

Delivering Healthcare Benefits in Multinational Environments



Taking a Global Approach

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2nd Quarter 2008

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We understand that as companies grow, the diversification of employee needs becomes overwhelming – a substantial management challenge. Therefore, it's important to begin with a creative road map that will anticipate these needs and establish solutions before problems or challenges arise.

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Delivering Healthcare Benefits in Multinational Environments

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Introduction

Designing global benefits packages presents significant challenges for multinationals. Healthcare in particular is difficult to manage. National systems for the funding and delivery vary significantly, and the issue is heavily politicized in many countries. For a human resource manager attempting to deliver the same benefits to employees in different countries, and yet maintain a system that is workable at the head office level, requires a skilled balancing act.

The scope of this paper is to examine some of the key issues with regards to delivering health care benefits in multinational companies. The human resources manager

needs to consider the goals of the company with regards to the program. This includes fairness for employees across national boundaries, while at the same time offering competitive packages and keeping controlling costs. The manager also needs to consider how to design a system flexible enough to adapt to changes in the regulatory environment that remains easy to administer.

Some of the key challenges in this area are the management of national differences, working within the company's organizational structure, and adapting to shifting regulatory environments.

National Differences

Inevitably, there will be differences from country to country with regards to any type

of benefit, but the differences are more striking with regards to health care. For example, benefits such as life insurance, dental coverage and vision coverage are almost identical in their structure and administration between the United States and Canada, yet health care coverage is completely different. One country relies on the insurance system to cover health care costs; the other has a system that is mostly socialized.

Even within these two broad systems – public and private – the degree of coverage can vary significantly. Many developing countries lack socialized health care, but they also lack the sophisticated insurance and hospital system that the United States has. The provision of adequate health care in these countries therefore presents unique problems. Within public systems, the degree of coverage can vary as well. Many European countries offer a wider range of coverage to their citizens than Canada, which is gradually moving many components of its health care system to the private sector.

Thus we can see that the challenges are different in different countries. Most developing countries have at least one Western-caliber hospital, so executives can be covered, but extending health care benefits to the rank and file can result in availability problems. In the United States, availability is not the problem, but cost is. In Canada and Europe, there is little problem with availability. This poses problems in itself, for the multinational seeking to offer the same coverage to employees around the world. Delivering health care equivalent to that in socialized systems is costly.

Corporate Structure

The traditional way for multinational companies to deal with health care coverage was to approach the issue on a national level.

This had several benefits. One was that human resource departments in each country had the knowledge and experience required to design the best systems for their nations. They could respond more quickly to regulatory changes, and develop strong relationships with health care providers and insurance companies. Employees had little mobility, and little access to information about other subsidiaries. Lastly, the systems were developed in such a way as to be congruent with the subsidiary's goals.

However, there has been a move away from this decentralized structure in recent years. A study in 2006 indicated a significant shift towards a globally centralized benefits structure in recent years, a shift that has accelerated as this decade has progressed. There are several reasons for this shift. One is that multinationals are seeking to align their programs not just with subsidiary goals but with global corporate objectives.

Another reason for this shift is to develop global consistency. In the information age, workers can learn what their counterparts in other countries have, so consistency is important for fairness. Centralized control also allows for costs to be managed more effectively. Also, centralization has been driven by increased regulatory requirements, such as Sarbanes-Oxley, that require increased governance at the global level.

The programs most likely to be centralized are those that are seen to drive strategic performance¹. Thus, some programs are viewed as being better to deal with globally, while others can remain at the local level. Health care typically falls into the latter category, but companies are nonetheless striving to achieve a greater degree of global consistency and therefore are increasingly likely to demand head office oversight, even of programs that are designed and administered at the local level. That said,

¹ Paton, Nic. (2006). Global company, global pay, global benefits. *Management Issues*.

given the skyrocketing cost of health care in most parts of the world, it is becoming an increasingly important benefit for the attraction of top talent. At the upper management levels, health care does have some global strategic value.

Another element that can be considered is the issue of health care parity. Real health care costs have risen at twice the rate of inflation². This means that health care coverage provided to lower-earning workers has increased as a percentage of their total compensation at a greater rate than for higher-earning workers. The increasing cost of health care has put parity at risk. In light of this, corporations must take into account their objectives as far as the types and amounts of coverage they want to offer their workers. At the low end, health care costs are increasing to the point where it compromises companies' ability to offer wage increases, and compromises companies' ability to offer health care insurance, or at least the same coverage that they have traditionally offered. Firms are being forced to do cost-benefit analyses and weight the results against the objectives that they have in terms of health care coverage for their employees. This then must be weighed against the coverage they can afford to offer in Canada or other countries with socialized medicine.

Regulatory Changes

Health care is a highly politicized issue, and one that is subject to many different forms of regulation. Both the insurance industry and the health care industry are heavily regulated, and governments are constantly adjusting regulations and policies to strike the right balance for the provision of health care in their countries. For the human resource manager, this demands that they be flexible.

² Shafrin, James. (2007). Inequality and Health Care Benefits. *Healthcare Economist*.

In Canada, for example, many jurisdictions are moving towards increasing privatization. This means that employers will be required to increase the benefits that they offer to pick up the slack. In the United States, both presidential candidates are proposing changes to the health care system. John McCain proposes to tax health care benefits, a seismic shift in employer-provided health care; Barack Obama will increase socialization, which could also represent a significant shift in health care provision. For the human resource manager, the challenge is to design a system that is flexible enough to adapt to these changes.

Implications for Global Healthcare Benefits at Multinationals

Multinationals need to set out specific global health care objectives. However, the local nature of health care means that centralization will be limited. There are some activities that can be centralized. One is setting standards for health care benefits, in terms of outcomes, for both workers and for the company. Consistency is desirable for both employees and the company. Cost structures will vary greatly between countries, but benchmarks can be set by head office. A degree of centralized control will provide guidance for local benefits managers.

Another important area is to build informational programs. These can be directed head office and applied to different countries depending on their needs. General Electric, for example, enacted information programs to reduce the cost of drugs on their plan³. Since prescription drug costs affect even businesses even in many socialized

³ Miller, Julie. (2006). What employers want: as GE's global healthcare leader, Dr. Robert Galvin measures on value. *Managed Healthcare Executive*.

countries, these sorts of strategies can be developed at head office. Also, multinationals can manage executive health care packages from head office. This addresses the issue of consistency in the one area where health care benefits can have global strategic and regulatory implications.

Another benefit to having some degree of centralization is information sharing. While local conditions can vary significantly, there are many key drivers to health care that are common around the world – rising costs, pressure on health care systems, aging populations, the implications of technology including remote delivery, and increasing litigation⁴. Responses to these issues in one country can often be translated and adapted to other countries. Having a central information clearing house for information on health care issues can help companies to cut costs system-wide.

A complicating factor is the issue of portable benefits. Workers are increasingly transferred around the world, but these workers demand parity, if not portability, in their benefits. This also calls for a degree of centralization and more importantly cross-border consistency. Multinationals can build competitive advantages by designing systems that facilitate these needs, thereby helping to attract quality global employees.

Conclusion

Multinationals are increasingly shifting towards centralization of their benefits programs. Health care poses a unique challenge in that the provision of employee health care can differ dramatically from nation to nation. Designing and implementing global health care benefits strategies in multinationals requires striking the right

⁴ Owen, Christine. (2008) Global health management: discovering value and savings. Mercer.

balance between global needs and local strategies. It begins with an overarching health care strategy – identifying objectives for both the firm and the employees. From there, local HR departments can implement health care strategies for their nations using centrally-developed cost and outcome guidelines.

A centralized HR department can play a valuable role in the process as well. They are in the best position to handle executive and senior management programs. Those workers demand portable benefits, and their compensation can become both a governance issue and a source of competitive advantage. The centralized function can also include information coordination, as many there are many issues regarding health care benefit provision that are not country-specific. This information coordination will also be valuable in an era of rapid regulatory changes. Every nation shift towards either privatization or nationalization of health care presents opportunities for multinationals to share information and help each local HR department better deal with the challenges.

By taking a balanced approach towards global healthcare benefits management, multinationals can leverage their competencies while allowing a degree of local flexibility. This type of structure is complicated, yet flexible, a necessity in an era when the pace of change in health care provision and benefits is rapid and at time profound.

For Further Contact

If you would like to discuss our findings in greater detail, please contact the author.

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