



Walking the Talk:

Bridging the Gap to Human Capital Management

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What is Human Capital Management?

Human Capital Management (HCM) is a comprehensive, information-driven approach to managing employer investments in employee health as an important aspect of human capital (1). The goal of HCM is to improve business results by optimizing the recruitment, retention and performance of human capital assets.

Time of Transition

We are in a time of transition and change with respect to Human Capital Management. On the one hand, HCM is emerging as a business-relevant issue at all levels of today's organizations. Consider that:

- In recent surveys, senior executives identified human capital as a critical element in achieving competitive advantage, through product development, customer satisfaction, and innovation.
- HCM has been identified as the "new frontier" for strategically-minded business executives who crowd the human capital-oriented sessions offered at conferences across the range of disciplines.
- Recent news headlines highlight shortages of qualified, skilled workers, putting managers under pressure to meet output targets for everything from heavy equipment to customer service calls.

On the other hand, there is a general lack of sophistication among a significant majority of organizations in their management of human capital. Information about the workforce—its skills, attitudes and health capacity to work

is fragmented, and—not surprisingly—so are the information-driven management efforts intended to produce human capital value.

Flash Point—Employee Health & Safety

Nowhere is the need for organizations to raise the bar on their Human Capital Management practices as urgent as in the area of employee health and safety. Two issues are wrestling for attention. The first—and probably lesser issue for the moment—is the impact of aging on the physical and mental work capacity of employees.

The second, and more urgent issue, is the rising cost of health-related benefits, including health insurance, workers' compensation and disability income protection benefits. Soaring costs in these benefit programs hamper business success in two ways. Increased spending on health-related benefits reduces company profitability. Perhaps more important, it represents a notable opportunity cost to employers, limiting investments in pay for performance, job training and technology to support enhanced work productivity.

Bridging the Gap to Human Capital Management

How can organizations move from simply talking about human capital and struggling with health benefit costs to managing human capital in a systematic way? It is essential to view health as a vital aspect of human capital. By implementing policies that support that ideal, companies can begin to reduce medical costs, improve workplace safety and worker

job performance, and grow the value of their firm's human capital assets.

We begin by introducing the ideal Human Capital Management Model (2). Next, we discuss how the integration and analysis of human capital data provides essential information needed to manage investments in health and safety. We conclude with an overview of what it takes for an organization to implement a human capital management approach.

A Human Capital Management Model

The Employer Human Capital Management Model (Figure 1 below) describes an ideal approach to the management of human capital by employers. The model is built upon the market concept of an employment contract that exists between employers and employees. The employer provides work performance incentives

through "a day's pay for a day's work," a safe work environment, and other investments in health as human capital, including health benefits. In exchange, the employee provides job relevant skills, a good work attitude, and health capacity that is sufficient to perform their job well.

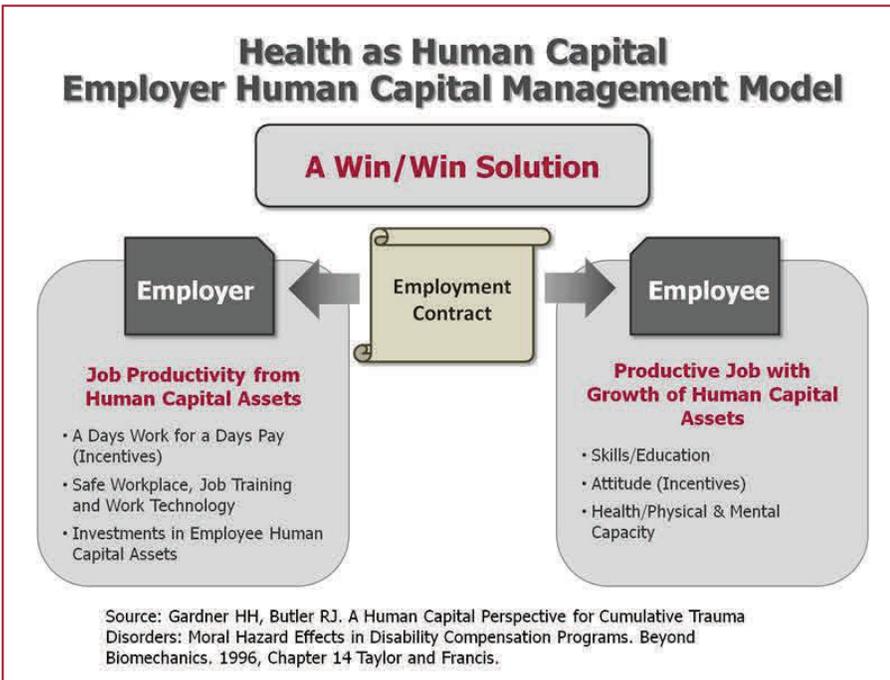
In an ideal human capital employment setting, the contract represents a win/win partnership where both parties are invested in the success of the organization as well as the growth of individual human capital stock. It is a setting where it is clear that "your success results in my success."

In many organizations, this ideal model seems out of reach. In our work, we have observed that many large companies have implemented policies that have perverted human capital-related incentives by creating disincentives for productive employment.

Through a series of well-meaning but misinformed program and policy decisions, many large companies incentivize employee behaviors in ways that run 180 degrees counter to the ideal. Consider the incentives and disincentives when:

- Excellent performance is not consistently recognized or rewarded.
- Poor performance is tolerated.
- Employees that are absent and using sick time actually receive more compensation and benefits value than people who are at work and productive.
- Individuals receive 100% salary replacement when not working.

Figure 1.
Employer Human Capital Management Model (2)



Frankly, not all companies have the leadership and determination to turn things around (see “What It Takes...” on page 5), but significant change is in reach for any organization that is empowered with good human capital risk management information and a determined management team.

Moving Toward the Ideal

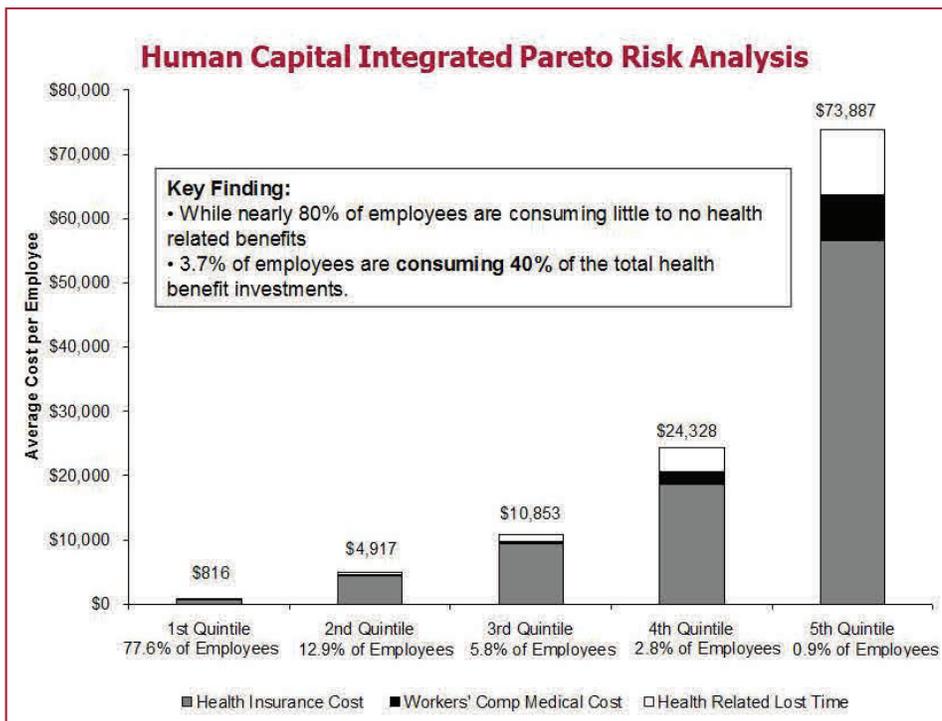
For the market-based model in Figure 1 to work, employers need information about how their investments in salaries, bonus compensation, safety programs, health benefits, etc. impact employee health, productivity, and ultimately, business performance. Put another way, employers need the same information about human capital investments as they typically have regarding investments in physical capital, where there is a relatively clear line of site between investments and returns.

Figure 2 reflects analysis of health benefit utilization (health care, sick leave, disability and workers’ compensation) among employed individuals in the HCMS Research Reference Database (RRDb). HCMS identifies high-need, high-risk employees using Pareto Analysis—named after the Italian economist that postulated the 20:80 rule. First, note that almost 80% of the employees (left-end bar) are consuming 20% of the total cost of employer paid health benefits. Then, note that just 3.2% of the employees are consuming 40% of the total health benefit costs. A similar *Human Capital High Risk Pareto Group* (see attributes on page 4), is present in every company with whom we work, and what companies are often surprised to learn is that the benefits use patterns of these high-risk employees are not driven purely by bio-medical disease or bio-mechanical safety factors. In fact, many of these individuals are consuming high levels of benefits because of difficulties they are having with other aspects of their human capital, e.g., they don’t have the right skills or work attitude to do their job well, or they have conflicts with their supervisor, or simply don’t like their job.

Knowing this, the logical management questions are: a) Who are these people? b) Where are they? c) Why are they consuming non-salary compensation at such high levels? and d) What can we do that will ultimately promote better job performance, and secure better health value for the health benefits expenditures being made?

Working without the right management information, the solutions to high benefit utilization are typically

Figure 2.
Human Capital Management Integrated Pareto Risk Analysis



Attributes of the High Risk Pareto Group:

- High likelihood of management information gaps about the status of their human capital health, skills and work attitude.
- More than one health benefits use (Disability, Workers Compensation, Medical)
- More than one health/disease condition
- More than a bio-medical cause (organizational systemic causes)
- More frequent, longer lasting and misclassified claims (3).

medical in nature. However, knowing that the cause of high benefit consumption is more complex, the management solution for high risk populations must involve more than simply treating the claimed injury or health condition. It must involve understanding and managing other benefits utilization drivers, such as poor job performance, and inadequate work management, including monitoring on-the-job attendance. Rather than more medical intervention, these cases require data-driven policies and integrated management programs to address the true and total needs of high risk and high cost individuals. Our experience is clear: information-driven organizations gain the insight and decision-making power they need to make changes that substantially lower costs and increase productivity (4, 5, 6).

What It Takes to Implement a Human Capital Management Approach

The cycle of excessive health benefits utilization and cost starts with inadequate disintegrated person-centric risk management information. That is, inadequate information leads to ill-designed policies and benefit program investments, which enable and even encourage high benefits consumption by both employees and their service providers.

It follows, therefore, that a crucial step in better managing health as human capital is to solve the information problem. Figure 3 defines the model for human capital management data integration and integrated information production and management decision support approach used by HCMS.

It is crucial to recognize that building an integrated database is only part of a broader management philosophy and system. In total, the successful implementation of a human capital management approach requires:

1. **Human Capital Management Paradigm Shift** with Senior Management Support to a health as human capital, person-centric, comprehensive, information-driven, market solutions approach that recognizes the bottom line importance of achieving “more for less” related to expenditures on health benefits and a “day’s work for day’s pay.” Senior management commitment to Human Capital Management provides a critical bridge across benefits-centric information silos through data integration and the need to produce person-centric integrated management information.

A Strategic Integrated Management Team comprised of key stakeholders and headed by an individual with health expertise required to identify and prioritize management alternatives in order to achieve “more for less” in health-related expenditures. Participation from key stakeholders-including Health/Medical and Safety, Human Resource and Compensation and Benefits, Legal and Risk Management, Finance and Operations- is essential to assure congruent policies and processes for attracting, retaining, and rewarding productive workers with both compensation and benefits, and providing a safe workplace.

3. **Data Integration and Integrated Person-centric Risk Information** that enables identification of human capital risks

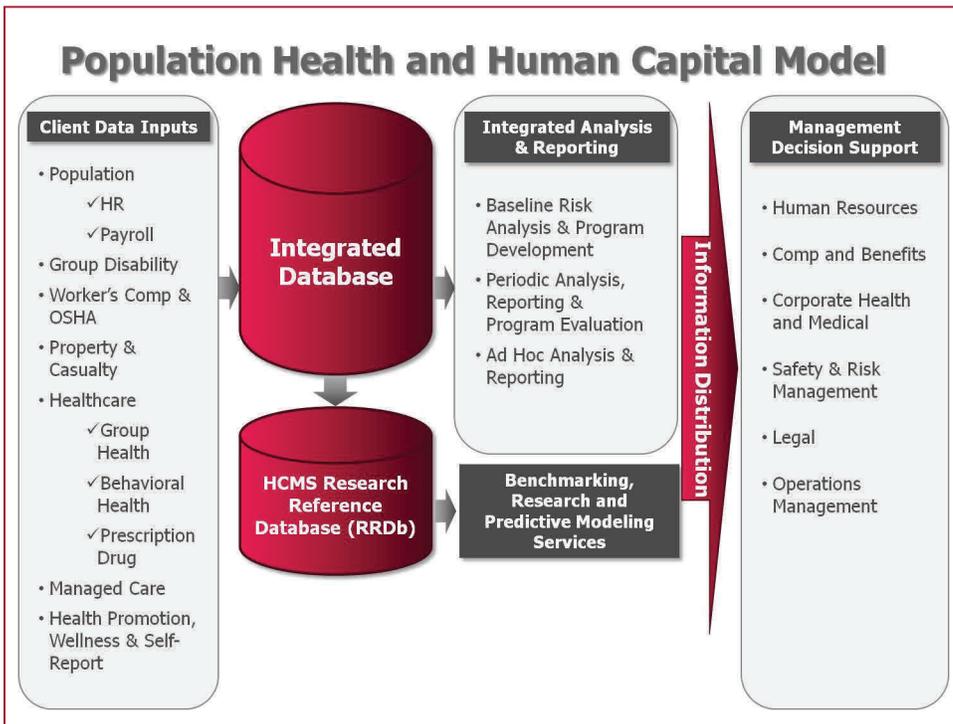
across multiple data silos and transaction systems including worker employment and compensation, employee benefits and cost management programs, health and safety, and work productivity systems. Human Capital Management depends on integrated information to drive employee centered management of health benefit expenditures. The adage “You can’t manage what you can’t measure” drives this information investment.

5. **HCM Program Outcomes Evaluation and Quality Improvement**, involving program monitoring and performance improvement. Data driven interventions are dependent on outcome evaluation to determine opportunities for prioritizing actions, eliminating redundancies, and streamlining program operations.

4. **HCM Integrated Management Program Action Plan** comprised of individual departments involved in employee compensation, health, safety and work management policies and programs. This plan outlines the implementation of information-driven market solutions approach for managing investments in health as human capital.

Figure 3.

Population Health and Human Capital Management Model



The Path to Optimal HCM

The path to optimal Human Capital Management requires a renewed view of human capital policies and procedures through the lens of an ideal employment contract. What incentives are implied by current practices of compensation, benefits, hiring, and training? How can the practices be changed such that the employees' success is most aligned with the organization's success?

Tactically, do we have integrated, timely, actionable information to guide a comprehensive HCM approach? Do we have decisions-makers capable and empowered to guide integrated solutions? Do we have a process for adopting and communicating HCM practices across the company?

Taking the first step—integrating silos of data to produce actionable information—gives organizations a good start toward improved business success. The competitive advantage comes from applying better information to the management of human capital.

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