the latest best practices.

In addition, many HR leaders have to devote their time to managing day-to-day operations and “putting out fires” instead of engaging in the long-range strategic planning necessary for business transformation.

All of these issues keep HR leaders from living up to their true potential as organizational change agents. Rather than exposing their organizations to future risk, however, creative HR executives at many leading companies are driving innovation with help from HR outsourcing experts.

**Outsourcing offers a practical solution**

The simple fact is, the field of HR outsourcing has undergone a remarkable evolution over the years. The portfolio of services available to HR leaders has become more sophisticated and comprehensive. And today, strategic consulting expertise is now just as important as operational improvements designed to increase efficiency and reduce costs.

Thanks to these developments, leading outsourcing providers are now ready to help HR leaders deal with complex issues like healthcare and pension reform, maximize their organization’s investment in benefits, and launch high-impact education and communication programs to encourage employees to change their behaviors.
To provide this level of service, however, providers need to have a comprehensive set of capabilities, including:

- State-of-the-art domain expertise in HR and benefits management
- Innovative technology
- Sophisticated data analytics
- A portfolio of best practices and process re-engineering skills
- Expertise in the efficient production and distribution of digital and physical employee communications
- Multi-channel communication capabilities including the increasingly important translation and localization services required for multiple languages and geographies
- Extensive experience in employee education and training programs
- A history of process innovation in the HR outsourcing field
- Experience with data-driven management methodologies like Lean Six Sigma
- A global scale
- A sharp focus on the development of innovative products and services to keep up with the accelerating pace of change in Human Resources

All of these qualifications play an important role in the effort to bring the field of benefits management into the 21st century.

**It’s time for a major change in the way we manage employee benefits**

Regardless of whether you decide to launch a transformational program internally or with the assistance of outside experts, it’s clear that this is the time to take action.

Costs related to benefits continue to rise, and there is no end in sight. At the same time, it is important to strike the right balance between fiscal responsibility and employee satisfaction and productivity. So the only sensible solution is to use an innovative approach to benefits management as a catalyst for change.

Financial incentives for healthy behaviors will play a role in this transformation. But incentives are only part of the solution. To truly motivate employees to take charge of their health and financial well-being, organizations will need to launch effective communication and education campaigns that provide information, tools and encouragement on a one-to-one basis.

From our perspective, this new interventionist model represents the next wave in transformational HR management. And it will elevate the role of HR leaders from operational experts to strategic change agents who can help lead their organizations into the future.

For more information on this important topic, contact us via “Ask The Expert” on Rich Baily’s Xerox Thought Leadership Web site. We look forward to hearing your thoughts on the subject.
About the Authors

Richard Baily serves as Vice President, Xerox Business Process Services in North America. He also managed the Imaging & Document Management Services group, a team that worked closely with North American clients in six major industries: financial services, manufacturing and energy, retail, healthcare, government and high-tech. Mr. Baily and his team provide services that improve the employee and personnel records management process, manage engineering drawings, mine research documentation to better manage intellectual property and manage the legal discovery process to better prepare clients of litigation.

Mr. Baily’s experience with document management and information systems dates back to early 1991, when he left Arthur Andersen and Company to help form XLConnect, a systems integration consulting business. When the company went public in 1997, Mr. Baily managed operations in the mid-Atlantic region, including marketing, alliance and training programs. When Xerox later acquired XLConnect, renaming the division Xerox Connect, Mr. Baily joined the team and helped to successfully integrate the two companies, which were later merged into Xerox Global Services.

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Mr. Khan is currently the Executive Managing Director of the Total Benefits Administration Outsourcing Business within the $1.3 billion Human Capital Management Solutions division of Affiliated Computer Services Inc. (ACS), responsible for all aspects of retirement (401K), pension plan and Health & Welfare outsourcing to targeted Fortune 500 clients. Prior to joining ACS, Mr. Khan was the President of Hewitt’s $1.5 billion Benefits Outsourcing Division. In this role, he was accountable for the complete P&L including all aspects of client implementation, on-going service delivery and a global workforce exceeding 11,000 associates. He was recognized by both the organization and the Board as high potential, executive talent.

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