

# Aligning Human Capital Incentives and Work Performance

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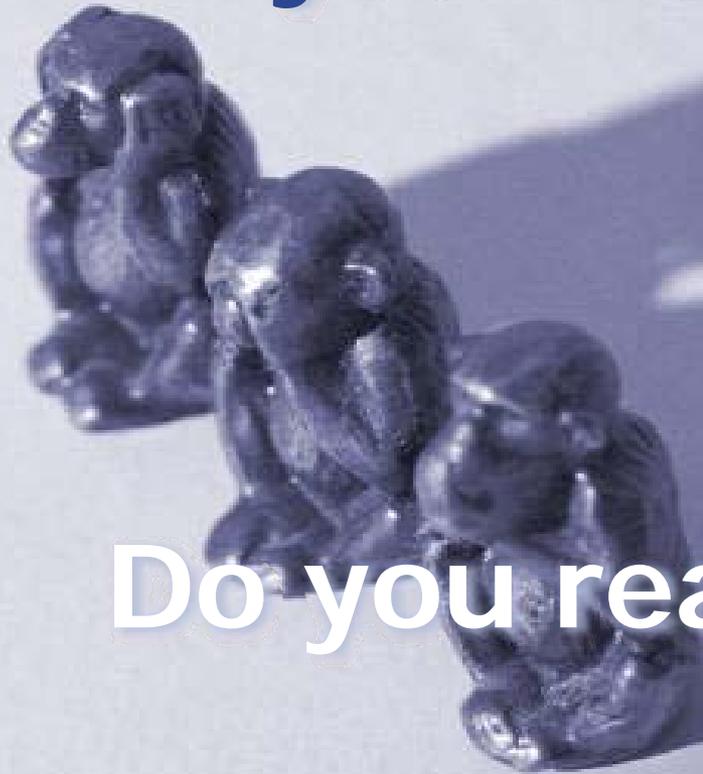
***During World War II  
a team of weather forecasters  
offered their resignations  
after it was proven  
that their predictions  
were no more accurate  
than random chance.....***

# The response ?

***“The Commanding General  
is well aware that  
the forecasts are no good.***

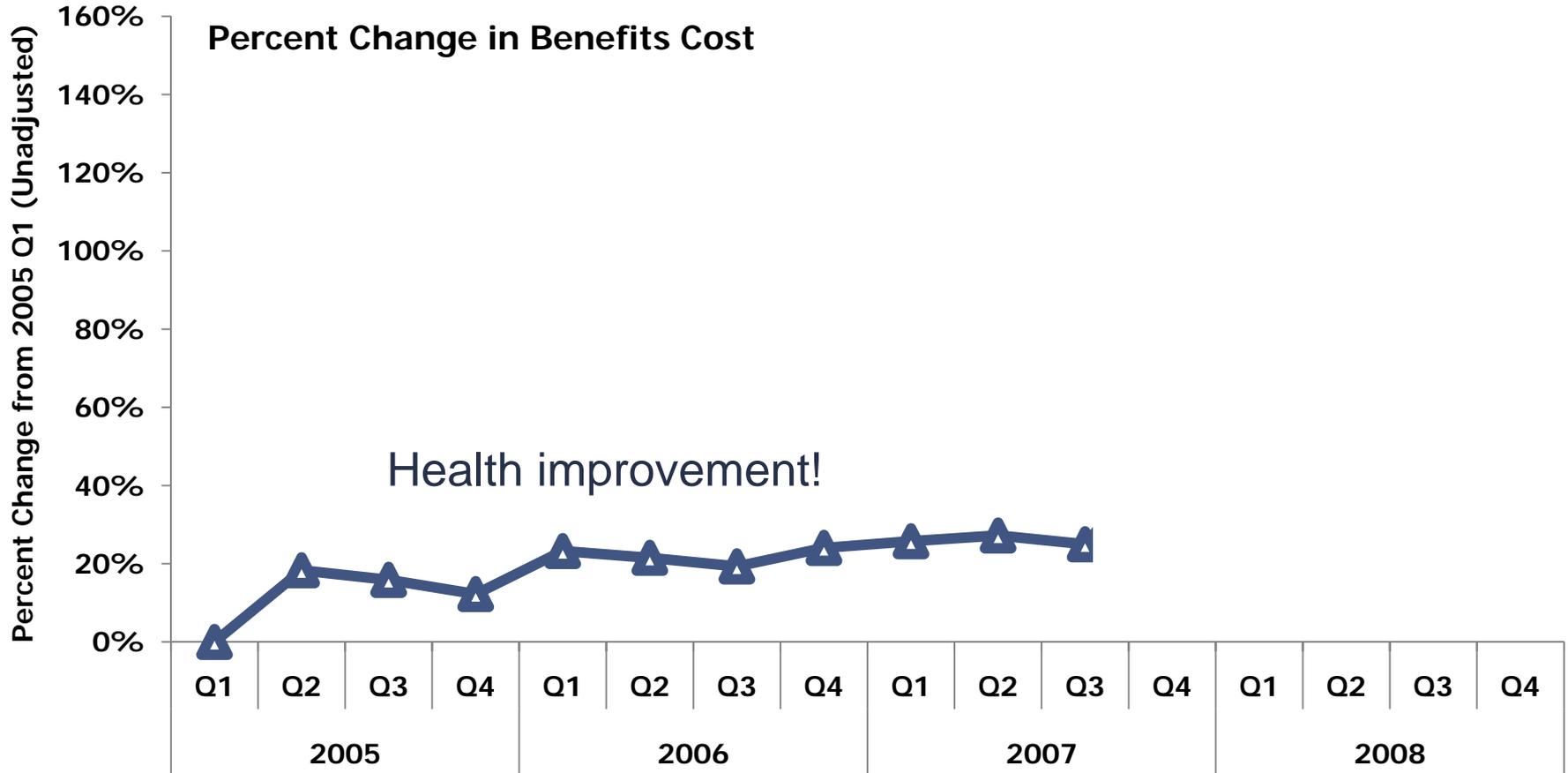
***However,  
he needs them  
for planning purposes”***

**If things don't work the way  
you thought they did?**



**Do you really want to know?**

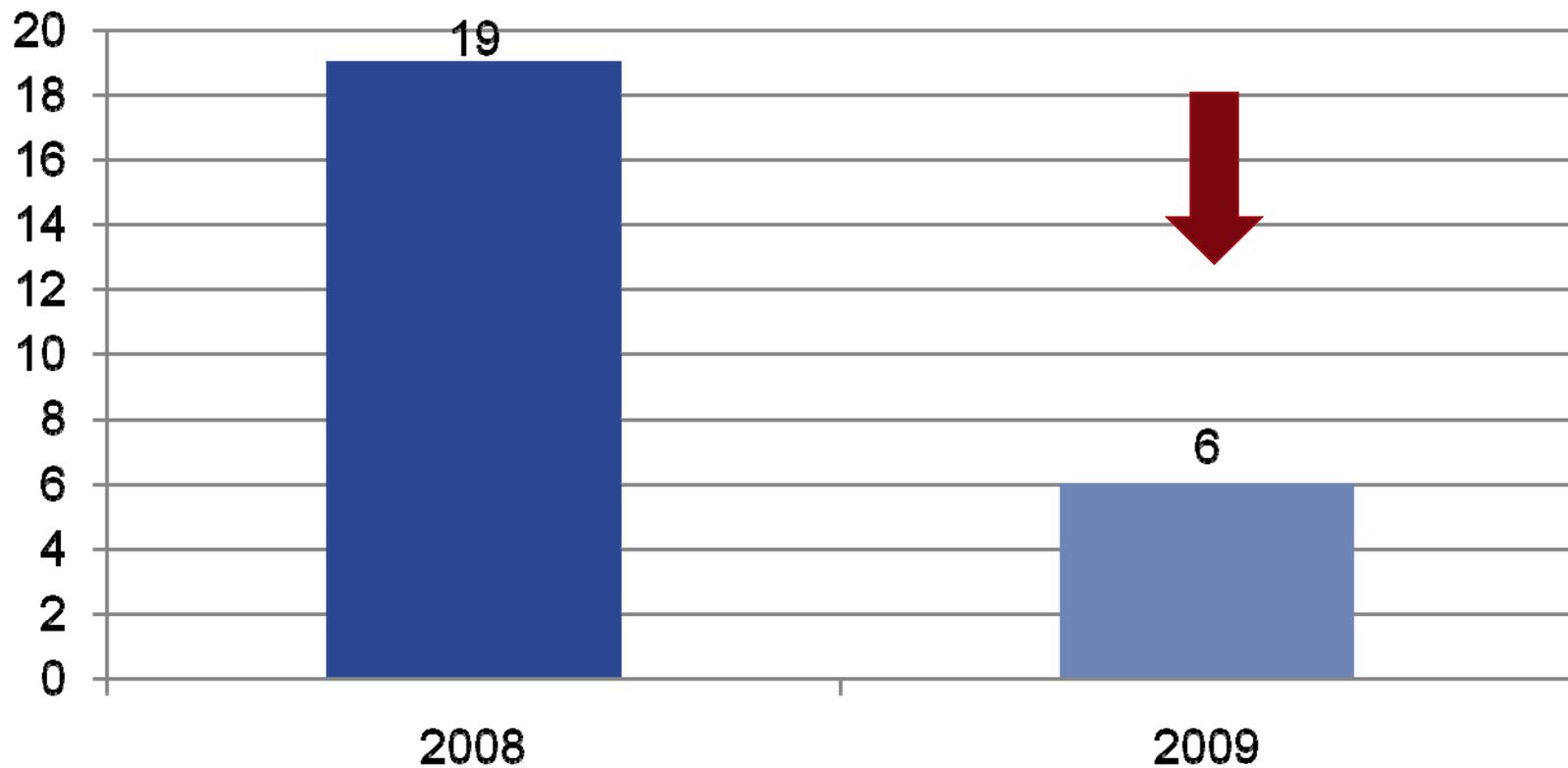
# A commendable trend



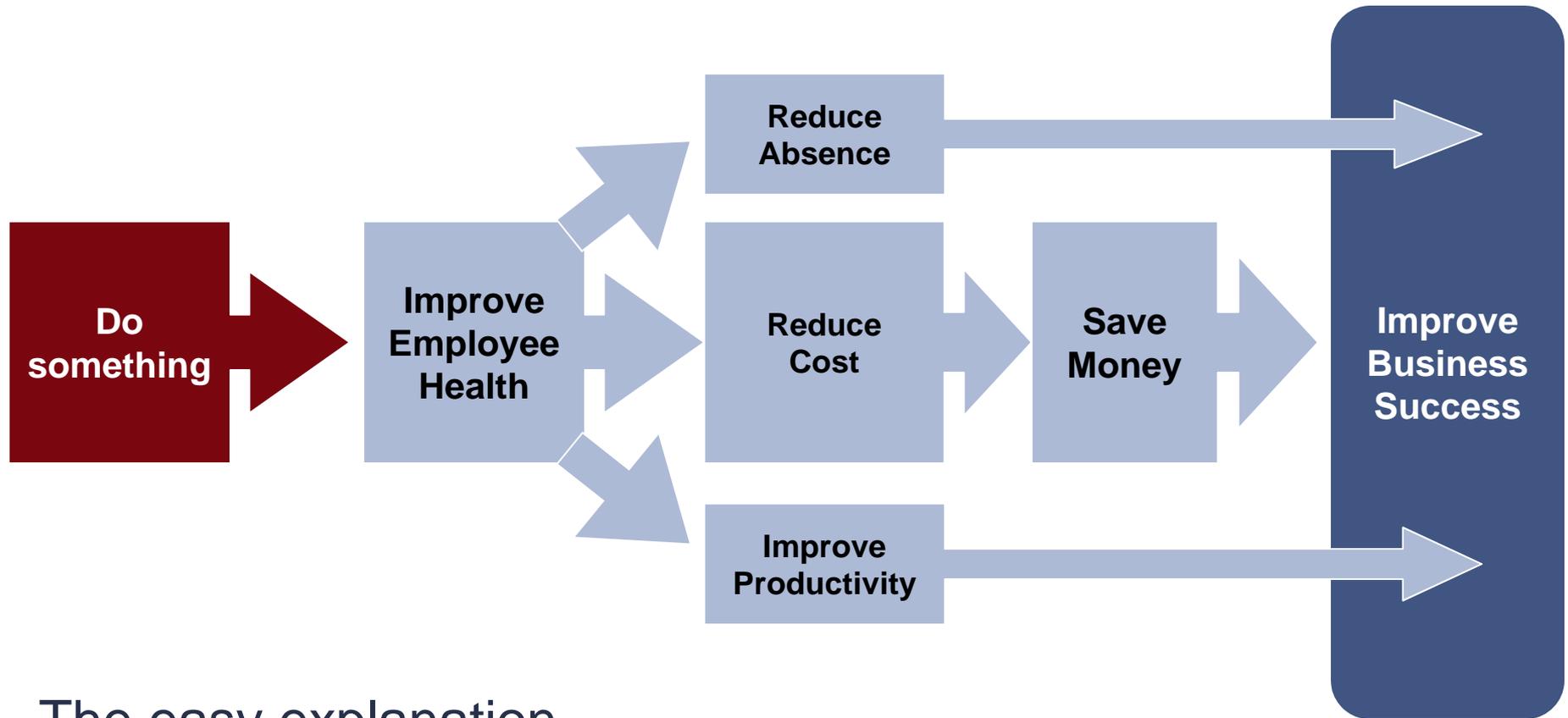
***Modified actual***

# Reduction in sick leave absences

Average monthly absences in department

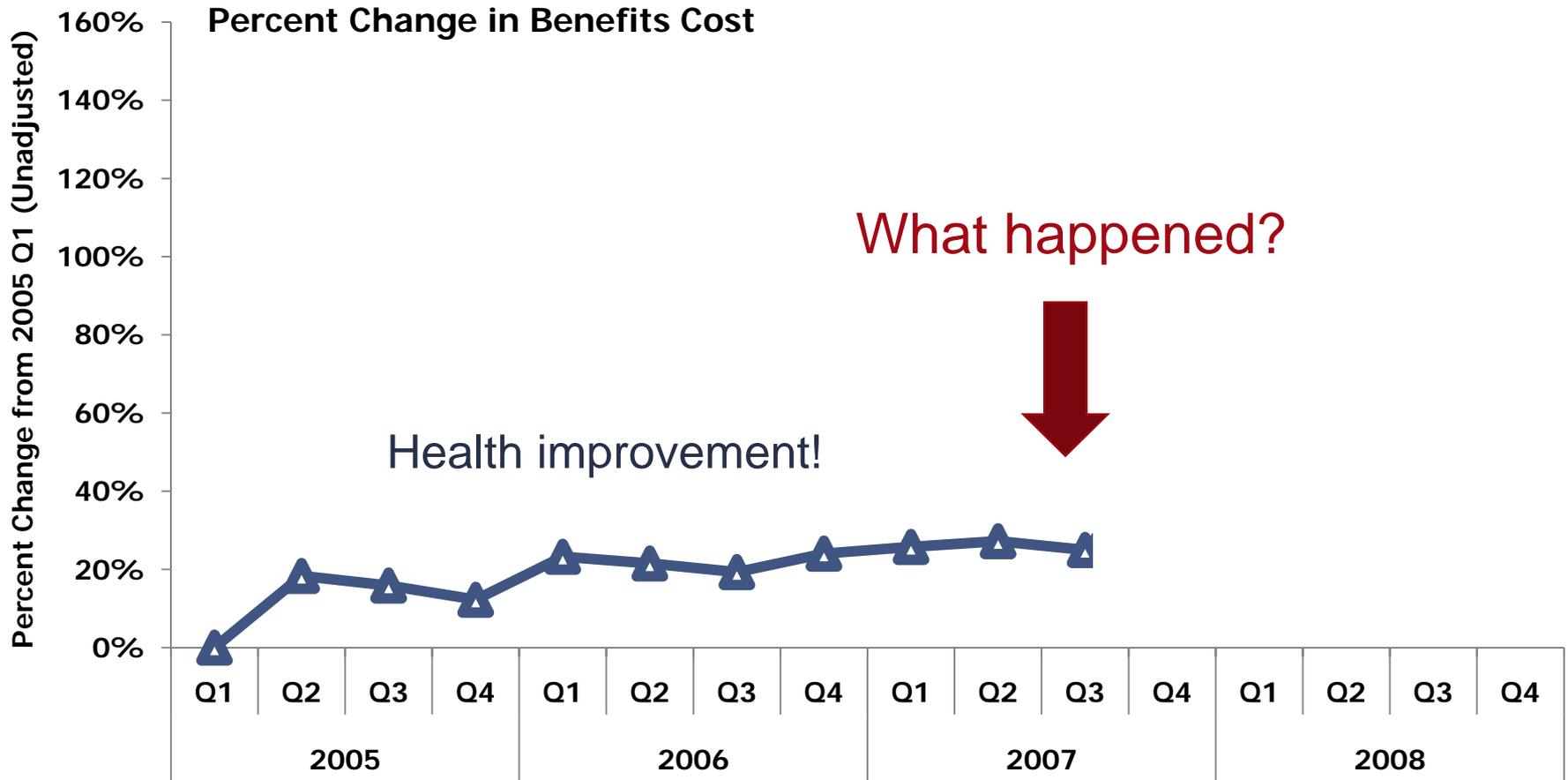


# Health and business success



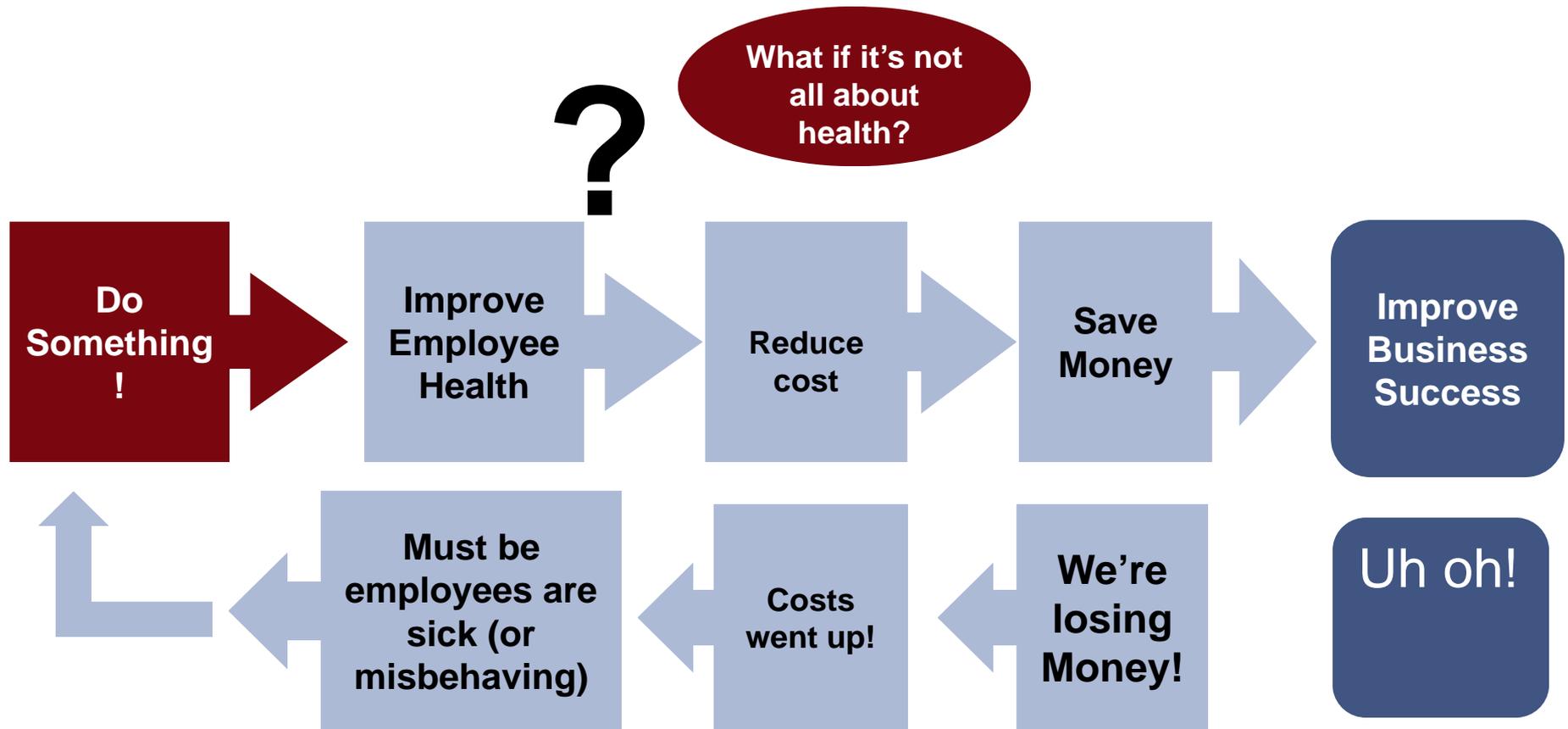
The easy explanation

# Benefits Cost



*Modified actual*

# Health and business success

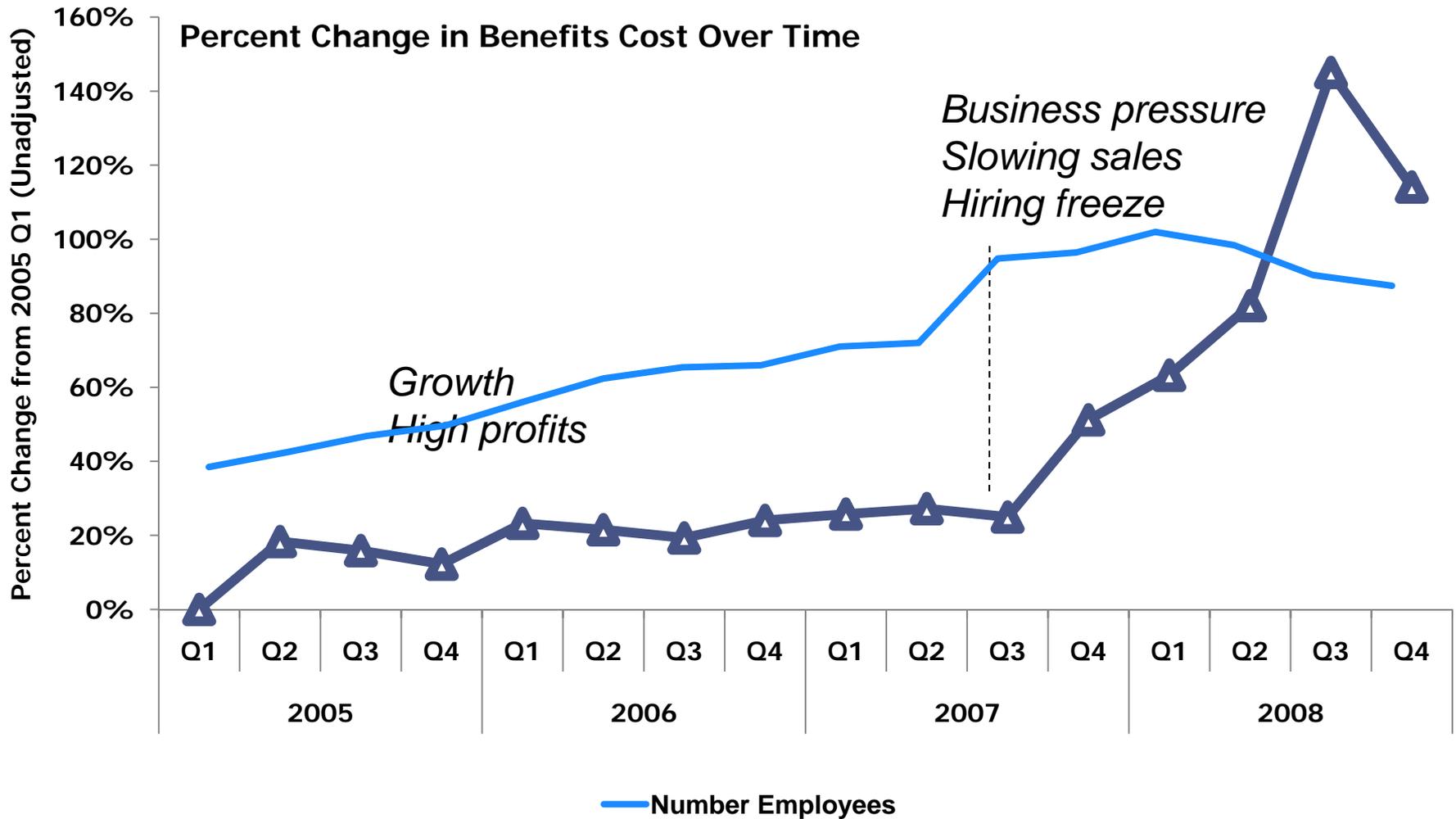


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**“My job is giving me migraines, high blood pressure, chest pains, and bleeding ulcers. I’d quit, but I like their health plan.”**

# The story behind benefits consumption



HCMSGroup, 2009, used with permission

# Definition

## Human Capital

- The potential value an individual or group of individuals brings to an organization.
- Human Capital includes three assets:
  - **Skills**                    **education and experience**
  - **Motivation**           **attitude and incentives**
  - **Health**                   **physical and mental capacity**

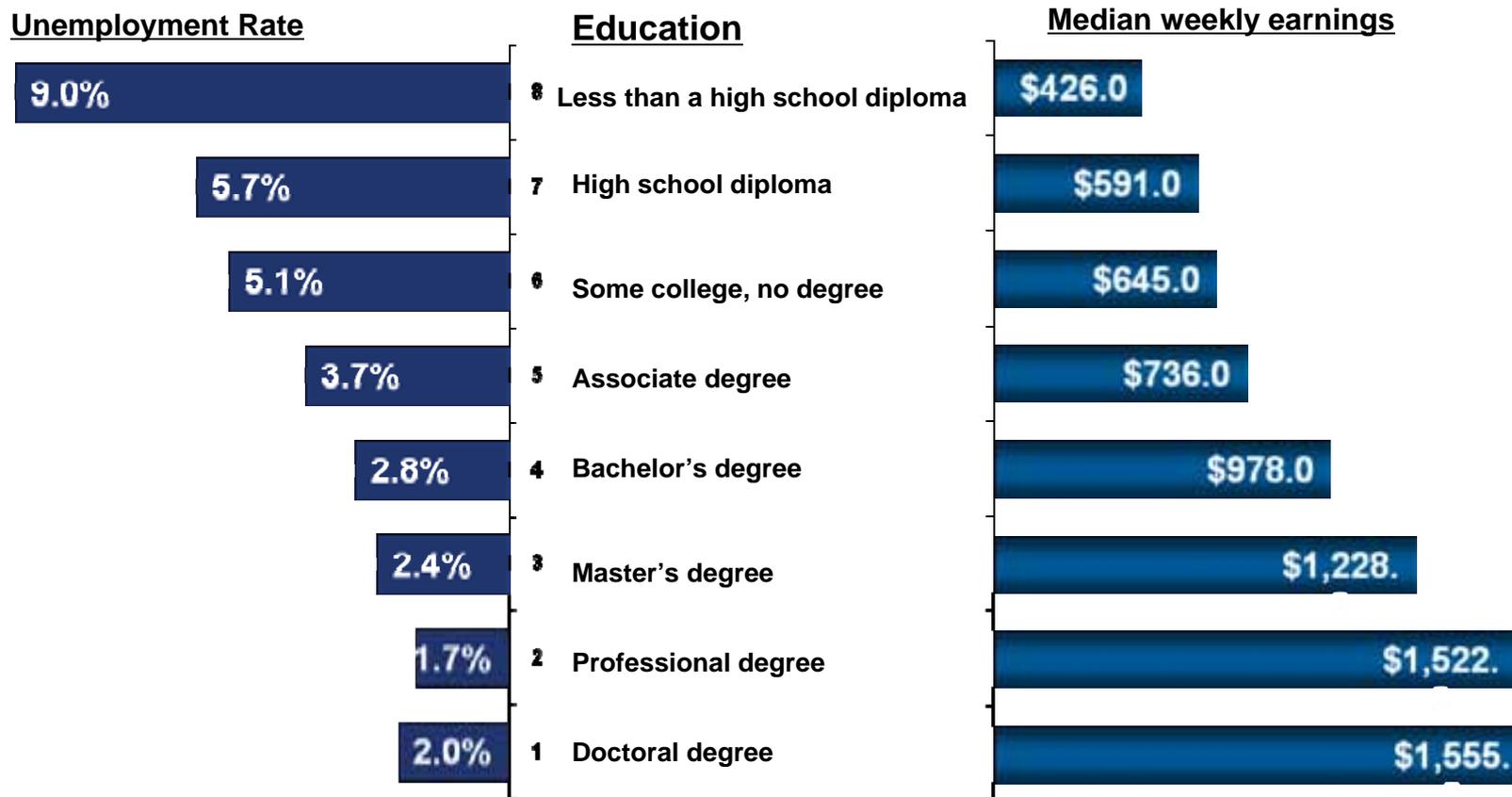


# Skill requirements vary by job

**Skills in the context of human capital refer to those talents, experiences and abilities that relate directly to the performance of one's specified job duties. These will vary from job to job**



# Unemployment and Earnings by Educational Attainment, 2008



Source: Bureau of Labor Statistics

# Motivation as Human Capital



Assets

Human Capital motivation refers to a the role-specific attitude a person has with regard to their job combined the incentives they experience. It can best be described in the context of the employee's behavior and beliefs:

Does the person behave as if he, himself

- 1) CAN contribute to the company's success
- 2) WILL personally benefit most by being effective, efficient and mindful of costs, and
- 3) BELIEVE that " the company's success equals my success"

# Health as Human Capital



Assets

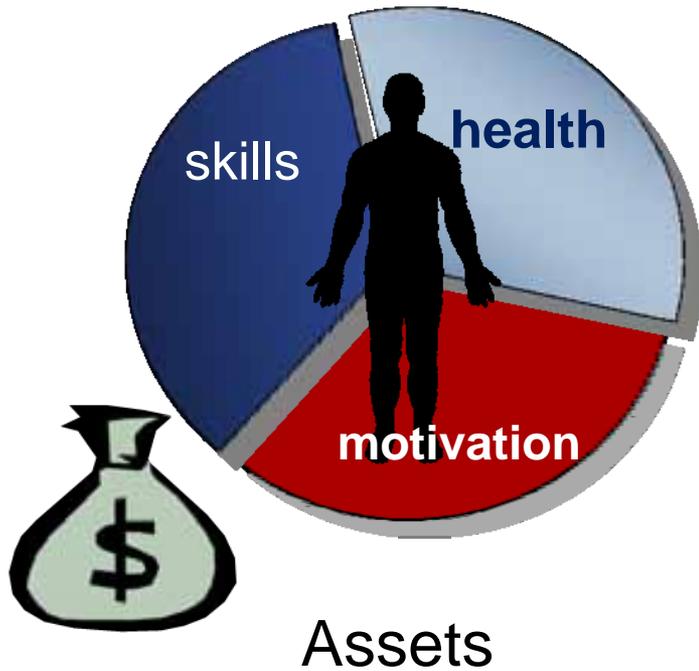
**Health in this context is one's job-related physical, mental, emotional and interpersonal functionality.**

**As with skills, necessary functionality differs from job to job**

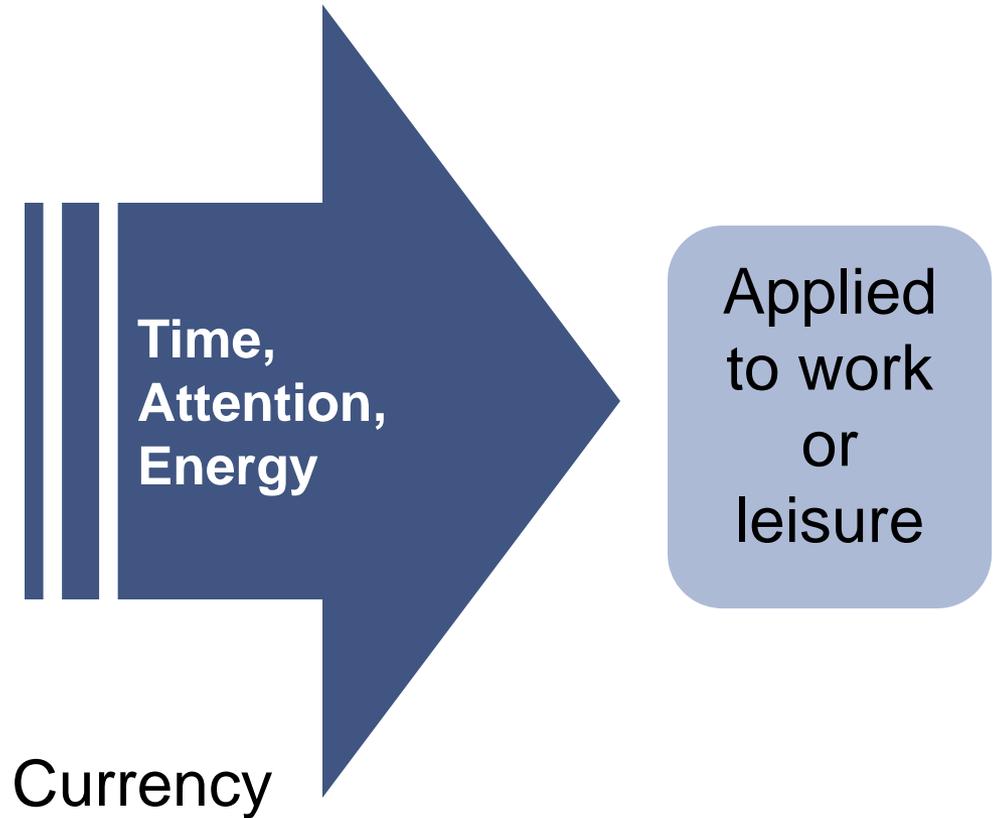


# Human Capital

**You Own**

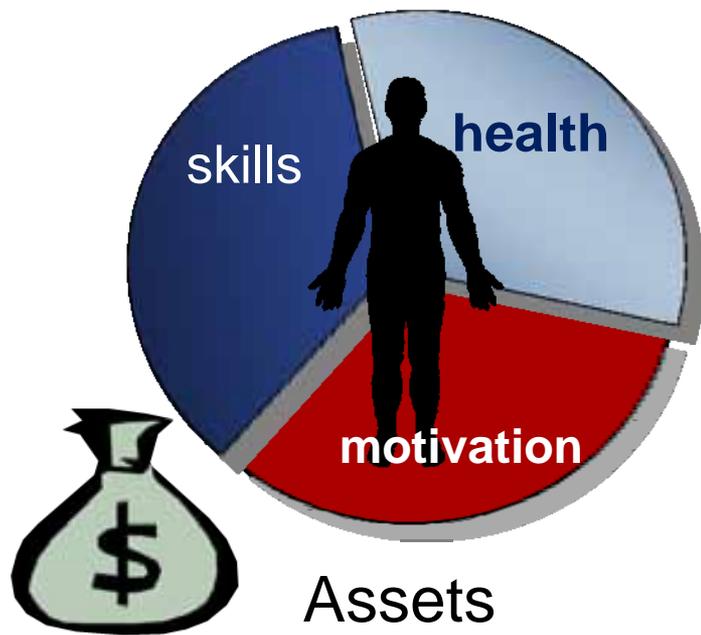


**You Spend**

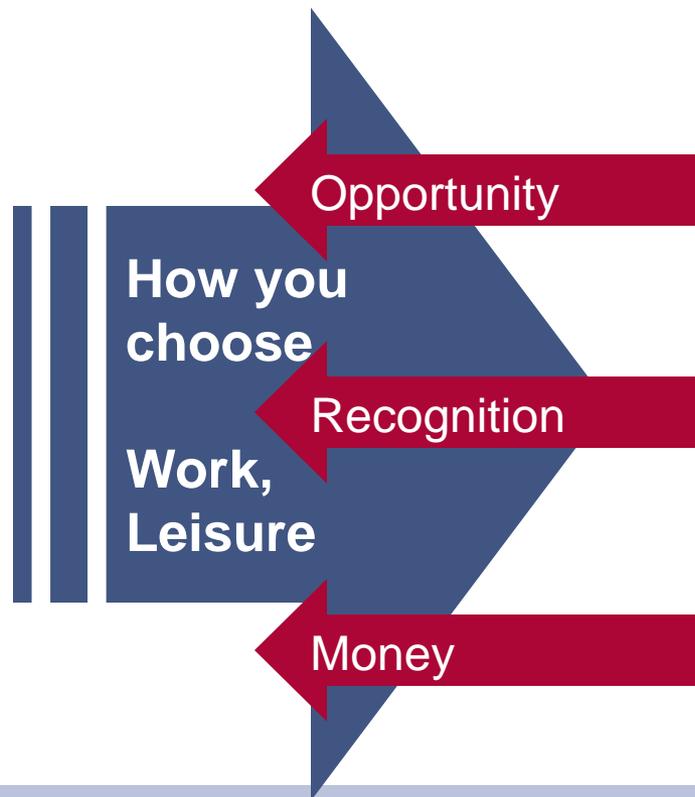


# Human Capital

Human Capital



You Spend



To Get  
Something  
Useful or  
Satisfying

Opportunity

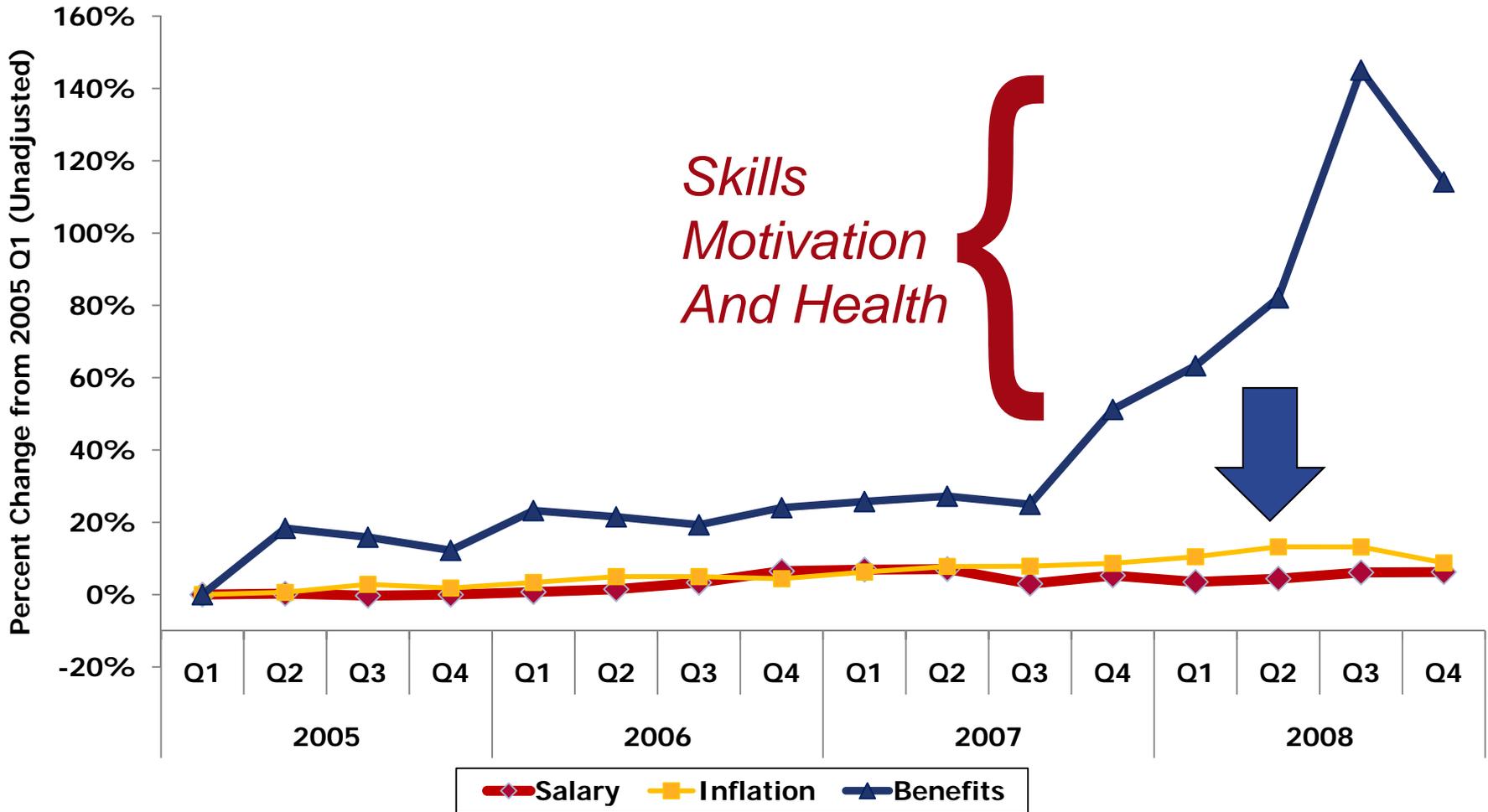
Recognition

Money

Rewards

*Intrinsic,  
Extrinsic,  
Monetary,  
Intangible*

# It's a trade-off



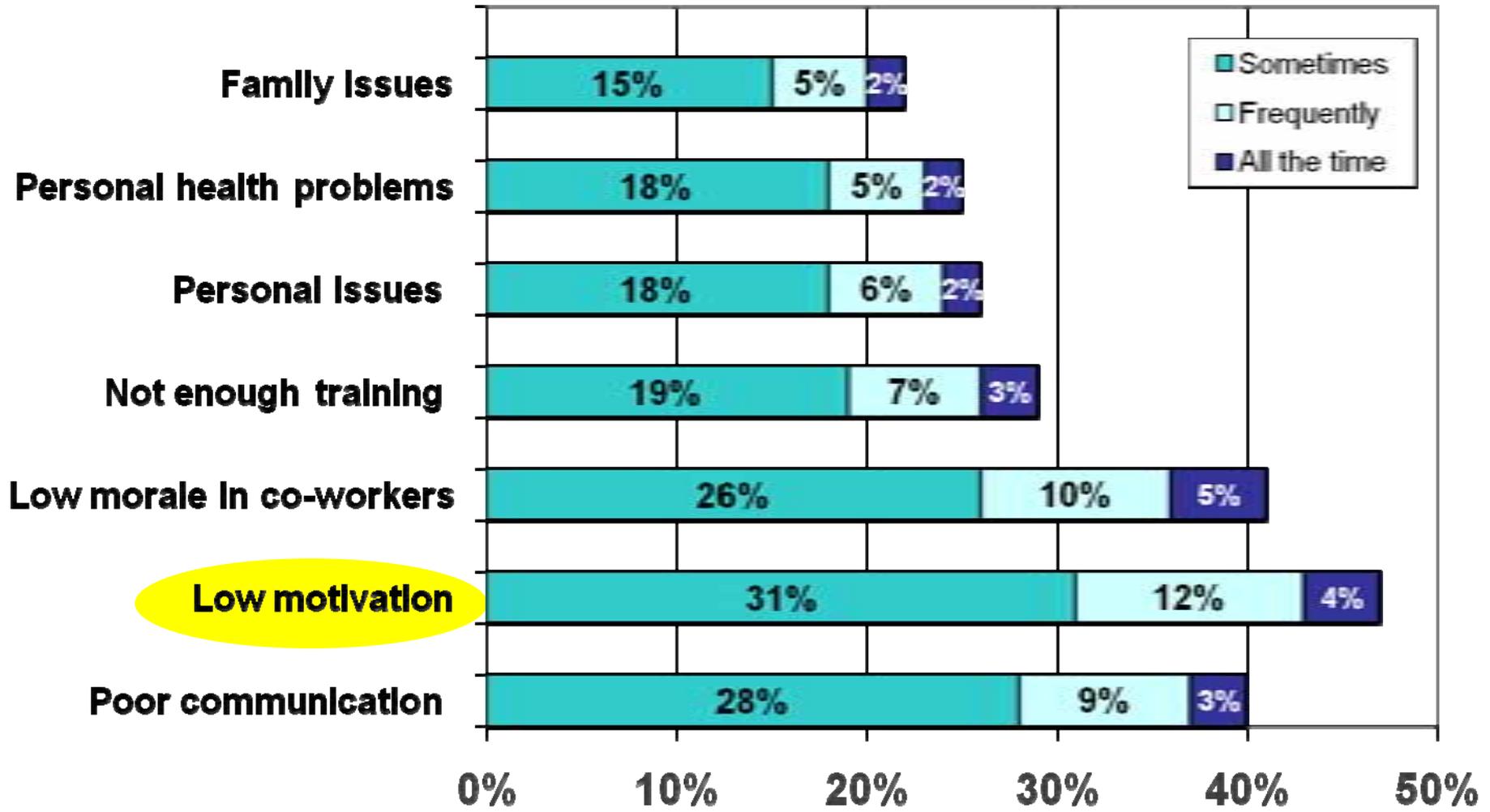
HCMSGGroup, 2009, used with permission

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**“It’s been a difficult year. Would you like  
your annual bonus in cash or Prozac?”**

# What interferes with productivity?



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**“It’s not a great mission statement,  
but we’ll revise it if things get better.”**

# Health and business success



The easy explanation

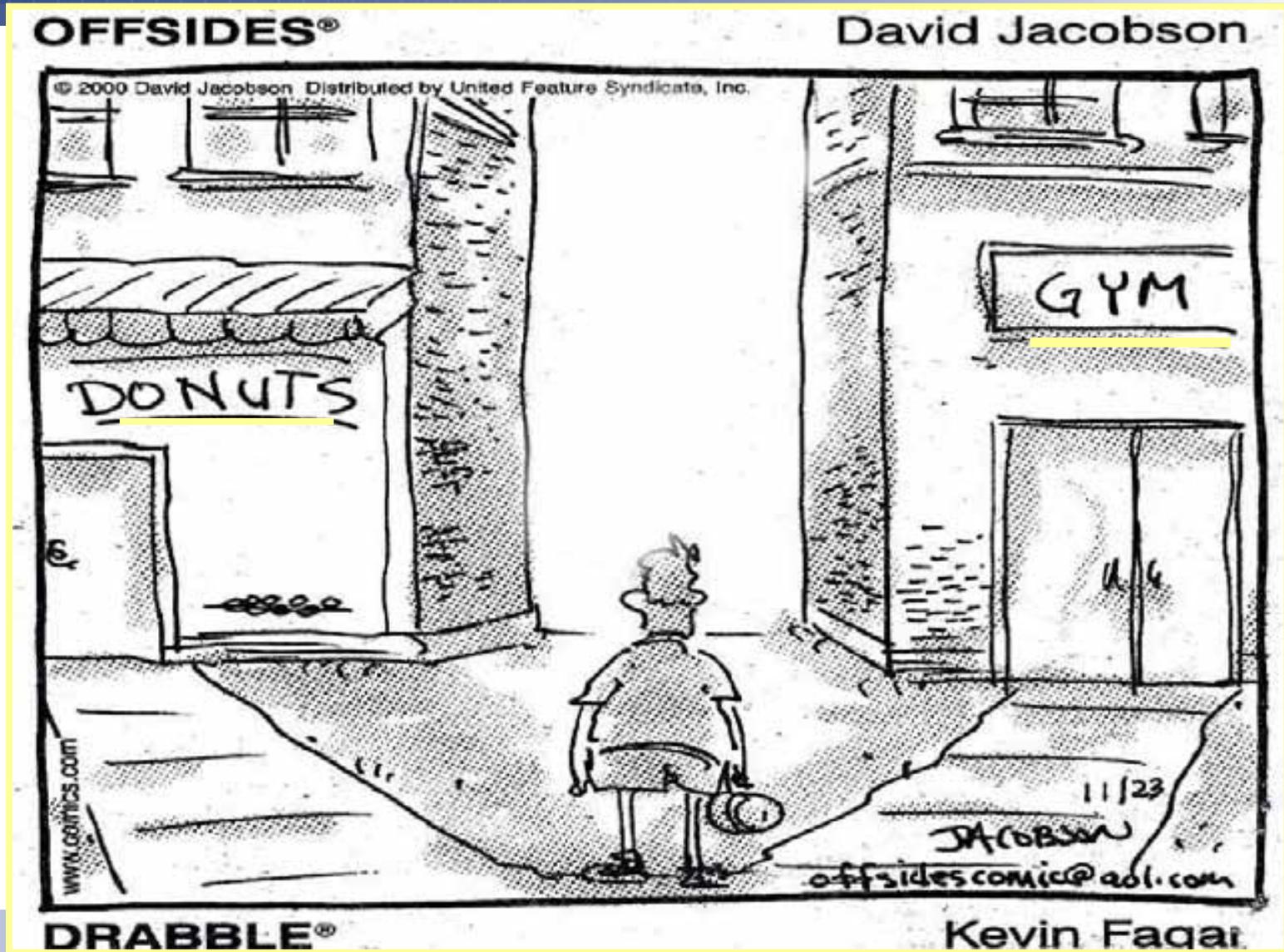
➤ What if we've got it  
backwards?

Reward  
HEALTH



To improve  
PERFORMANCE

# Performance is about daily choices



# Daily choices

- At work Do I come to work today?
- Motivated Do I give my full effort?
- Working effectively Do I need more/other skills?
- Healthy Do I make healthy choices?
- Wanting to stay Do I look for another job?

➤ *These are all connected*

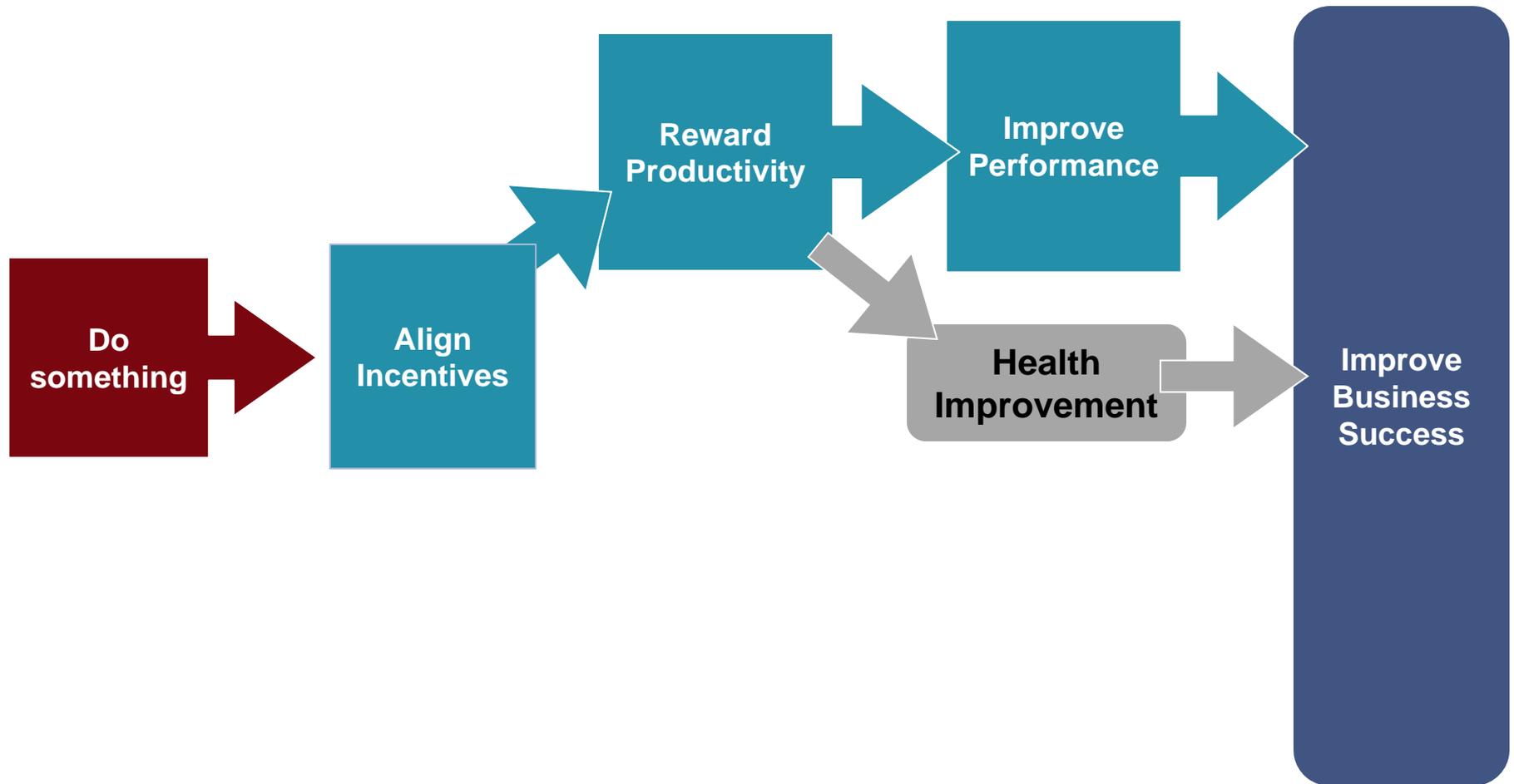
# Make Human Capital Matter

- Share Rewards:
  - Performance improves
  - Health matters more
- Share Responsibilities:
  - Employees become better stewards of resources
  - Consumerism matters more
- Promote Human Capital Growth:
  - Employee protect their assets and reinvest (health)

# Shared Rewards (examples)

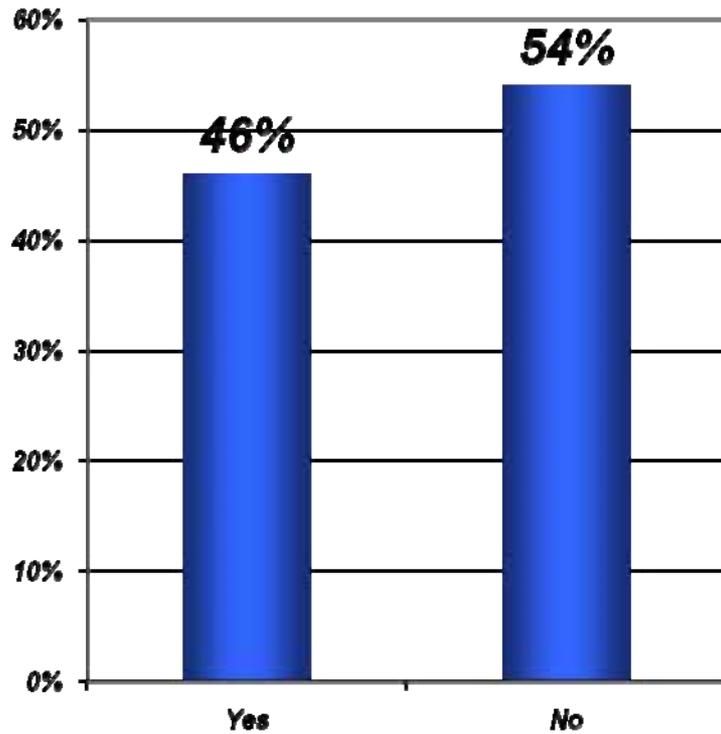
Shared Rewards	Eligible for performance-based bonuses	Yes
	If yes, to performance bonuses:	
	Employees know exactly how their bonus is determined	Yes
	Bonus is at least partially determined by individual performance	Yes
	Total amount employees can earn in bonus or profit sharing is >10% of salary	Yes
	Can cash-in some unused paid-time-off at 100%	Yes
	Offer a Health Savings Account with \$1500 or more in employer funds	Yes
	Match a 401K deposit at 4% or higher	Yes
	Cover prevention/screenings at 100% (no deductible)	Yes
	Offer training/tuition allowance worth at least 2% of salary (and >10% use it)	Yes
	All workers have multiple opportunities to advance in the organization, and often do.	Yes

# Health and business success

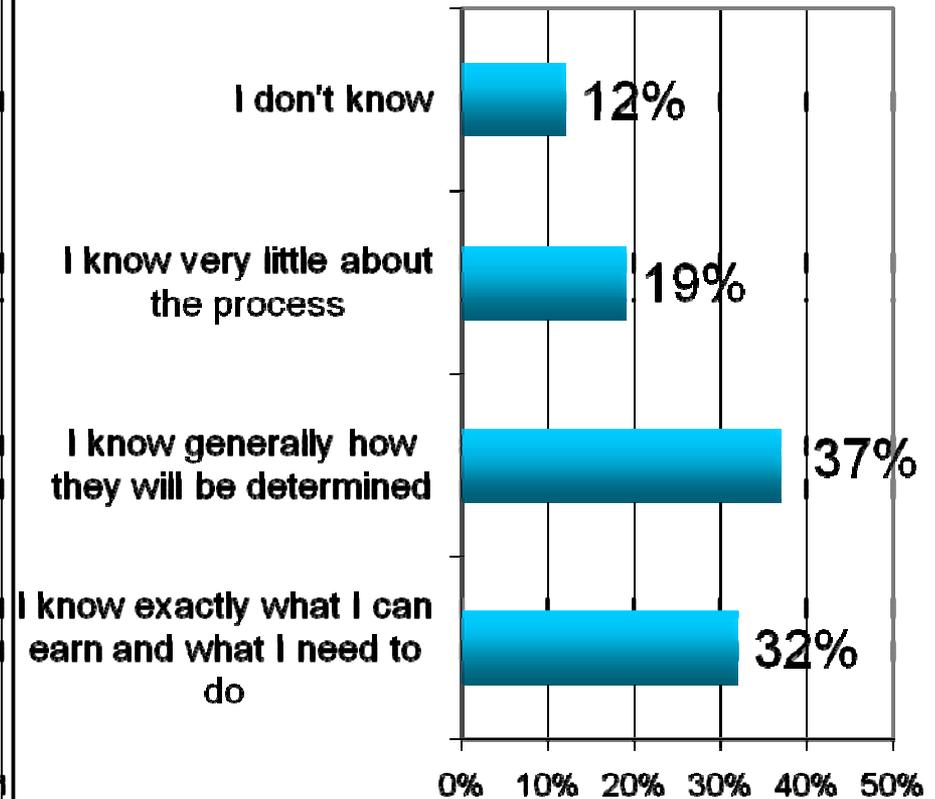


# Bonus Eligibility

## Eligibility

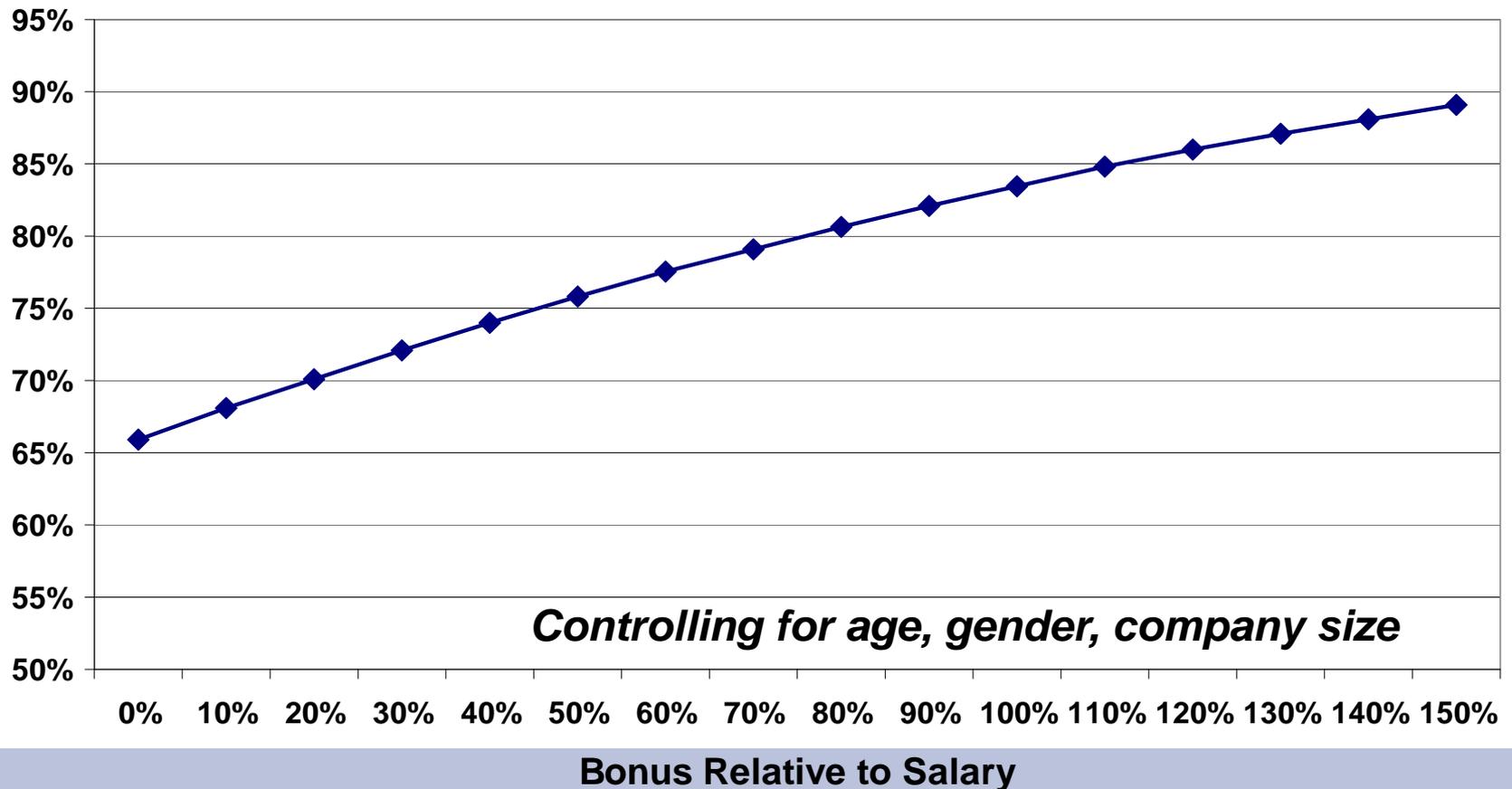


## Knowledge About Bonus

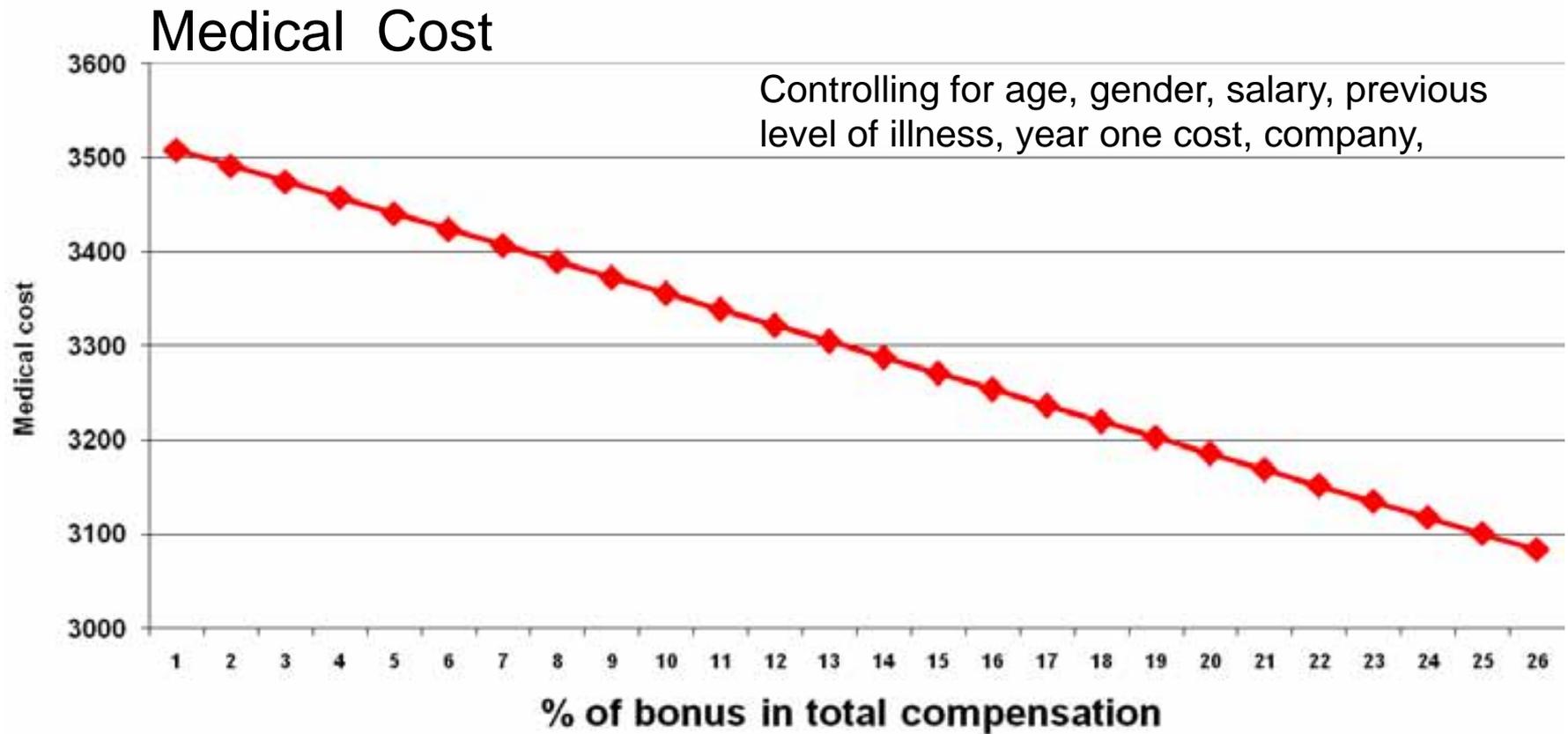


# What Makes Health More Important?

## *Percent Rating Health as Important to Work Success*

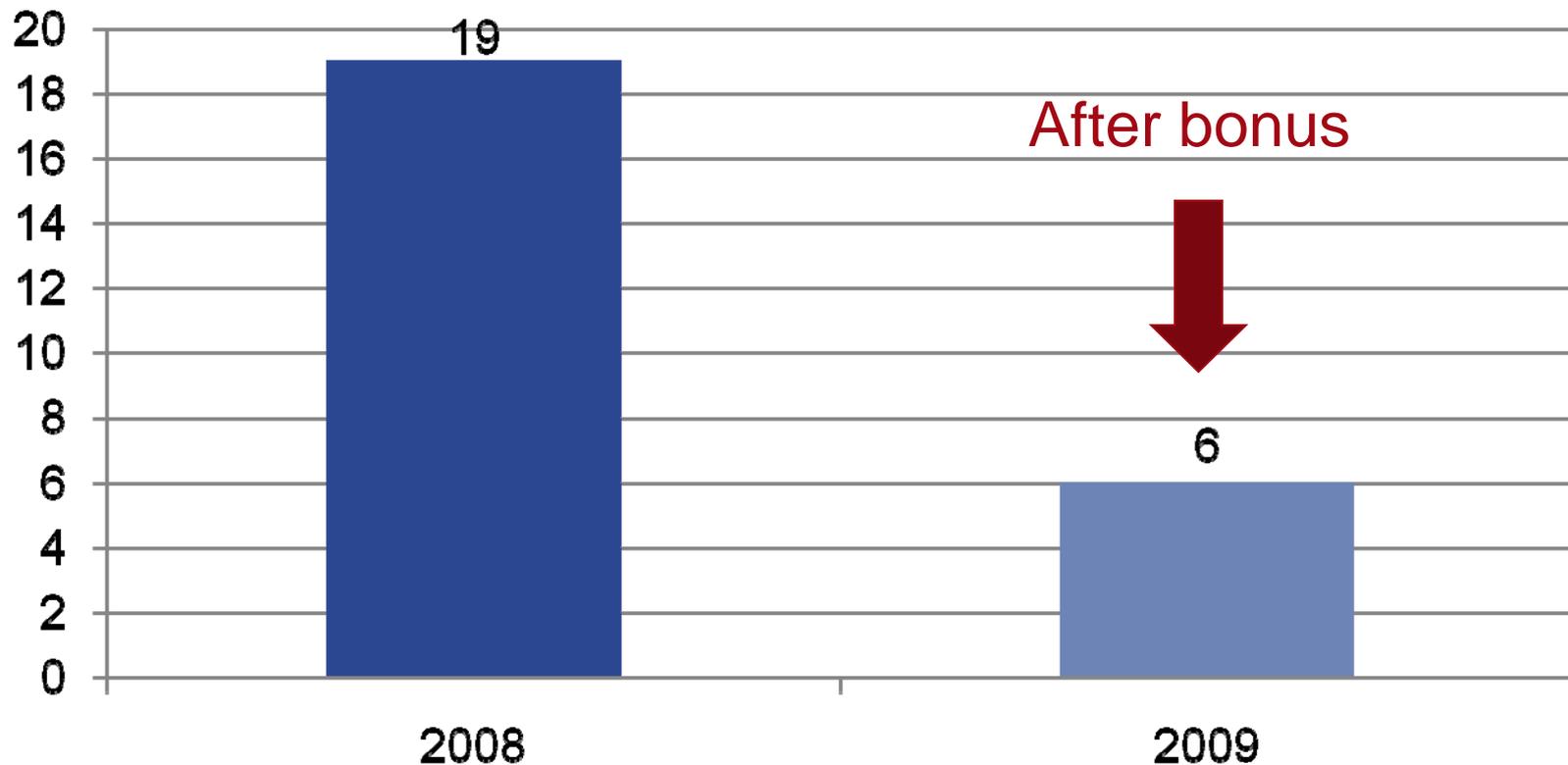


# Relationship between bonus and medical costs

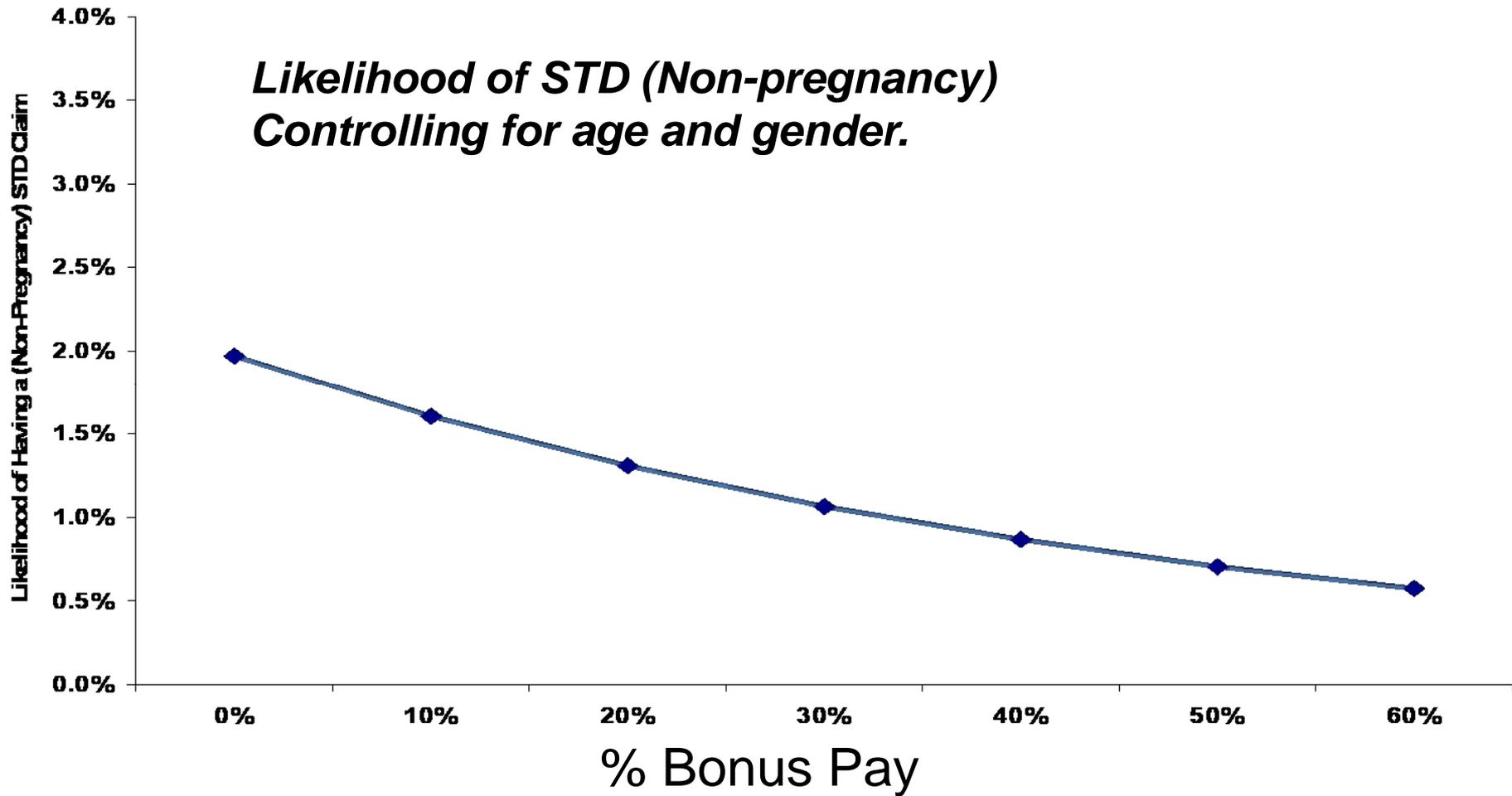


# Reduction in absences after implementing pay-for-performance

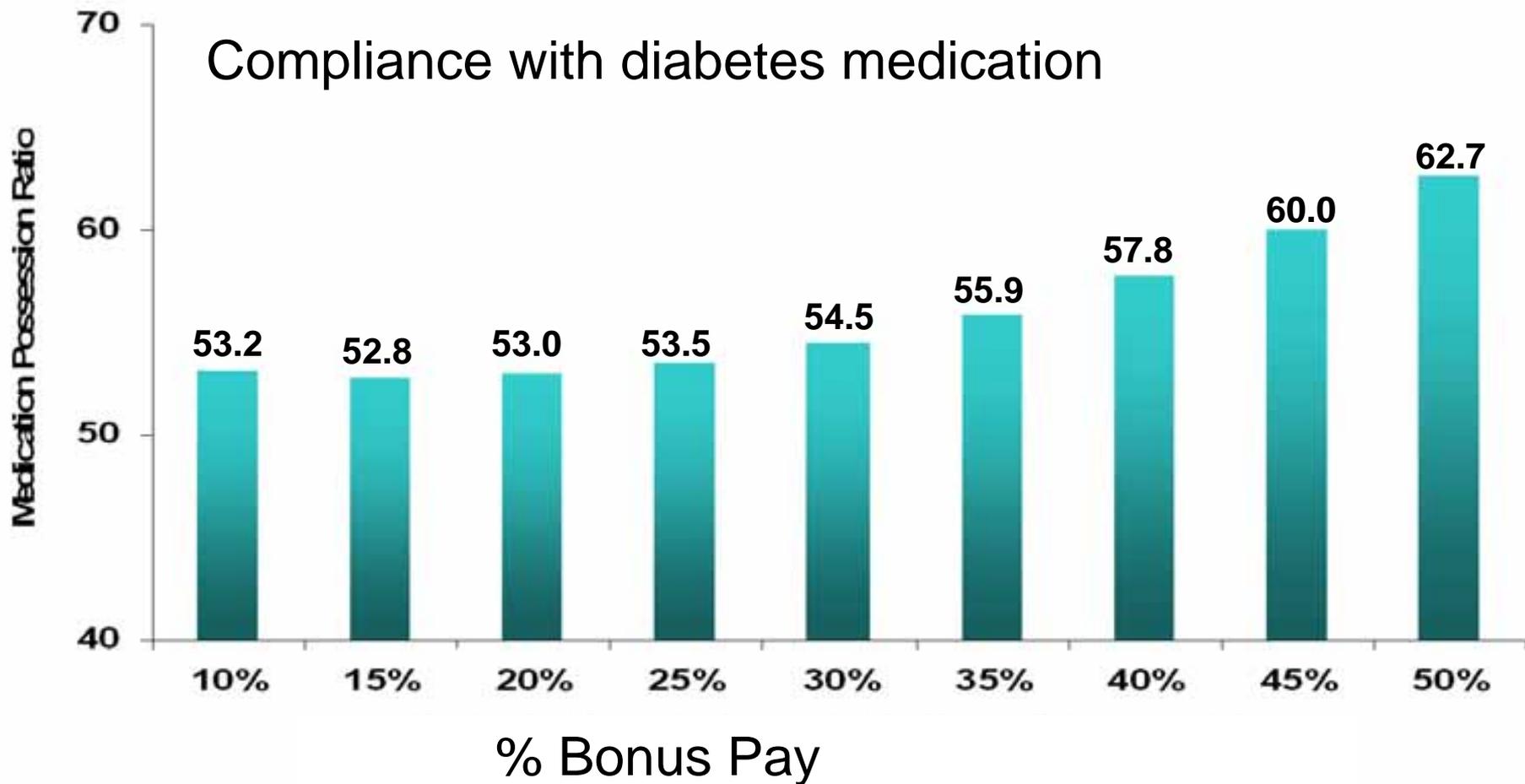
Average monthly absences in department



# Likelihood of STD by Percent of Variable Pay For Which Employee is Eligible

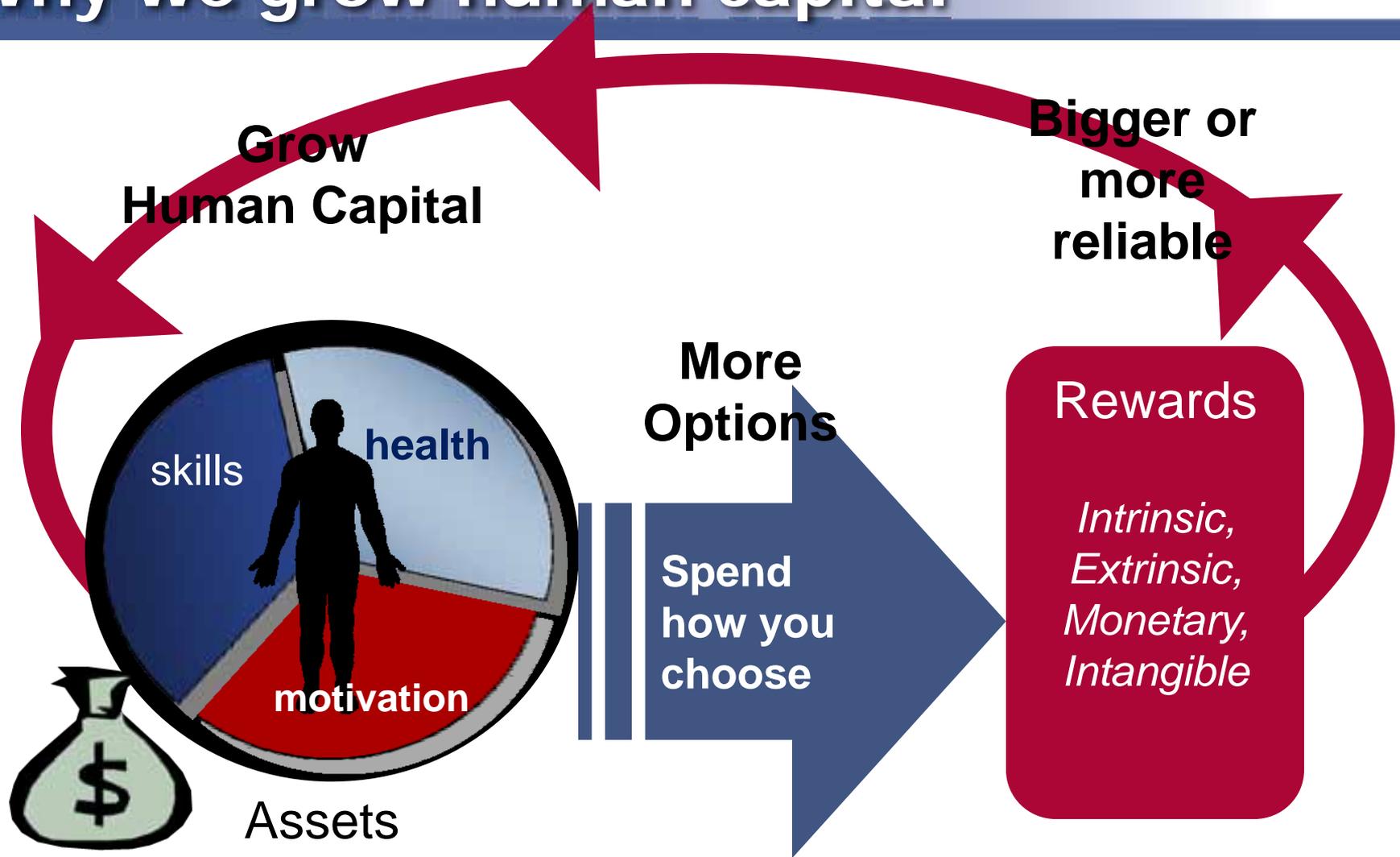


# Rewards encourage health protection



*Controlled for: age, gender, company policy.*

# Why we grow human capital

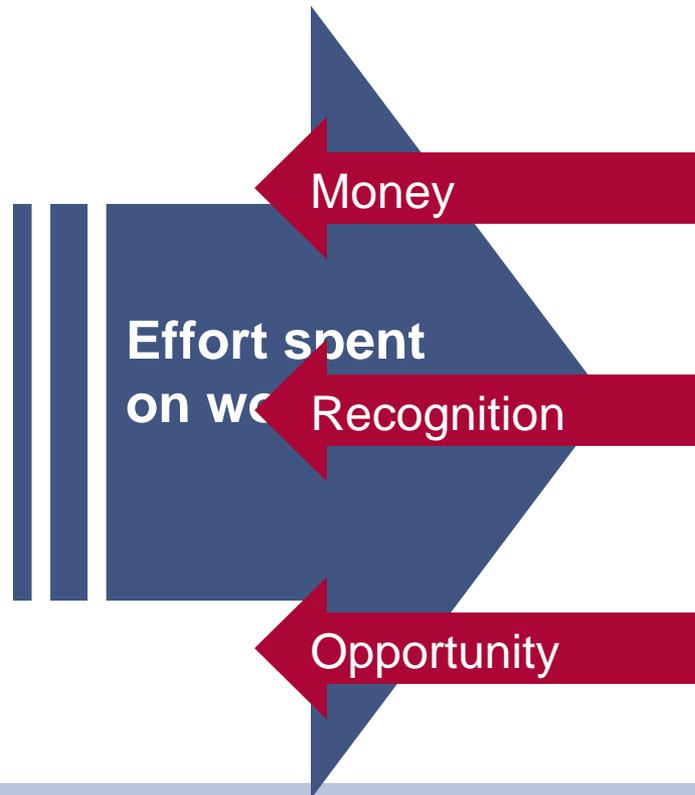
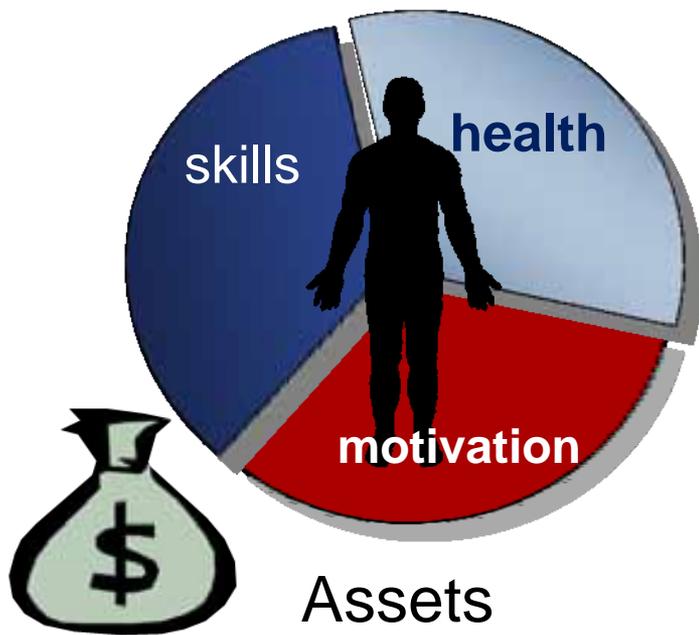


# Effort – Reward Imbalance

Human Capital

You Spend

To Get  
Something  
Useful or  
Satisfying



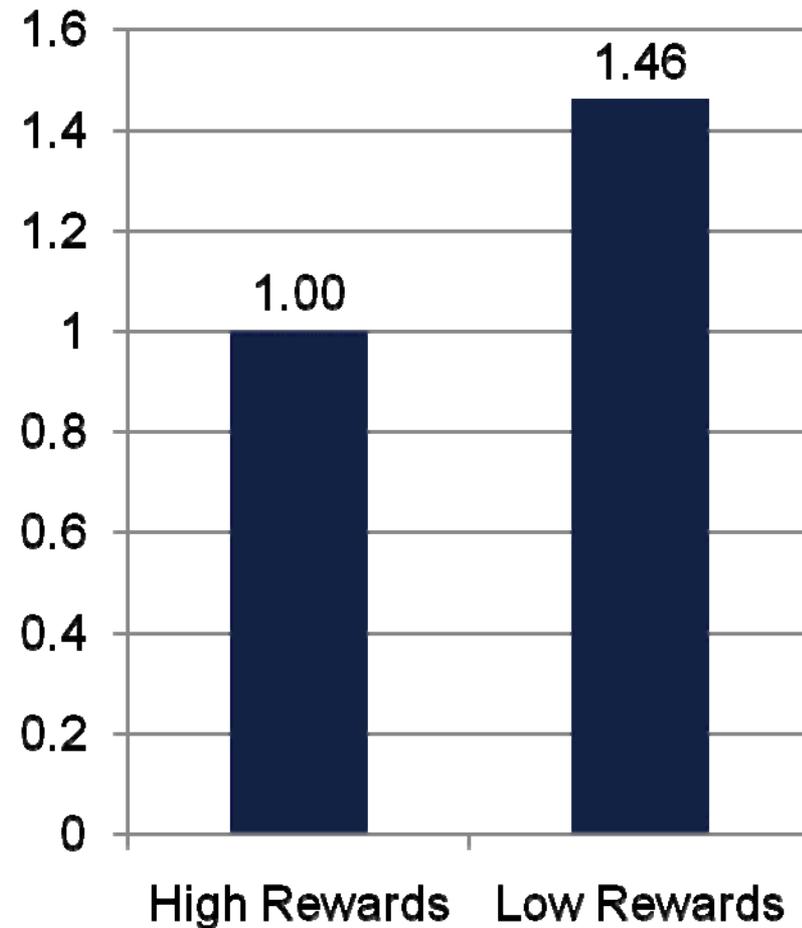
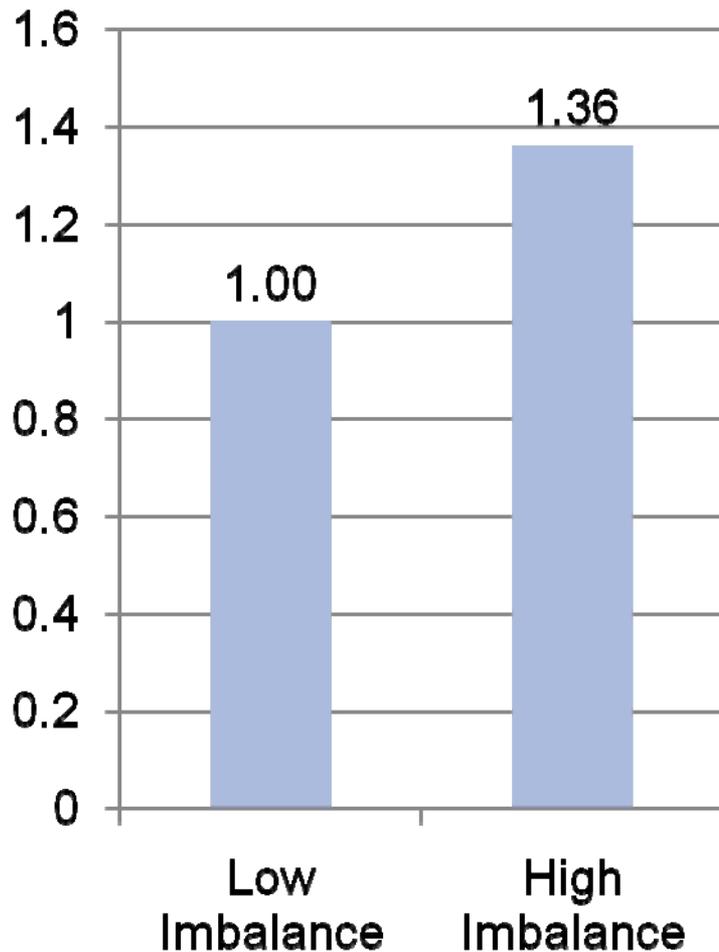
**Rewards**

What if rewards seem out of balance?

# Effort – Reward Imbalance

- High effort : Lower risk
- High reward: Lower risk
- High effort WITH LOW reward: Reverse
  
- Best workers quit.....

# Increased likelihood of having 3 or more health risks (inactivity, smoking, BMI, alcohol)



Results for men. Controlling for age, job type, marital status, SES.

Kouvonen A. et al. *BMC Public Health* 2006, 6:24 doi:10.1186/1471-2458-6-24

# Make Human Capital Matter

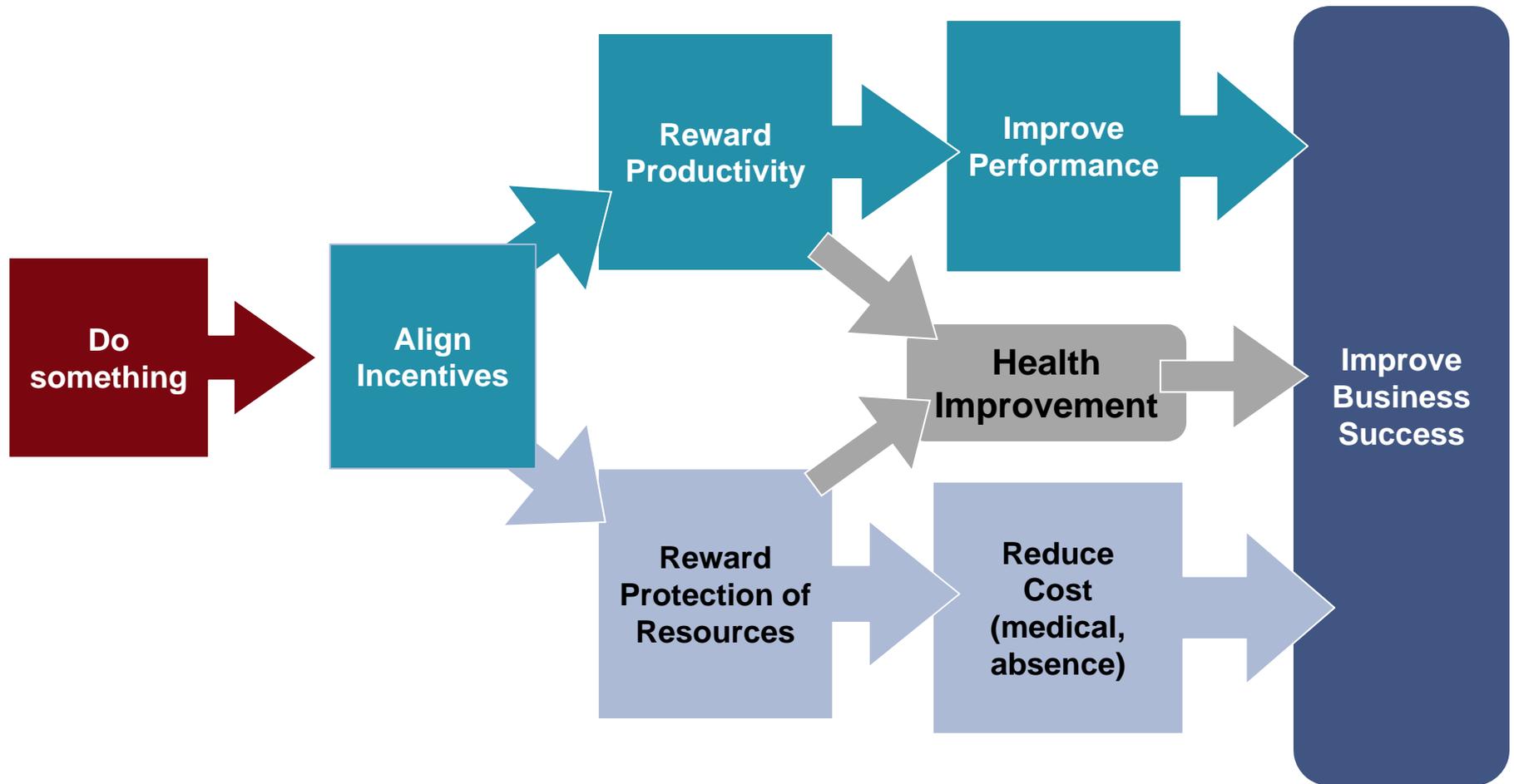
- Share Rewards:
  - Performance improves
  - Health matters more
  
- Share Responsibilities:
  - Employees become better stewards of resources
  - Consumerism matters more
  - Influence over decisions
  
- Promote Human Capital Growth:
  - Employee protect their assets and reinvest (health)

# Shared Responsibilities

<b>Shared Responsibilities</b>	<b>Receive a statement clearly identifying the dollar value of all investments/benefits the organization makes on their behalf.</b>	<b>Yes</b>
	<b>A PTO bank of time off, rather than separate sick leave</b>	<b>Yes</b>
	<b>Less than 100% of pay during Short-term disability</b>	<b>Yes</b>
	<b>A single high-deductible health plan, with the deductible at least \$1500</b>	<b>Yes</b>
	<b>An out-of-pocket maximum of \$3000 or higher</b>	<b>Yes</b>
	<b>Fewer than 31 days of paid time off per year</b>	<b>Yes</b>
	<b>Strong agreement by employees and managers to the following 2 questions:</b>	
	<b>At every level, employees make independent decisions about their work</b>	<b>Yes</b>
	<b>Employees are encouraged to give their ideas about how the company can do better</b>	<b>Yes</b>
	<b>Employer sponsors financial decision-making support</b>	<b>Yes</b>
<b>Employer sponsors CDHP and health decision-making support</b>	<b>Yes</b>	

# Health and business success

## Make health matter more



# The employment contract

Human Capital

Business Investments



**Performance**



**Rewards**

**We  
exchange  
work for pay**



Human Capital

?

benefit 1

benefit 2

benefit 3



**Performance**

Reward  
What?

**Rewards**

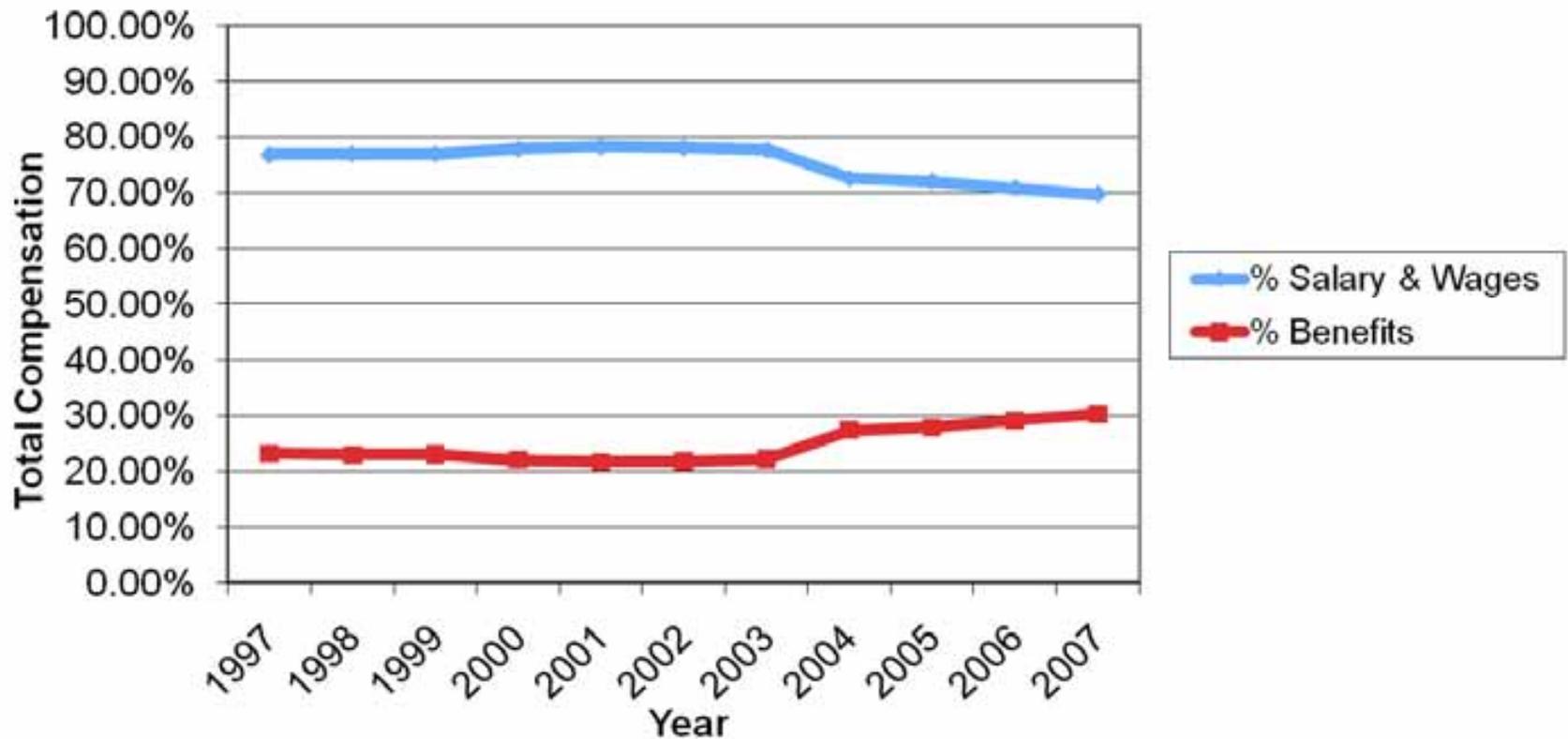
Business Investments



**When we  
substitute  
benefits for  
performance  
rewards**

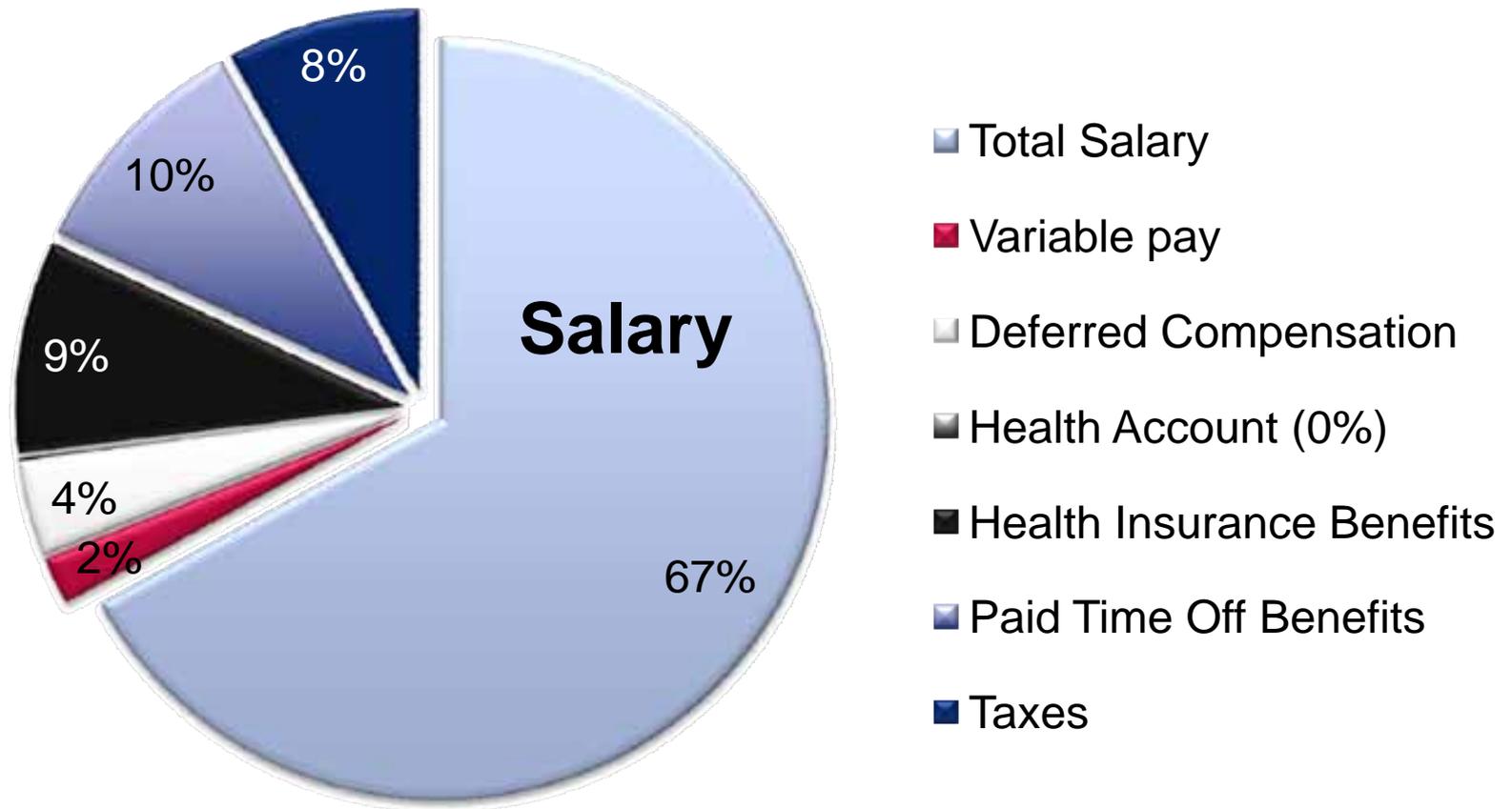
# The Tradeoff

## Salary & Benefits as Proportion of Total Compensation

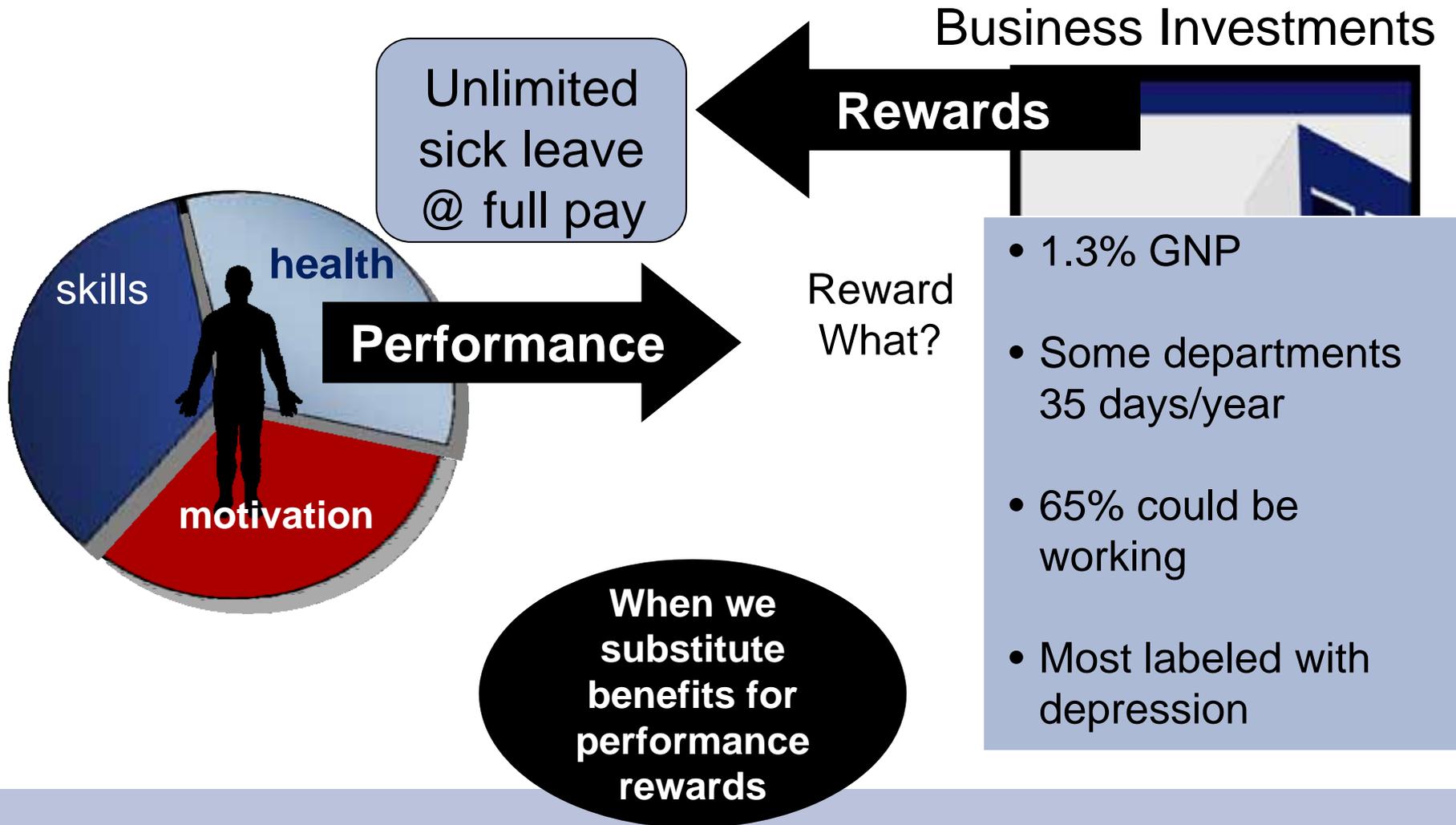


# Total Compensation Investments

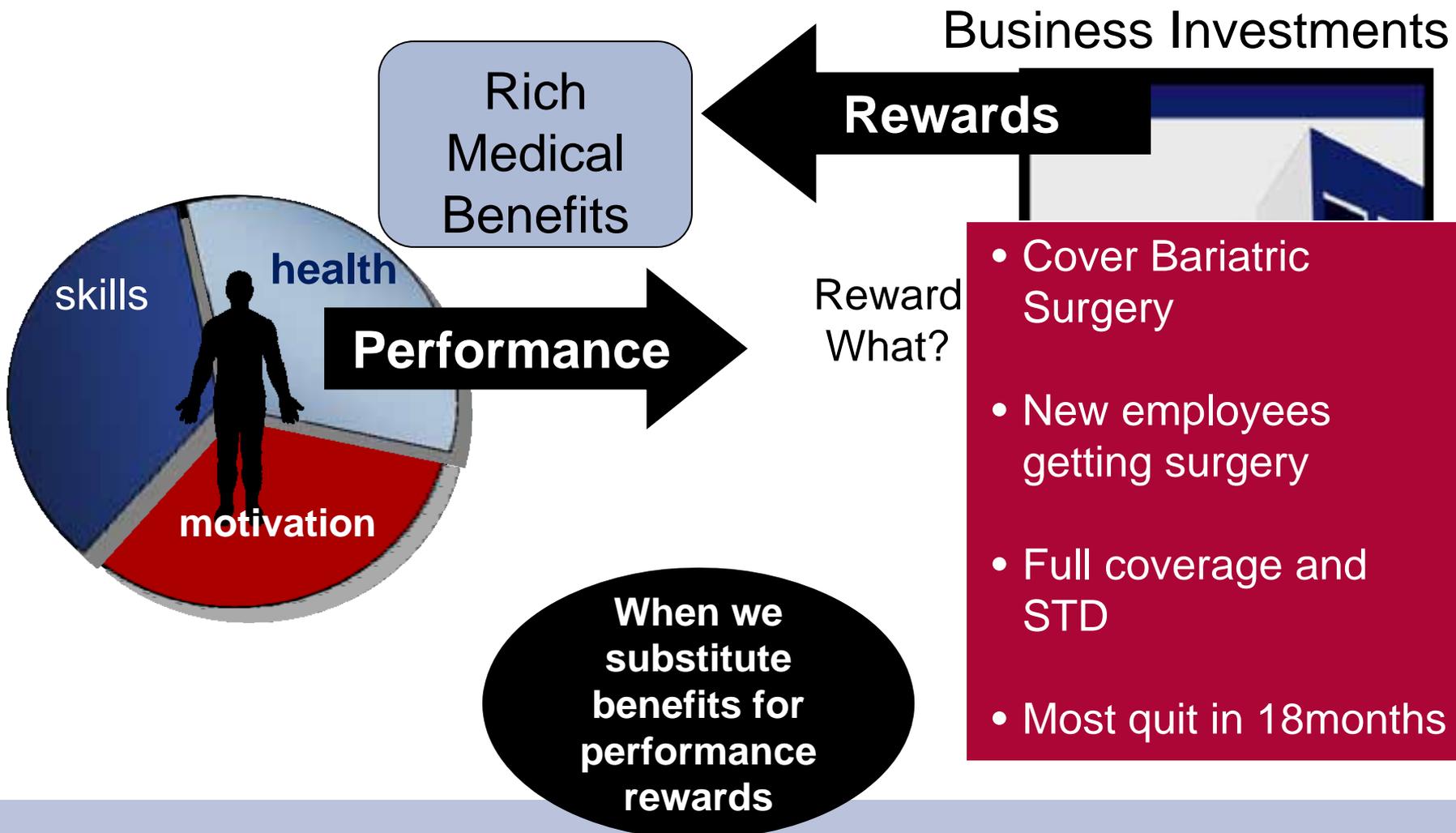
## Total Compensation



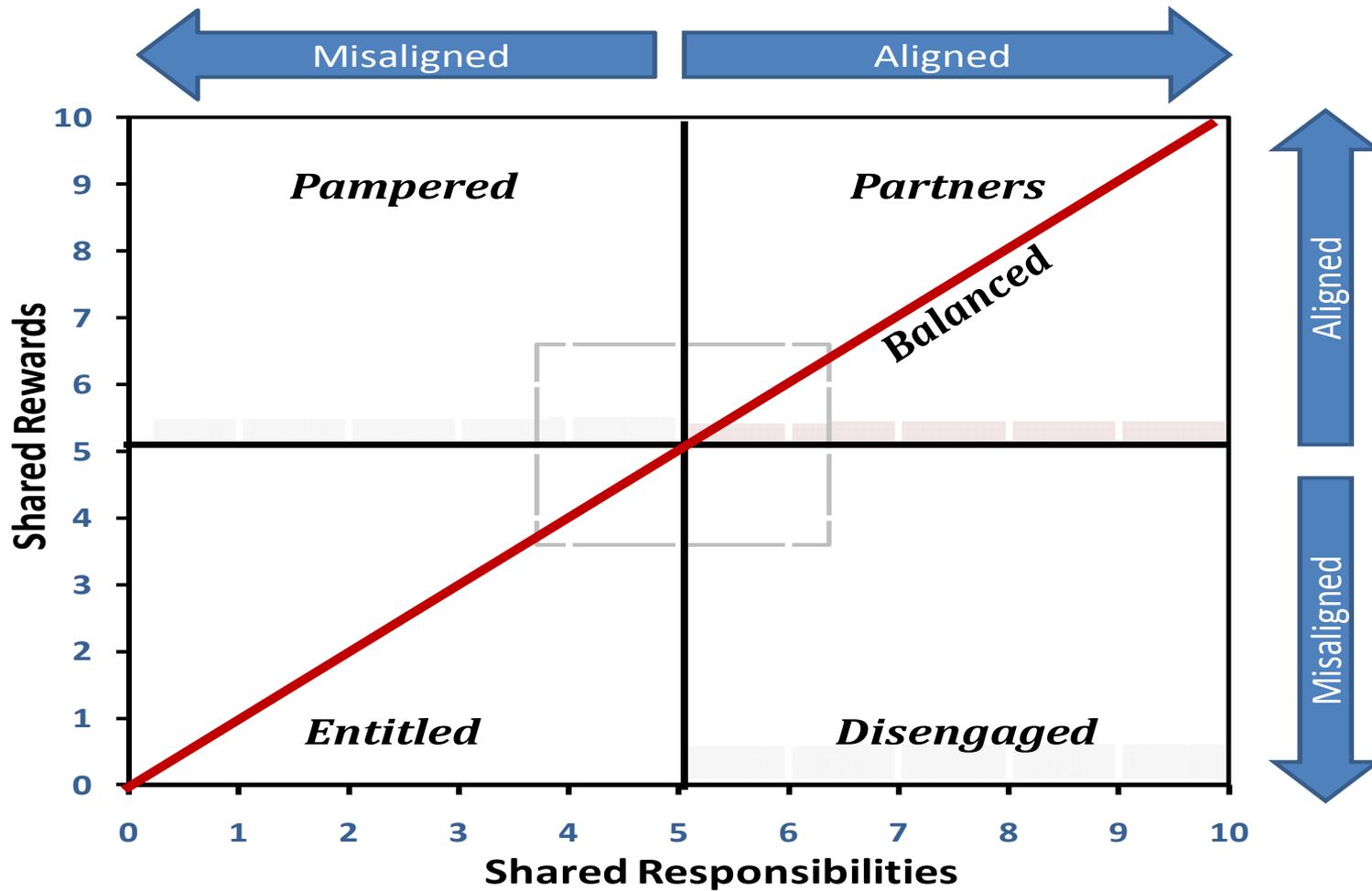
# Extreme incentives: Belgium



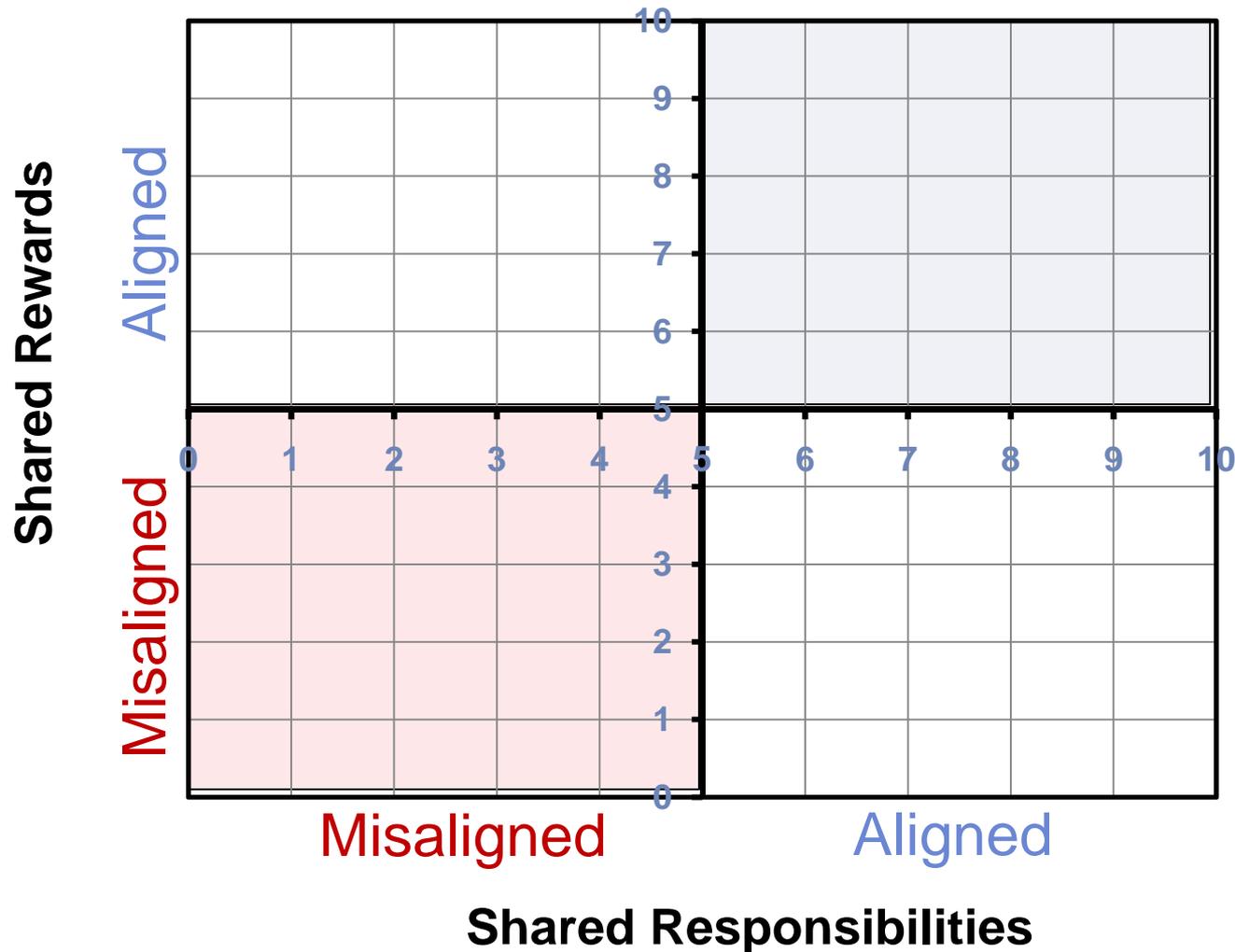
# Misaligned incentives: healthcare



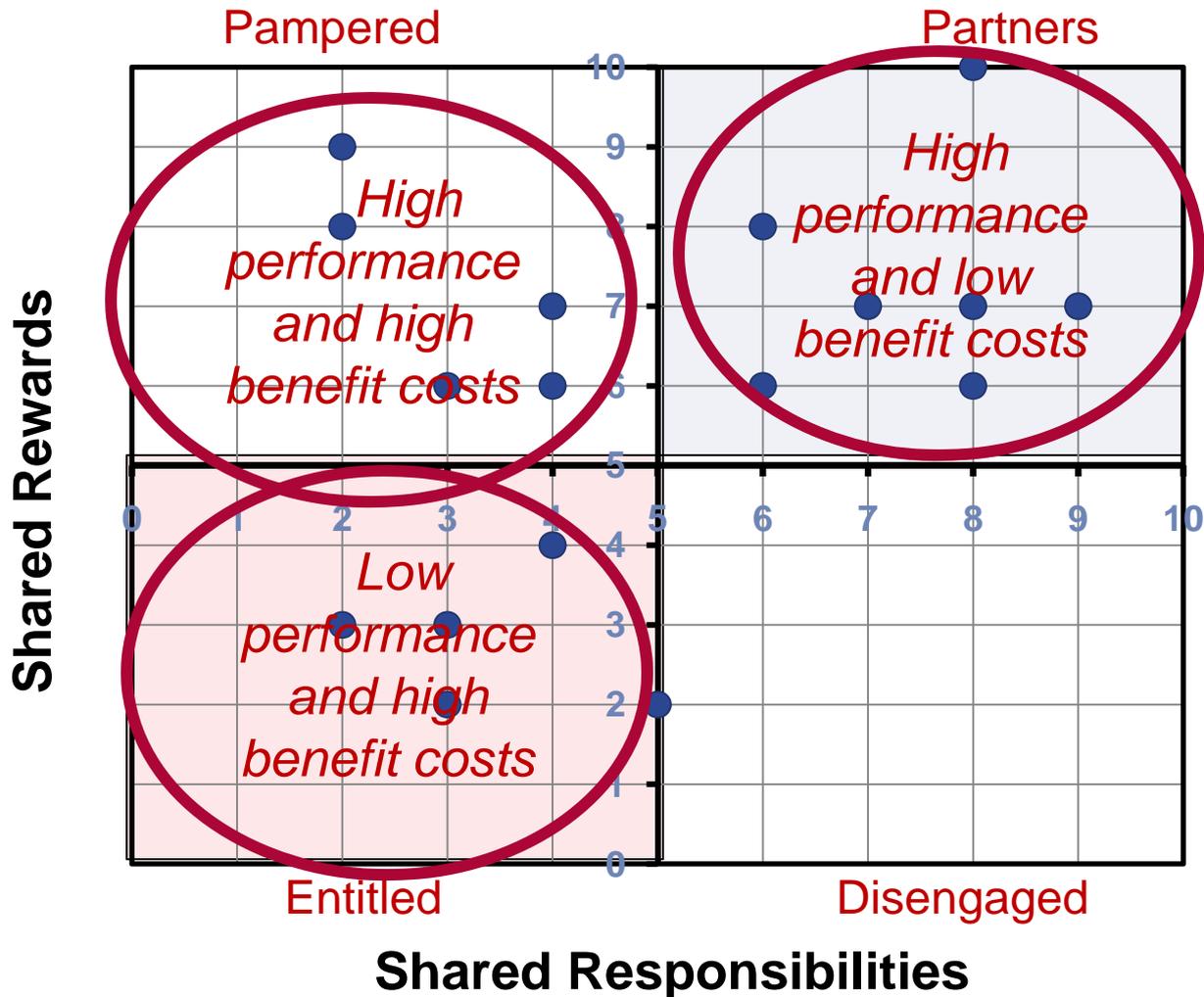
# Incentive Alignment Matrix



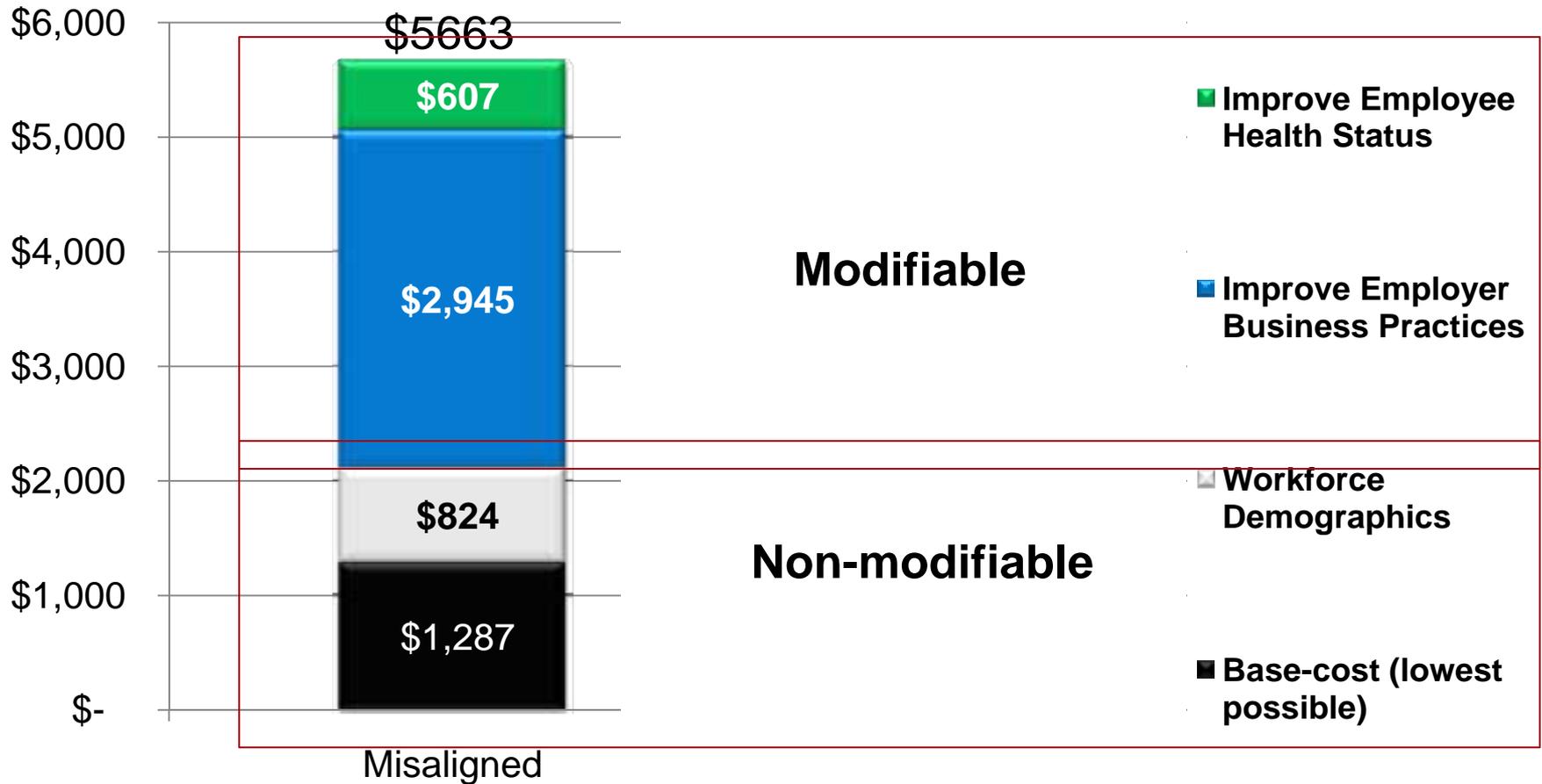
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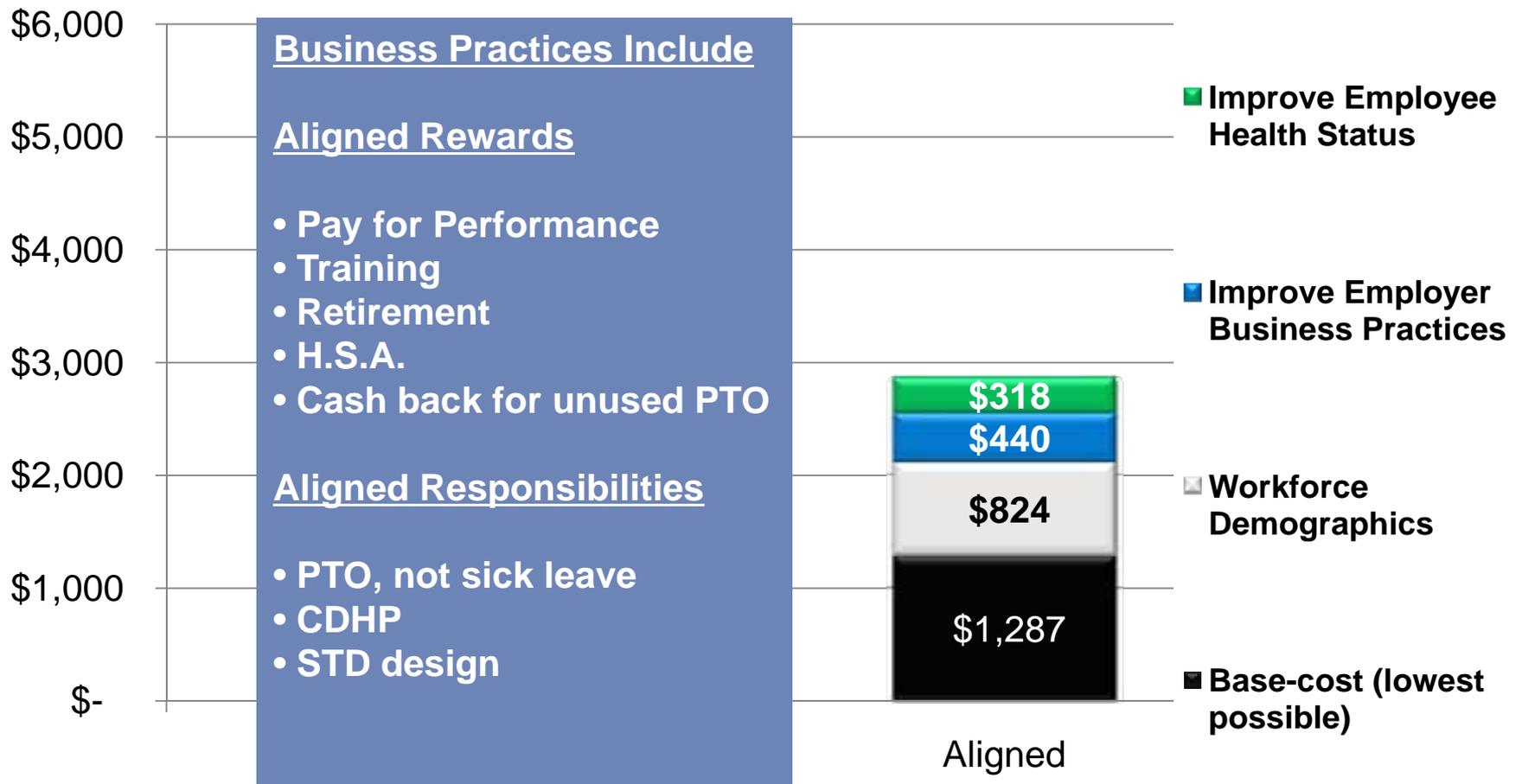
# Incentive Alignment Matrix



# Predicted medical and absence costs



# Predicted medical and absence costs

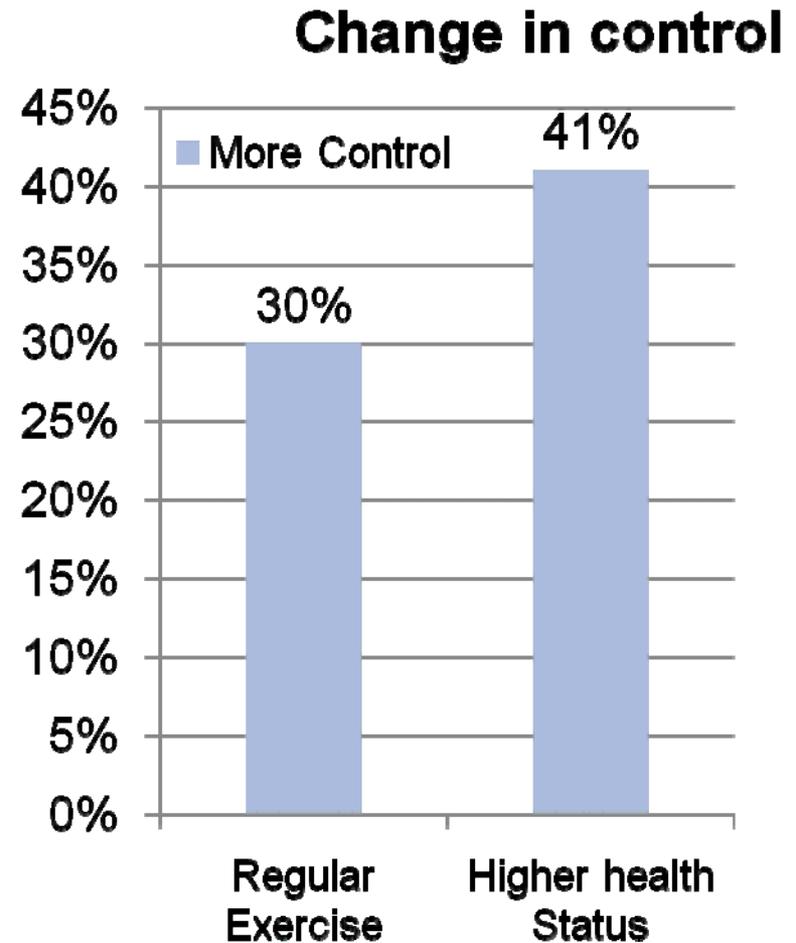


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# Job Control

- Associated with perceived and reported health outcomes
- 4-year change in job control
  - Risks improved compared to expected
  - Self-reported health improved

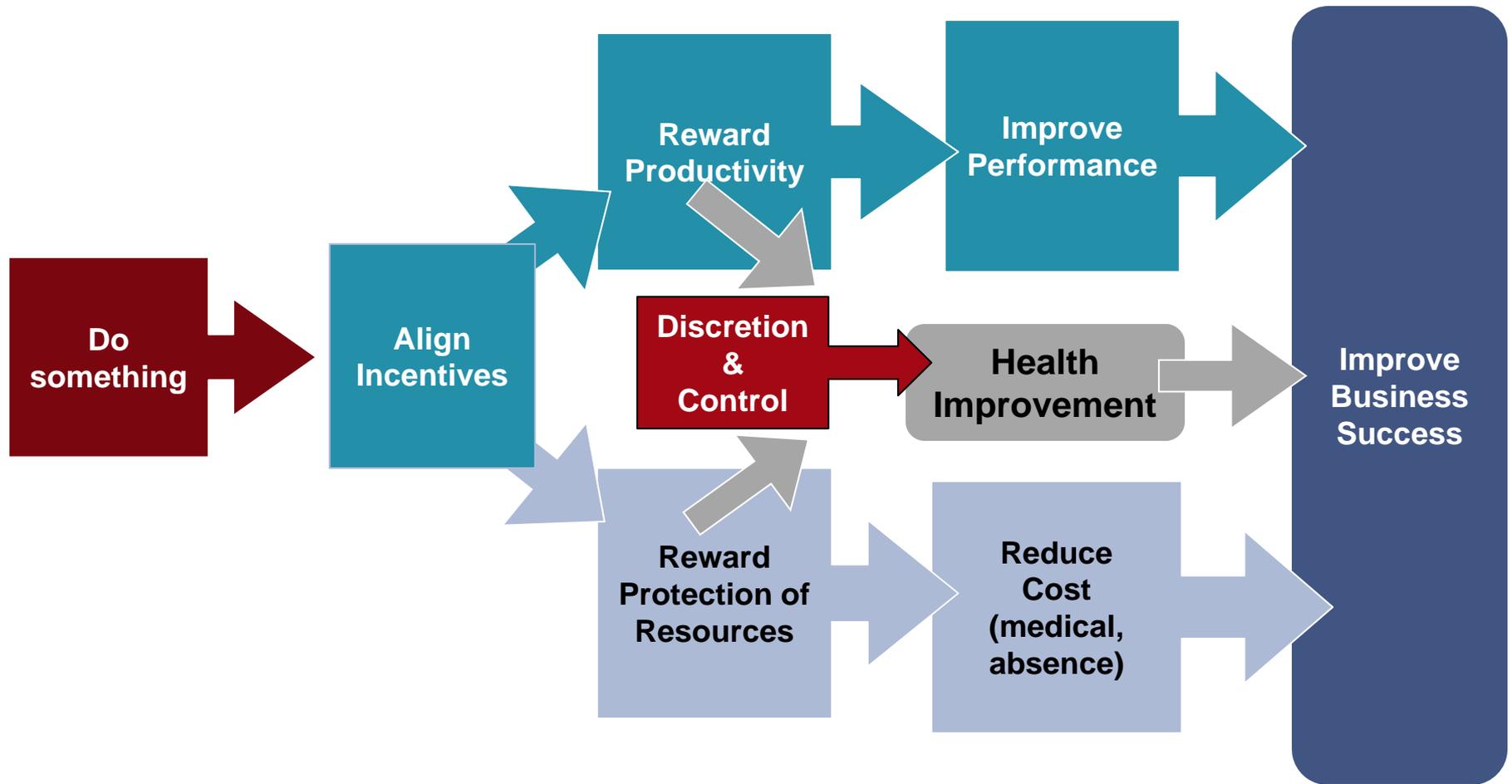


Controlling for age, gender, chronic illnesses, previous control, household income, previous health risks and other factors.

Smith P. et al. Psychosomatic Medicine 70:85–91 (2008)

# Health and business success

## Make health matter more



# Business.....

## DIRECT EXCHANGE

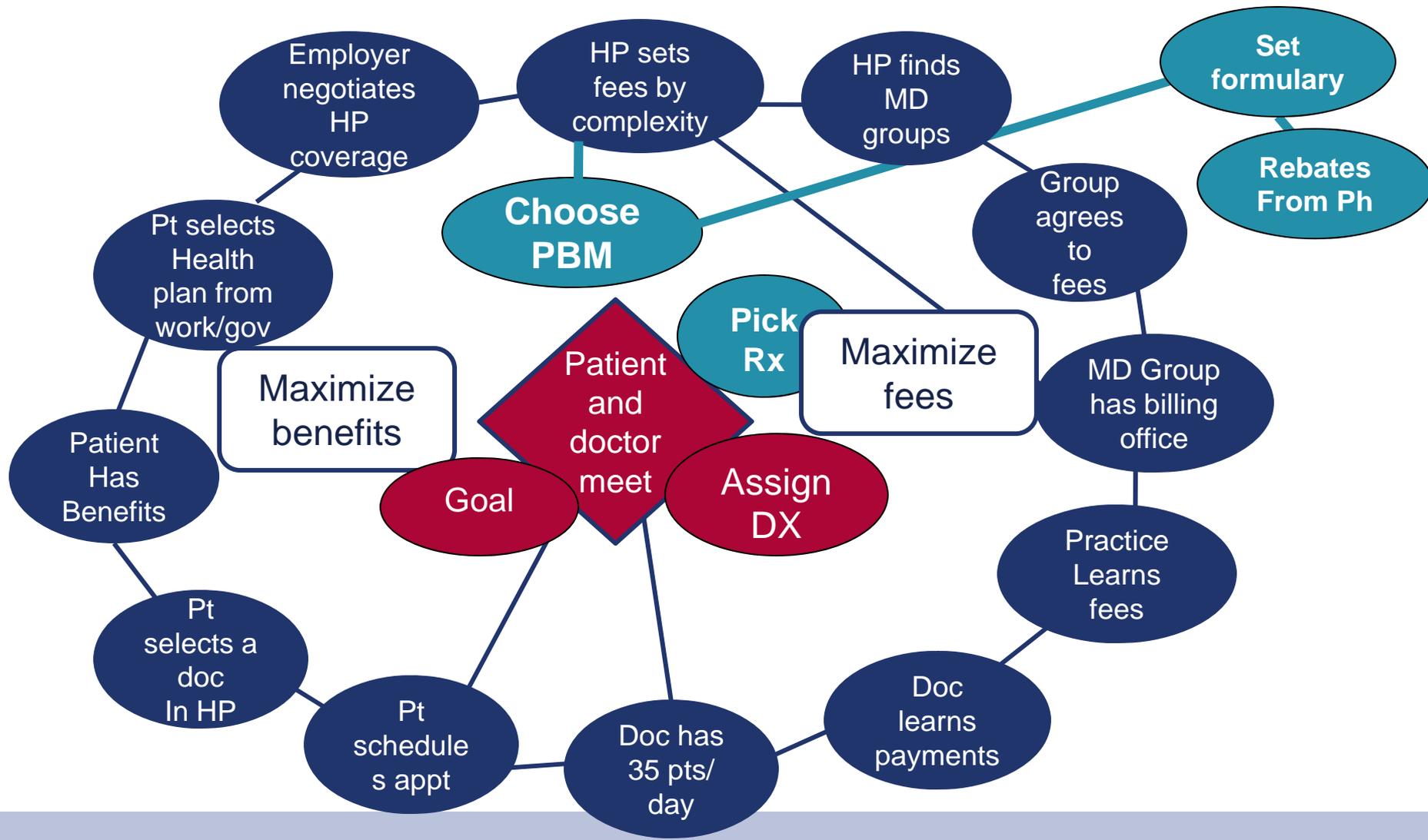


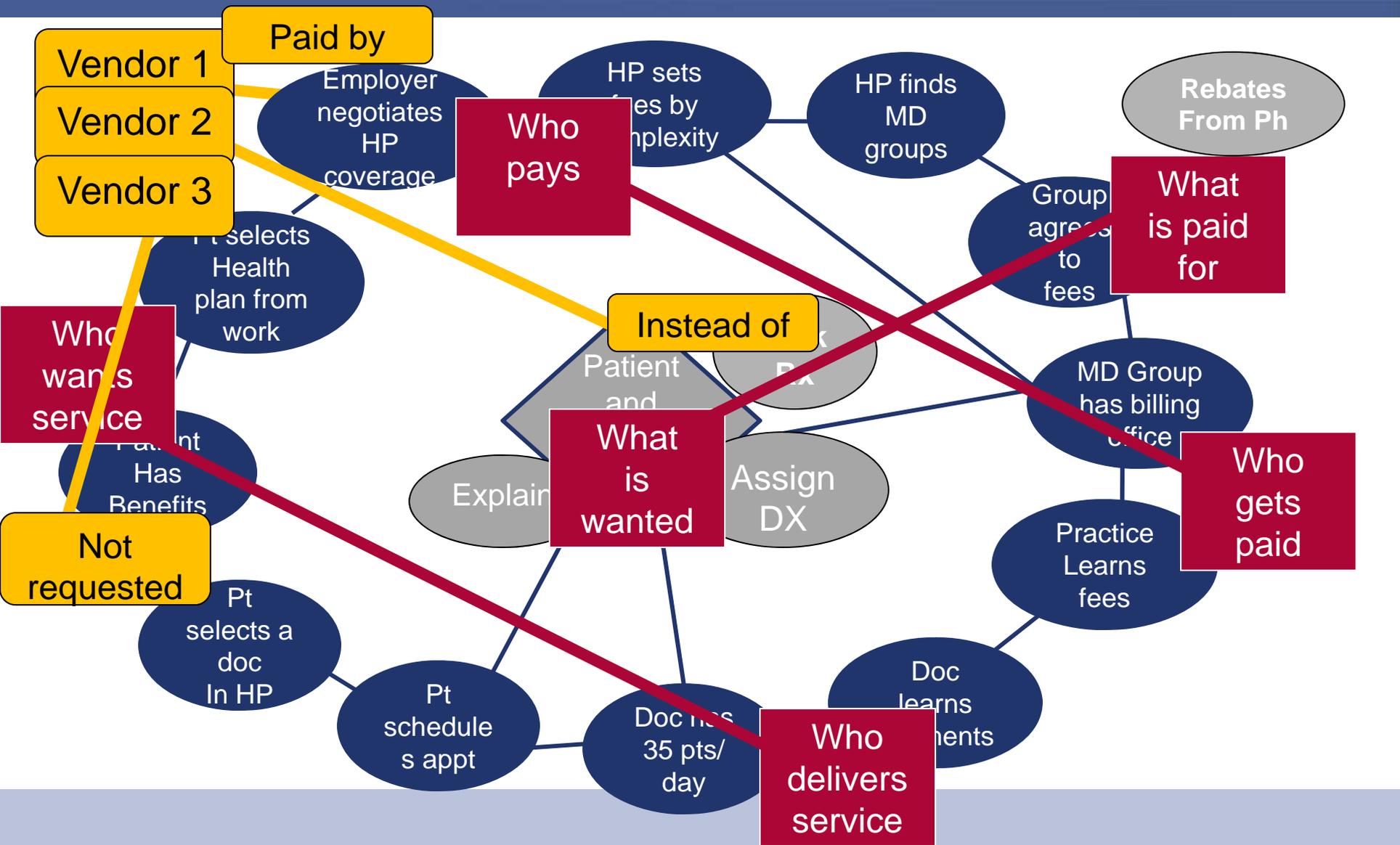
*Direct exchanges promote accessible information*

# Healthcare.....

## DIRECT EXCHANGE









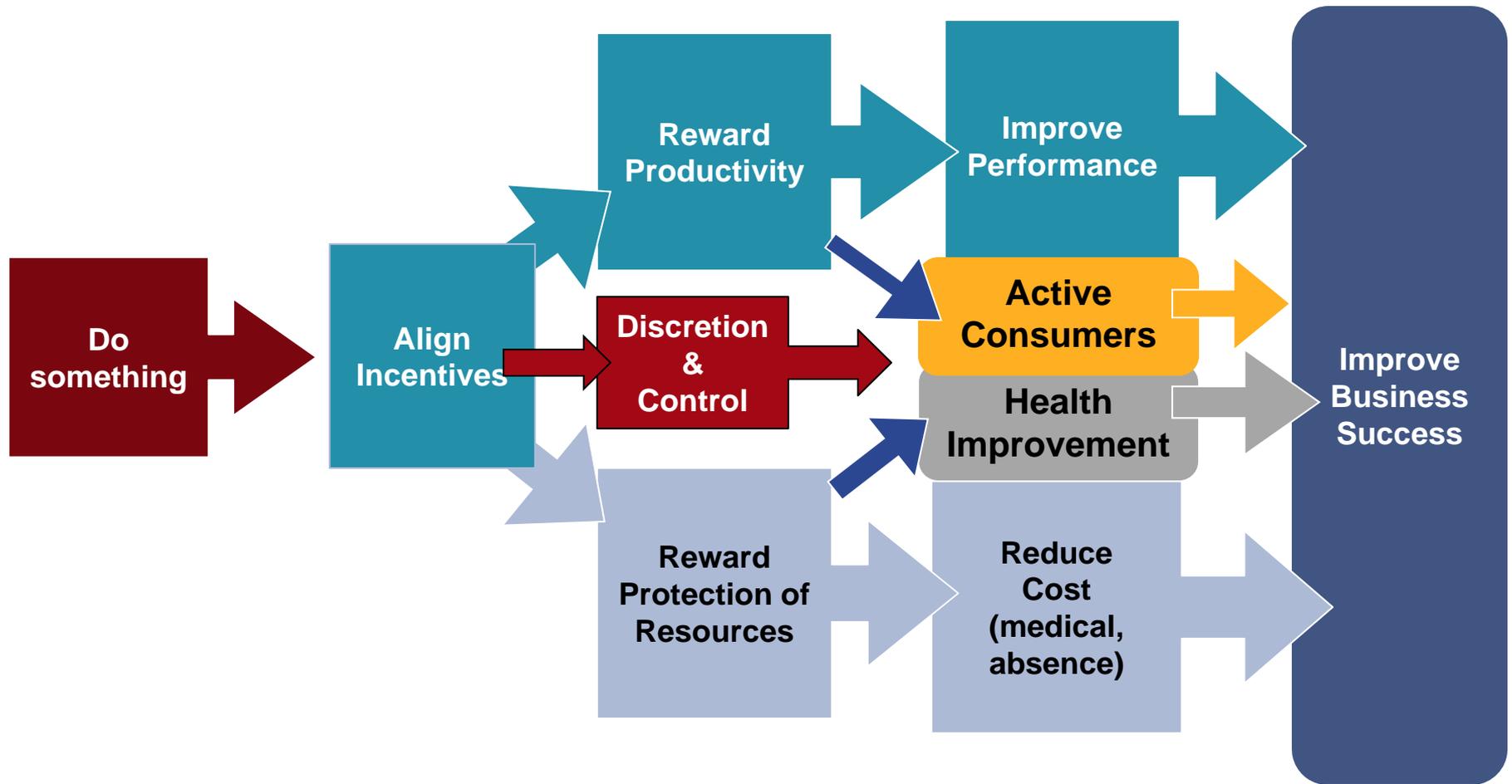
# Healthcare.....

## DIRECT EXCHANGE



*Direct exchanges promote accessible information*

# Health and business success





# What if we've got it backwards?

Reward

HEALTH

Want to pay  
More  
More  
More  
PTO cash back  
Health savings accounts



To improve

PERFORMANCE

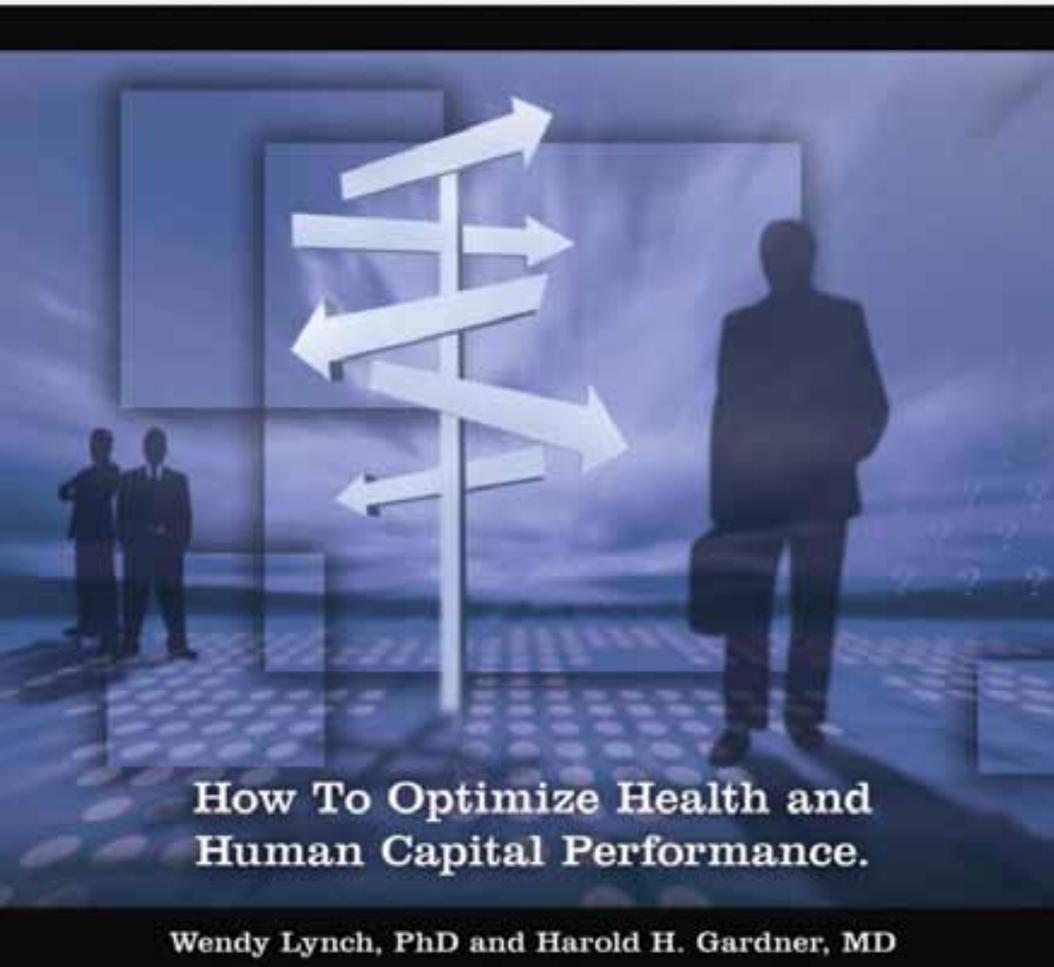
Health protection  
Health-related  
Consumerism  
Decision support  
Engagement

A close-up photograph of a hand in a dark suit jacket pulling a brass chain attached to a glowing white incandescent light bulb. The background is a warm, blurred orange and red gradient. The text "Of course you do!" is overlaid in white on the right side of the image.

Of course you do!

# ALIGNING

## Incentives, Information and Choice



Book at:

[www.hhcfoundation.org](http://www.hhcfoundation.org)

Blog at:

[www.hhcf.blogspot.com](http://www.hhcf.blogspot.com)