

# Human Capital, Personal Value and the Health-Wealth-Performance Portfolio

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**CENTER FOR  
HEALTH VALUE  
INNOVATION**  
INFORMATION EXCHANGE FOR  
VALUE-BASED DESIGN

**Human Capital, Personal Value, and the Health-Wealth-Performance Portfolio©**  
*Build Human Capital by helping employees become accountable for their health, wealth, and performance portfolio.*

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## **The Move to Value**

Until very recently, employers were struggling to rationalize their costly investments in employee health, which generally were performing at a mediocre level – if they could be measured at all. They were negotiating prices with provider networks, and raising employee deductibles. In general, they were managing health care costs, not health, or even chronic disease. They were launching one wellness program after another, and multiple disease management programs, but their efforts were counterproductive: workforces weren't getting demonstrably any healthier.

Employers began to realize the problem was that their health-related investments operated in silos. Companies were offering an array of generic, uncoordinated services and programs. And their focus on the costs of the services was proving ineffective.

That insight drove leading companies to personalize and integrate their programs, starting with assessments that identified the health risks of individual employees. Once their risks were identified, employees were coached into the wellness and disease management programs that they needed to stay healthy or to manage their chronic conditions.

And in a transformational shift away from focusing on the *cost* of health care services, companies began to consider the *value* of strategies that kept employees out of the hospital and productively at work. As a result, employers began removing barriers to access, using incentives for care selection, and offering certain medications and supporting services free to employees who agreed to participate in the disease management programs they needed to maintain their health and productivity. Some began other incentives, or even disincentives, to get employees into appropriate programs.

That was a great beginning. But we believe it's time to push the boundaries into a larger value-based portfolio that engages all of the business segments (finance, human resources, operations, and more) into building the most important asset: its Human Capital.

## Optimizing Value Across All Areas of Investment in Human Capital

Especially in today's economy, employees are the final differentiator enabling the success of each employer's business strategies. High-performing companies understand the linkage between business strategy, people strategies and the employee investment strategies needed to support both. The successful people strategy can be the critical differentiator for the leading companies, no matter what industry.

Economic headwinds are forcing all employers to better understand these linkages critical to sustainable success. If a company's shareholder value is tied to employees as the final differentiator, then employees are viewed as assets for future investments instead of costs to be managed. Employees become the Human Capital of the organization.

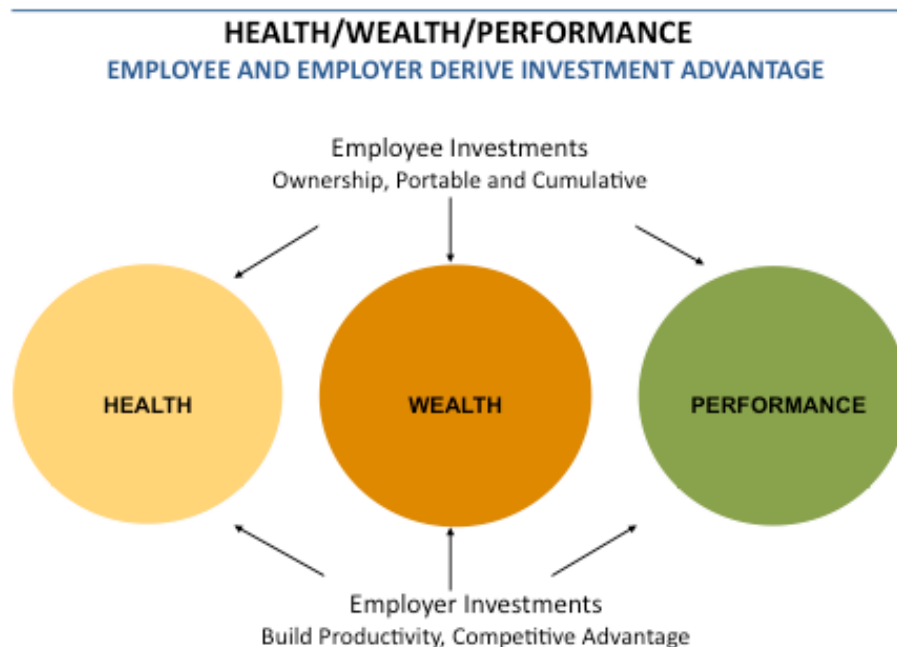


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Alignment of business, people and reward strategies requires integration of work across business Operations and the Finance and Human Resource functions. Business Operations and Finance complete annual business plans in partnership with Human Resources and all of these functions consider the people strategy and reward implications required for successful execution.

Human Resources is responsible for the people and reward strategies. Talent management and workforce planning ensure the right people with the right skills will be available at the right time to support the business plan.

The rewards employers invest annually in behalf of employees typically fall into the areas of employee compensation, benefits, training and perquisites. Put simply, employers invest in health, wealth and performance of their Human Capital. This must be viewed in the same light as any other capital investment.



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Instead of employers simply challenging the many investments they have made over the last 10 years, we suggest investing in resources to manage across all internal silos of health, wealth and performance. Company leaders need to envision their investments more broadly, it's not enough to think of managing the benefits spend down to the penny. They must take into account all the areas of investment made in their people. Decisions in one area are connected to outcomes in the others.

Each year, employers invest 10%, 15%, 20% or a higher percentage of annual revenue in their people. Unfortunately, most employers do not track, measure or work to optimize the important annual investment into the health, wealth and performance of their employees. Linked metrics at the population level are essential.

Compared with other areas of the company, HR often has minimal resources to really manage these investments. Additionally, business operations, finance and HR may not be communicating well, using defined processes, or even have the data to scientifically make these important decisions determining future business success. If available at all, the data is frequently so siloed, that linkage is difficult or impossible.

## **Value-Based Decisions Start with Data (And Cannot Really Be Made Without Meaningful Data)**

Most benefit teams who have invested in a data warehouse have not considered the advantages of a more holistic view of their people by including HR data that incorporates compensation, training and development. Data warehouses for human resource costs and consumption do contain a lot of information—they contain mostly health information—but this data does not relate to the total investments in performance, nor is it “actionable”. Rarely do companies know what they invest annually in their employees’ performance. Health and performance investments frequently “pay off” in multiple domains. Few companies can really fully track this.

Because we don’t have that information, when we face an economic headwind some of the things that get eliminated involve training and performance areas. But if employers are strategically managing those investments the same way they track classic capital, or even IT investments, maybe training is not what should be cut, because it is an important investment in Human Capital. Employee engagement is a top priority for employers, and if training and total performance enhance that engagement, employers should be slow to make cuts in that area.

When data is lacking, decisions on spending or cutting result in poorer ROI (return on investment) for investments for employers and lower value of investment (VOI) as perceived by employees.

A holistic approach to the use of data will drive a broader range of questions and potential solutions that, in turn, will drive real value to the employer and the employee. For instance:

1. Engagement. Asking the question of “who is or is not engaged in personal success and corporate success?” will drive the questions of how to engage, what interests will engage those who are not engaged, and how will those interests drive the success of the company?
2. Support. Are you asking the right questions of your vendors and your consultants? If your questions center on costs alone, then your answers will be cost-driven, which may, in fact, not deliver the results you were seeking. You may make cost cuts in benefits that will actually drive the unscheduled absences you are most seeking to curb....and these, in turn, will drive your total expenses up.
3. Future planning. You may be seeking advice on the kinds of training programs that will fuel your productivity. However, if your questions are centered only on the costs of the programs, you may miss the opportunity to see the asset you are building that could influence other business segments. As an example, training someone on improved safety may actually yield an expansion of new safety recommendations that decrease the disability days AND the expanded workforce that could be hired due to the reduction in unscheduled absences.

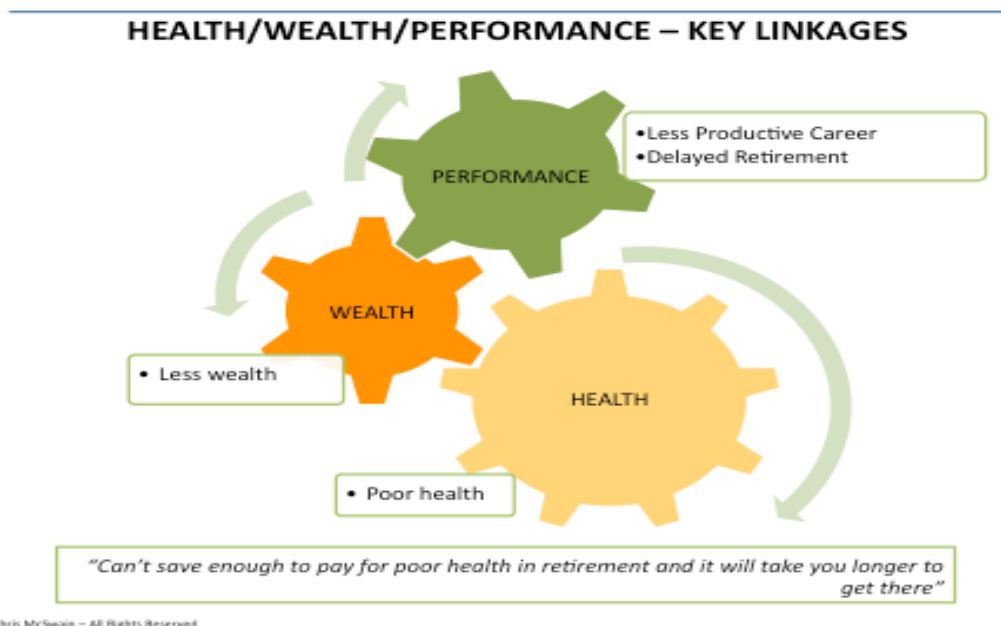
## Personal Value is Each Employee's "Health-Wealth-Performance Portfolio"©

Each employee owns his or her own health, wealth and performance. Health, wealth and performance are assets in which both the employer and each employee make investments annually, and both the employee and the employer benefit from this investment. For the employee, the result is portable, transferrable skills, talent, and assets; for the employer, it's increased productivity and applied resources.

We believe that this expanded and shared accountability is required to create alignment that will drive improved outcomes for both the company and the individual. This is the foundation for future success. This is how employers can help employees improve *their* accountability for managing their health, wealth and performance portfolio.

For employees, the sum of their health, wealth and performance assets reflects their personal value. In other words, Health + Wealth + Performance = Personal Value (PV). For employers, the sum of all employees' PV represents the Human Capital of the enterprise. Higher levels of personal accountability for these PV assets drive higher employee engagement in the employer's programs invested to improve the Human Capital of the enterprise.

Health, wealth and performance are all three linked – decisions in one area often impact the other two. Those assets – like gears – drive each other, with both employers and employees having a part and an interest in their management. For example, an employee can't save enough to pay for poor health in retirement. If an employee chooses to not manage his or her health well, and does not manage the investments that the employer makes into his or her health, then the costs of poor health will escalate, driving lowered wealth and lower performance. It's as though a



tooth in the gear is missing—the friction escalates and the machine runs poorly. So goes the Personal Value if the health-wealth-performance portfolio is not well-tended.

Guiding an employee to take advantage of all of the investment opportunities offered, from health savings to education to wealth management, can drive up the worth of the employee's health-wealth-performance portfolio. Conversely, poor health leads to diminished productivity, which then impacts performance potential, resulting in less wealth over time. Therefore, the investments or levers that improve health also directly impact wealth and performance.

Employers and employees alike must broaden their vision' they must literally use a "wide-angle lens" to see more holistically all the opportunities for improvement, and chances for inefficiencies, that have always been there. Employers get poor ROI when employees do not understand the value of the investments their employers make in them every year. Employees get poor VOI if they do not participate in the offerings that are most relevant to them.

Employers must use data to focus their limited resources in ways that provide the greatest value for employees without compromising quality or service. For example, there are employees who don't understand the value of the Flexible Spending Account [FSA] or Health Savings Account [HSA]. They may not understand that decisions in the health area can affect the wealth of their portfolio. If they save \$500 a year because they're using the FSA or HSA, they are building wealth, yet many employees do not understand this.

Progressive employers are finding ways to produce meaningful and actionable information from data so employees can optimize their personal value. These employers utilize conjoint analysis, employee engagement surveys or other means to understand what rewards are most valued by employees across each stage of their life cycle. This is important because a dollar of investment by employers may not return or be worth a dollar of value to employees.

The reality is that the needs of a 25-year old are different than a 55-year old employee—employers must be creative in making rewards available so each employee can increase the personal value in the ways that make the most sense for each of them. Improved alignment of rewards will increase the success of both people and business strategies referenced earlier.

### **Personalization Provides Opportunity to Improve ROI of Human Capital Investments**

To begin implementing this holistic approach, employers need to strategically take a step back and ask, "What is the ROI that I'm getting for investments in our Human Capital?" The answer will depend on how skillfully an employer ensures that

employees can make the right choices based on each person's individual needs and goals.

Employers can make immediate improvements in the ROI of these significant capital investments by simply helping employees better understand how to use what is available—a move toward personalization of rewards. Through personalization, employers can manage their Human Capital assets while increasing the value perceived by employees—without adding to costs.



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Personalization provides the opportunity to meet the present and changing needs of employees through their employment. It strengthens the employer's value proposition by helping employees increase their PV with options that make sense for them.

Increased PV results in improved engagement, productivity and retention—all key measures for employers, and all lead to the Total Rewards strategy of competitive organizations. Personalization of health, wealth and performance investments gives employers a strategy to differentiate their organization in the marketplace through their most important—their Human Capital.

Personalization may work as simply as providing core offerings in the three areas of health, wealth and performance. Beyond these core offerings, an employee can choose a specific number of options covering these three areas. What the employee chooses is determined by the individual's needs relative to the needs of their health-wealth-performance portfolio. By tailoring the selections, each employee can choose the offerings that increase the PV, while the employer may spend less or at least remain cost-neutral because benefits are used appropriately and do not go un-used.

## Final Thoughts on Human Capital, Personal Value and the Health-Wealth-Performance Portfolio©

Employers have a responsibility to the shareholders and the stakeholders, including the employees, to drive the value of every dollar spent on enterprise improvement, particularly the dollars spent on the Human Capital asset. Employees have the same responsibility, making decisions that drive their Personal Value and enhance the economic viability of the enterprise.

The investments companies make in their employees become part of their *Personal Value* and the Human Capital of the enterprise. If employees manage that portfolio of assets well, the gears will mesh and drive increased *Personal Value*, and they will understand that their investments in performance, wealth and even health are transferrable assets that will accompany them from job to job within or outside their current employer.

The health and economic challenge of today is forcing every company, large and small, public and private, to examine the dollars spent on investment, development and production. We encourage each of the decision-makers, from CEO to CFO to HR, to ask, ***“What are we doing to manage our population’s Human Capital as we are managing any sort of investment that we make in our company?”*** And we encourage every employee to ask, ***“What am I doing to maximize the value of my health-wealth-performance portfolio using the investments that my employer is offering?”***

The timing is perfect to learn a more effective approach to managing and increasing Human Capital value.