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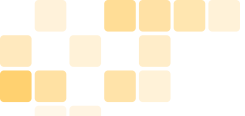
**A New Strategy for
Investing in Worker
Human Capital**



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Make it Matter, Make it Possible, Make it Theirs A New Strategy for Investing in Worker Human Capital

Employers often ask, *“What investments are most likely to improve the health of our employees?”* They’ve heard that better health translates into lower costs and better work performance, both of which are true.

A common next step is to implement behavior-change programs that encourage employees to do all the things they should, like quit smoking, take medications, and lose weight. In the past several decades, employers have invested many billions of dollars in health management programs for employees, all focused on behaviors that need changing. Programs include education about, awareness of, reminders for, and change strategies to promote healthier behaviors.

It is important to acknowledge that the primary reason for employers to invest in health is because they believe these activities will improve business outcomes (work performance and health-related costs). In other words, while a certain amount of altruism may also be involved, investments promoting health

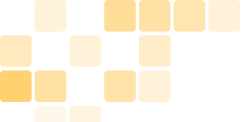
are primarily a means to improving revenue, managing expenses, and encouraging loyalty. However, in an environment of limited resources, decision makers need to ask whether behavior change investments are the most cost-effective strategy for improving business outcomes. Our evidence suggests not.

In a majority of instances, employees already know which desired behaviors improve health, such as eating right, exercising, and not using tobacco. The reality is that some just choose not to practice such healthy lifestyle habits. Further, success rates in changing group

behavior are inconsistent at best, and vary dramatically across programs and settings. Granted, the science of behavior modification continues to advance, including better technology and more effective messaging and targeting. However, empirical evidence suggests that even if companies apply more effective tools to emphasize “what” and “how” to change behavior, these may not address the underlying problem. Without a broader human capital approach, we neglect “why” health matters in the first place.

If indeed most of us know which behaviors we should change, but do not take advantage of programs to help us learn how to do it, it must not matter enough. Clearly, we don’t have enough of a reason why. Essentially, by offering behavior-change programs as the lead solution to improving outcomes, employers are blaming employees for their misbehavior, and kindly offering to show them what they are doing wrong and how to do it right. Employers rarely step back to examine how their own policies have made health and human capital less valuable and, therefore, less likely to matter to their workers. Unless workers experience tangible rewards for successful performance, health will continue to matter less.

What if—by trying to convince employees to change health habits in hopes of improving business outcomes—we’ve gotten it backwards? What if there are strategies to improve human capital performance that also happen to encourage better health?



In this paper, we outline the importance of aligned incentives (make it matter) as the most important factor in facilitating improved work performance and decreasing the cost of health-related expenditures. Once an environment of aligned incentives exists, employers must establish policies and practices that remove barriers (make it possible). Finally, should companies decide to make specific investments, we suggest steps to encourage individual ownership of human capital growth and protection (make it theirs), in ways that provide information and options. In general, we will argue that workers can best determine which behaviors are most important to change, once they have sufficient reasons why they should change, in an environment with minimal barriers. We will also provide suggestions for how to do so.

About Human Capital

Human capital is personal. It is the intrinsic currency a person exchanges with the world. It's the value each person contributes to his family, community, and occupation. It's the attitude, skills, and health every individual uses to go about daily work and play. While countless people, circumstances, and experiences may influence one's human capital, each person is the sole owner of these assets. When it comes to protecting and growing these human capital assets, we each have executive power that no one else can exercise.

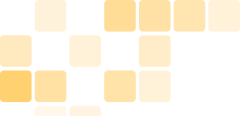
All institutions (schools, governments, communities, families) operate in ways that exert influence on the human capital of their members. Whether intentional or unintentional, their rules and structure influence members' interest in and efforts to achieve their full potential. Underlying incentives created by institutions will serve to either restrict or cultivate fulfillment of human capital potential—potential that exists in the form of three assets: motivation, skills, and health.

The following is a list of concepts that are essential to understanding how best to invest in employee human capital:

5 Essential Human Capital Concepts

One: Human capital assets consist of health, skills, and motivation. It is the combination of all three that should be considered in any discussion of human capital.

Two: Human capital assets do not operate separately; they all affect each other. Once we understand that health, motivation, and skills are inextricably linked, it becomes clear that each only exists within the context of the others. Efforts to enhance one, without understanding the others, often fail.



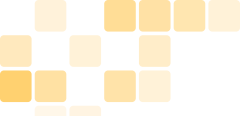
Three: Assets are owned by the individual. Although anyone can seek help in building his or her human capital assets (from schools or outside experts), individuals have control over their growth, management, and protection. In this context, outside parties cannot change another person's human capital assets without that person's interest or willingness. Similarly, no outside entity (in a free society) can make an individual protect his or her own health.

Four: What matters to most of us is NOT our human capital assets, but the satisfaction and rewards we get from applying them. In other words, we improve ourselves BECAUSE we have a reason to (the why). Most often, people will invest in education or training because they want a different or better opportunity—not because taking the class is easy or convenient. Motivation to perform better usually results from the desire to earn a particular reward. For many of us, healthy choices, such as regular exercise, do not necessarily reflect a high level of enjoyment of the activity, but also a desire to have something else (more energy, a smaller waistline, a longer life). Individuals may have differing reasons, but the more certain and important the desired result (the stronger the reasons why), the more likely the investment.

Five: We each grow and protect our human capital assets to the degree it allows us to do or get more of what we want. If individuals do not believe that their human capital matters in achieving what they want in life, it becomes less valuable. Further, if individuals recognize no risk in a loss of human capital, they pay less attention to its maintenance. This results in a lower interest in maintaining current skills or health.

Summary: Individual growth and protection of human capital is driven by a clear relationship between human capital performance and the resulting rewards. Every person is ultimately and primarily responsible for building and maintaining his own human capital assets. Incentive to do so is determined by the environment in which people apply their human capital, and the rewards they anticipate in return.

Within this human capital framework, what should employers do to encourage health protection or growth since employers have a vested interest in the flow of work from their employees' human capital? What investments actually influence a person to protect and improve their human capital—to be healthier, more skilled, and more motivated? In what context should human capital investments occur? This paper revisits traditional thinking about corporate investments in human capital, with a specific focus on health.



A New Strategy for Investing in Worker Human Capital

In order of importance and timing, workers will value human capital more when their work environment is aligned and structured to:

- 1 Make it Matter: Align incentives for optimal human capital performance
- 2 Make it Possible: Align policies in ways that remove barriers
- 3 Make it Theirs: Provide options and reinforce ownership

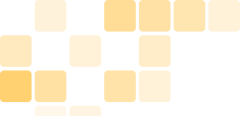
1) Making Human Capital Matter

Human capital matters more when a person can use it to get something that is important to him. The more certain and valuable a person's reward, the greater his reasons to grow and protect his human capital assets. Thus, if a company's goal is to create an environment containing strong reasons why workers should grow and protect their health assets, the environment must contain strong, clear, aligned incentives that reward performance.

What drives growth in human capital is one's opportunity to apply **combined human capital assets** in ways he or she finds rewarding and satisfying; ways that generate a self-defined return on their own investment in human capital growth. The continuum looks like this:



The optimal setting for human capital growth is one where individuals experience high levels of satisfaction and rewards from applying their human capital and recognize potential for even greater returns as capacity grows. Simply, it provides powerful reasons why growing and protecting human capital is important. Conversely, an ineffective environment for human capital growth is one in which individuals receive little reward or satisfaction from applying their human capital and see limited potential for that to change. In short, human capital matters less.



How does a company create an environment that makes business success and human capital matter more? By creating a series of aligned incentives, policies, and practices that attract positive employee behaviors and better business outcomes. This kind of environment makes human capital growth matter more to each employee.

Here are three specific illustrations of directional incentives that will influence both health and human capital more broadly.

Shared rewards/Something to gain: When workers have the potential to earn significant bonuses and/or profit sharing, they have incentive to be at work and perform well. Staying healthy increases one’s capacity to do both.

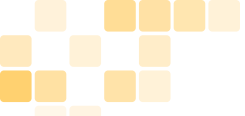
Our research indicates that bonus eligibility and bonus size both correlate with workers’ attitude about health as well as health behaviors. Those eligible for higher bonuses report that health is more important to their career. (1) Further, bonuses correlate with a higher likelihood of taking advantage of available flu shots (2) and other healthy habits such as exercise and not smoking.(3)

Additionally, if a worker has the possibility of saving significant financial assets (such as through an H.S.A.) by avoiding expensive procedures, health protection becomes even more valuable. The more a person gains potential benefit from remaining healthy, the greater the importance of making decisions that protect health. Conversely, if one’s salary, bonus possibility, and savings vary little regardless of health status or performance, an individual’s investment in health will matter less. To maximize the power of this

incentive, employers must shift as much compensation as possible to bonuses, savings, and pay, away from richer health benefits.

There are a few policy options that directly share rewards for healthy behaviors—such as providing a lower-cost health insurance plan if the member achieves certain behavioral metrics. Such an approach does offer an additional positive incentive, but is limited in reach. These incremental incentives are less powerful than overall rewards for work performance.

Shared responsibilities/Something to lose: At the other end of the spectrum, negative consequences (even minor ones) also make health matter more. Many companies provide 100% salary coverage during an illness, and some still provide medical insurance that has a very small cost share for employees (deductible/co-insurance and out-of-pocket costs). Further, some have policies on sick leave that require a worker to ‘use or lose’ sick days, forcing workers to be away from the office to take advantage of the benefits promised to them. When shielded from any negative financial consequence from being ill, health protection simply matters less. If a worker will have to sacrifice some of his own vacation time, spend his own money on medical bills, and give up part of his salary (even a small percentage) when absent, staying healthy matters more.



Our research shows faster return to work and fewer disability claims when workers share some of the expense of health-related, paid time-off. (4) When 100% of salary is paid during sick leave and disability claims, return to work is slower than when salary is paid at less than 100%.(5) A recent study indicates that individuals with high-deductible, consumer-directed plans (with zero cost-share for prevention) have similar or higher participation in preventive screenings as those in lower-deductible plans(6)

Again, these shared responsibilities in paid time-off and medical insurance can be combined with direct financial penalties applied directly to a behavior (such as higher costs for smokers or greater deductibles for those who are overweight). These are more targeted, and have more limited productivity implications.

Asset Growth/ Something to protect: When a worker accumulates assets, those assets translate to opportunity. Improved skills lead to better jobs, higher salary, and greater career growth. Greater savings leads to more life choices, security and flexibility. Better longitudinal health translates to a wider range of options for both

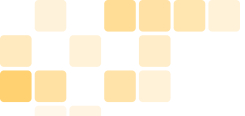
leisure time and careers. The greater a person's accumulated wealth, the more he wishes to protect future opportunities.

Studies show a direct correlation between wealth and health.(7) Further, wealth is associated with lower rates of smoking and obesity. (8,9)

Health matters more to someone who has assets to protect. Conversely, stagnant skills and financial insufficiency—especially when combined with low shared responsibility—leads to a lessening of self-worth and low interest in health; why should it matter?

Application to Business

Using these health as human capital philosophies, businesses have the opportunity to create an environment that makes health matter more. Essentially, these provide employees the reasons why health matters. By sharing rewards and responsibilities, workers understand that the consequences of both good and bad health will affect them. By investing in workers, employers demonstrate that opportunities will exist for those who work hard, invest their energy, and take care of themselves. Although paternalistic and perceived protectionist practices (like full coverage of medical bills, 100% pay during sickness) may have originated for altruistic reasons during a time when many work settings were dangerous and a majority of workers were sole breadwinners, such levels of protection have evolved to encourage risk taking and over-consumption of services. When someone else bears the full responsibility for misfortune, avoiding misfortune becomes less important; it matters less.



2) Make it Possible: Removing Barriers

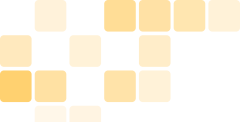
Even in an environment where incentives align to make all human capital assets matter more, companies often create barriers that discourage growth in human capital potential. Most often, these barriers take the form of insufficient autonomy, time, flexibility, money, or support (perceived or real). In this section, we review specific aspects of the employment contract that can further influence the likelihood of growing and protecting human capital assets, again with a specific emphasis on health behaviors.

Ownership of decisions/freedom to choose: Self-determination is a powerful companion to behavior change, and a necessary ingredient in optimal human capital performance. Worker creativity and problem-solving skills evolve when people are encouraged to find new and better ways to get things done. A complete lack of control breeds passivity, on the job and at home. If workers receive a message that “we do not trust you to make good decisions on the job,” how can workers believe that employers trust them to make wise choices in their lives when away from the job? When combined with the right performance incentives, choice activates one’s ability to overcome problems in new ways. Being entrusted with any life or work decisions makes change seem more possible, which enhances one’s ability to imagine life (and behavior and outcomes) differently.

More concretely, there are policies and practices that can either make healthy behaviors more possible, or create barriers that interfere. Factors in this category (Making it Possible : Removing Barriers) are the most difficult to define in explicit terms because every job has different requirements. Thus, we present a series of directions toward which policies and practices can be aligned. We acknowledge that certain settings cannot accommodate the features below. However, in virtually all settings, some movement toward ideal is possible.

Toward known, reliable time expectations; away from 24-7 access. Except during critical and time-limited periods, round-the-clock work is simply an illusion. Humans do have a threshold above which they are no longer working effectively (or in some jobs, safely). That threshold varies by job and person, of course.

A clearly defined work day is best in combination with performance-based rewards (above). If rewards are structured in ways that reward efficiency and output, individuals will be able to determine their own equilibrium of productive effort, independent of the clock. Thus, a reasonable, required “work-day” can be defined based on business requirements. Some workers will choose to put in more time, at different times of day, depending on their personal goals and motivation. If incentives for the company and the employee align to encourage optimal performance, it is in everyone’s interest to set parameters that promote strong individual capacity through a balance of work, leisure, and sleep. This also provides the possibility for time to exercise or prepare a healthy meal.



Expecting workers to be available at “all times,” or to spend 80-100 hours working each week, seems quite incongruous with - and will undermine - efforts to promote good health.

Toward discretion and flexibility in work schedule and location; away from rigid structure. Almost all businesses have distinct needs for worker attendance at specific times and locations. Meetings and services have required schedules. However, providing some flexibility allows greater opportunity for balance. Whether this means allowing different start or end times (to spend more time with children, or miss traffic), or a longer lunch and later quitting time to allow errands during the day, some flexibility can dramatically alter the convenience of other activities outside work.

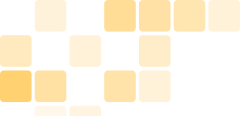
If it is possible, promote balance by letting workers connect remotely to reduce commute times, or meet family demands. Some of the biggest concerns in telecommuting arise when managers worry that work is not being accomplished out-of-sight. Again, if rewards are highly dependent on results, this is less of a concern.

Toward more flexibility in unpaid time-off; away from limited, pre-paid time-off. In a typical work year, one week is equivalent to approximately 2% of expected work days. When a worker receives three weeks’ paid vacation, wages reflect an expectation that the worker will be present 94% of the time. Five weeks of leave equates to 10% of one’s pay, so the wage reflects an expectation of 90% worker availability. It is unlikely that any single amount of time off is ideal for most workers. Some may wish to work more to save money, others may wish to work less. One option is to set wages at 100% of value (often 4%-10% higher than current levels) and allow workers to buy back the desired number of days. This allows workers to choose a more ideal tradeoff between time and money.

Certainly, companies that offer cash for unused sick and vacation time reduce their need to fund excessive accumulation of time off and avoid use-it-or-lose-it policies that require a person to forfeit the value of the benefit or miss work. As with many of the factors in this list, not all work settings or roles can accommodate significant episodes of absence. However, reinforcing the value of a day’s work by having employees “buy” the time back further establishes choice and ownership of decisions.

Toward rewards for results; away from rewards for time. Work days have lengthened in past decades—longer work hours, longer commutes, and more mechanisms for connectivity mean that employees are never really away from work. However, longer time spent working does not always translate to better outcomes. In some settings, “face time” is acknowledged more than accomplishments. When rewards are structured to emphasize the real quality and quantity of output, efficiency becomes more valuable than hours spent, and it is less necessary to strictly track attendance.

Performance-based rewards also align the goals of workers with the goals of the company. When employees have an opportunity to earn more for better work, rather than hour spent, both company and workers increase their potential earnings.



Toward consistency at higher levels of the organization; away from conflicting messages. For all directions listed above, acceptance only happens when workers see similar circumstance and behaviors in their managers. If a manager does not reinforce performance-based rewards, discourages flexibility, or undermines an environment of autonomy, workers will not trust the genuineness of policies that appear to support these attributes.

These human capital philosophies (toward greater accountability, control and discretion) all serve to make health-protective behaviors more possible. They all involve some policy change accompanied by different management practices. One sees how more options and flexibility can make healthy behaviors (exercise, healthy eating, rest, family activities) more feasible.

3) Make it Theirs: Provide Options and Reinforce Ownership

Our belief is that the first two ingredients, “Make it Matter and Make it Possible,” are actually far more important than this third one. The human capital recommendations above combine to create powerful incentives and a space for human capital growth. Simply by having more motivation, more control, a more reliable schedule, and more discretionary income, workers have greater opportunity to engage in behaviors that protect and enhance their health and skills.

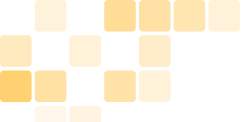
Motivation will develop from the first two parts of the strategy: incentives (*making it matter*) and policies (*making it possible*). This step serves the purpose of leveraging existing interest and opportunity, not to persuade workers about the importance of their own health. This is an important distinction. As we covered earlier, individuals rarely invest in their human capital for its own sake, but instead because of the rewards and satisfaction they anticipate from applying it.

Once a company has built incentives that make human capital assets **matter**, and created an environment that makes it **possible** to grow and protect them, this may be sufficient to encourage employees to include more health-protective behaviors in their daily lives. Companies can also choose to provide options and reinforce worker discretion regarding how to grow and protect their own human capital. Because workers own their human capital, they know best what would help them grow and protect it.



Specifically, the following activities have merit:

- A. Create a human capital spending account(s) (for health and/or education) that allows employees to choose **which** investments are most important to their human capital growth and protection. If a company decides to make additional financial investments in human capital, the most appropriate investments will be chosen by the individual. Where one individual may want help to quit smoking, another may want other services. One may seek help in person; another may want support online. Rather than spending money for human capital investments on employees’ behalf, provide a means for individuals to make choices.



- B. Offer evidence-based prevention and early disease detection services at no or low cost, such as:
 - Covering recommended screenings and early detection (such as mammograms and colorectal cancer screening),
 - Providing prevention (such as immunizations), and
 - Offering procedures and training that emphasize workplace safety.

- C. Support active involvement in decision making about human capital assets. Provide access to objective, clinical professionals who can support individuals in making health and healthcare decisions when faced with difficult or complex medical choices. Similar types of support can be provided for important career growth and financial decisions.

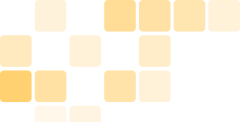
- D. Consider a more wide-ranging definition of wellbeing if assessments are used. We question significant investments in traditional, lengthy, detailed health questionnaires, in isolation of more comprehensive aspects of life, such as finance, family, or occupation. Messages from many of these questionnaires may have extended beyond their original intent of promoting awareness.

- E. Incorporate human capital health- and skill-developing options in existing facilities and activities. For example, offer training and education opportunities for lower-skilled employees that would help qualify them for higher-paying jobs. If vending machines or cafeterias exist, substituting (even subsidizing) or adding healthy options may make sense. Provide walking route descriptions with mileage. Offer training programs on site.

Readers will note that the activities and investments in this list focus more on providing greater self-responsibility accompanied by incentives to choose, rather than on outreach strategies aimed at convincing employees to change a specific behavior. Successful behavior change happens more readily when a person has intrinsic motivation to choose a different behavior. In our experience, setting up an environment that makes health and skills matter more in general has a greater likelihood of influencing change than calling individuals one-by-one to persuade them their health should matter.

Summary

Too often, organizations start at the bottom—offering behavior-change programs—because it seems easier than taking a hard look at how employees are rewarded. Companies offer training classes and fitness options, and hope to attract employees to these activities that exemplify the right thing to do. In our thinking, this approach is backwards. Support for prevention comes third, after 1) aligning incentives (especially pay and time off) to make human capital matter, and 2) examining policies to see if there are ways to make human capital growth possible in day-to-day life.



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