IBI Research Insights

WHAT'S THE QUESTION FOR EMPLOYERS: "WHAT DOES ILLNESS COST US" OR "WHAT DOES HEALTH BUY US?"

-- A Guide to Connecting Workforce Health to Business Performance --

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The Problem

Human resources and benefits managers could make a stronger case for the value of health and wellness benefits by making senior leaders' key business performance metrics – measures of what their organizations actually do, rather than simply the costs of doing it – a central outcome when reporting the results of their health-related initiatives. However, these professionals typically do not:

- Understand what business performance metrics resonate with senior leaders.
- Have a clear idea of what metrics to focus on and how to relate health data to business performance.
- Know who within their organization to consult for guidance.

The Solution

- Make the business case for workforce health in terms of the impact on core business processes, not just on cost savings.
- Communicate with senior leaders and operations personnel to understand the metrics they use to evaluate how well different people or units with revenue-generating functions are performing. The earlier this is done when planning an initiative or evaluation, the better.
- Learn how leaders generally connect human capital to business results when the process is not straightforward.
- Determine whether to link health to individuals or to business unit performance and plan your program evaluations accordingly.
- Incorporate critical business metrics into reporting on an ongoing basis.

Background

Despite compelling evidence that improving workforce health can cost-effectively increase an organization's productivity,[1] many organizational leaders remain unconvinced of the business case for health and productivity (H&P) initiatives. As IBI's recent survey of CFOs suggests,[2] studies that incorporate the metrics leaders currently use to assess their firm's performance could have more credibility than those that focus on illness-related absence and job performance or medical expenses alone. However, in our experience, human resources (HR) and benefits professionals with primary responsibility for demonstrating the value of health and wellness efforts frequently do not understand or have access to business performance metrics that resonate with senior leaders, do not have a clear idea of what metrics to focus on, or do not know who within their organization to consult for guidance. In the absence of such knowledge, the typical H&P analysis focuses on what illness costs an organization – in medical, pharmacy, and sickness and disability payments – rather than on what good health buys in greater business performance or output.

This white paper is a result of IBI's long history of helping employers understand the value that they get from their H&P programs. It acknowledges the need to expand H&P reporting beyond absence, presenteeism and medical costs, then outlines the types of business performance metrics H&P professionals should consider when evaluating the productivity value of improved workforce health. Although we do not provide a list of business performance metrics that any well-designed H&P evaluation should include, we do provide guidance on how to identify performance metrics that will matter to *your* business. We argue strongly for engaging senior leaders and/or operations personnel early on when planning or evaluating an H&P initiative, and describe two general approaches to metrics that are driven by an organization's own business priorities and its own data availability. The hope is that making the business case for workforce health in terms of core business processes and with reference to existing reporting standards will increase senior leadership's engagement with H&P initiatives.

The limits of linking employee health to business costs

The ultimate goal of any H&P evaluation is to demonstrate that the health of an organization's workforce impacts its ability to accomplish its core objectives – whether that is building cars, selling groceries, generating electricity, teaching students, or anything in between. **Yet the most common type of H&P reporting examines how illness and wellness impact the *costs* of what organizations do, rather than what organizations are actually *doing***. This is reasonable: direct health-related expenses – e.g.

[1] For some examples, see Loeppke R, Taitel M, Haufle V et al., 2009, "Health and Productivity as a Business Strategy: A Multiemployer Study," *Journal of Occupational and Environmental Medicine*, 51(4):411-428. Laaksonen M., Piha K, Martikainen P et al., 2009, "Health-Related Behaviours and Sickness Absence from Work," *Occupational and Environmental Medicine,* 66:840-847; *Health* and *Work Productivity*, Kessler RC and Stang PE, eds., Chicago: University of Chicago Press, 2006; Kessler RC, Barber C, Birnbaum HG, et al., 1999, "Depression in the workplace: effects on short-term disability," *Health Affairs*, 18(5), 163-171; *Work, Health, and Productivity*, Green GM and Baker F, New York: Oxford University Press, 1991.

[2] Gifford B, Molmen W, Moore J, Parry S, *Making Health the CFO's Business: Findings from the Integrated Benefits Institute's 2011 CFO Survey*, Integrated Benefits Institute, February 2012. <http://ibiweb.org/do/PublicAccess?documentId=946>

medical and pharmacy payments, wages paid to absent employees in the form of sick days and disability wage replacements, or experience-rated insurance premiums – are widely available to H&P professionals, can be calculated fairly easily and can add up to a substantial share of human capital expenses.

Important as direct expenses are, they provide only partial insight into how health impacts business performance. What typically gets neglected are the opportunity costs of illness: Employees who are not at work are unable to make sales or to service customer demands; employees feeling the effects of illness may be slower to accomplish their tasks or only able to accomplish them at lower than optimal quality; and wages paid to absent employees or to cover their workload (in substitute workers or overtime) are unavailable for other types of productive investments.

While most economists accept that opportunity costs are *at least* equal to the wages of absent workers,[3] these costs rarely make it into financial statements. This poses clear challenges to convincing organizational leaders of the value of workforce health investments. Studies that monetize health-related absences and underperformance (i.e., presenteeism) in terms of wages are numerous, but can only take the business case so far. As if to illustrate that point, IBI's recent survey of CFOs[4] suggests that financial executives assign relatively low credibility to modeled results in the absence of their own information when making decisions about improving the health of their workforce.

The need for business metrics

Our CFO study also suggested that presenting H&P results in terms important to senior leaders' own goals can improve their credibility.[5] In light of this finding, H&P professionals would do well to make leaders' key business performance metrics – measures of what their organizations actually do, rather than simply the costs of doing it – a central outcome when reporting the performance of their H&P initiatives.

In principle, linking health to business performance measures is no more technically challenging than linking health to absence, to presenteeism or to medical costs.[6] It requires only that health and business

[3] Some economists suggest that opportunity costs may actually exceed wages to the extent that an absent employee works as part of a team, does work that is time-sensitive, and cannot be replaced easily by a temporary substitute. See work by Sean Nicholson of Cornell University and Mark Pauly of the University of Pennsylvania: S. Nicholson, M. Pauly, and D. Polsky, "Measuring the Effects of Work Loss on Productivity with Team Production," *Health Economics* 15: 111-123 (2006) and S. Nicholson, M. Pauly, and D. Polsky, et al., "How to Present the Business Case for Health Quality to Employers," *Applied Economic Health Policy* 4(4): 209-218 (2005).

[4] *Making Health the CFO's Business*, ibid.

[5] *Going Beyond Cost to Value - How CFOs Link Benefit Design and Business Outcomes*, IBI Quick Study, Integrated Benefits Institute, March 2012. <http://ibiweb.org/do/PublicAccess?documentId=1182>

[6] There are legal issues to consider when employers link individuals' confidential health information to performance outcomes, just as there are when linking health and absence or when evaluating the impact of wellness programs on participants' health spending or clinical outcomes. A typical solution is to have a third-party handle the data and analyses.

performance data are integrated in a way that allows comparisons across people or work groups or at different points in time.

Why, then, are there relatively few studies and program evaluations that focus directly on business outcomes of primary importance to organizational leaders?

In IBI's long experience of working with disability and medical insurance providers, HR and benefits professionals, analytics departments and fellow researchers tells us that **one formidable barrier seems to stem from limited communication about H&P issues among those managers directly responsible for workforce health resources and those with operational responsibilities**. As a result, H&P professionals who are well-versed in the costs of absence, presenteeism and medical expenses frequently have difficulty communicating the value of their cost-controlling efforts to professionals who are more used to thinking in terms of sales, units shipped, quality of service, repeat business, and so forth.

Incorporating more operational metrics into H&P reporting seems like an obvious alternative strategy. However, this is easier in principle than in practice. We have encountered many HR and benefits professionals who do not have direct access to business performance metrics that they can link to workforce health outcomes, do not have a clear idea of what metrics are of greatest importance to senior leaders, or do not know with whom in their organization to partner in order to get the necessary information. They recognize the need for greater engagement with operations and leadership, but frequently have difficulty moving their efforts past the starting phase for lack of guidance about what decision-makers would consider a compelling demonstration.

First step: Identify the critical business metrics

The first step for H&P professionals is to understand what generates revenues for their organization or is critical to its primary service or customer fulfillment function[7] so that they can focus their demonstrations squarely on those outcomes. Ideally, senior leaders themselves would specify the core measures they routinely use to assess how well different people or units are performing. The catch, of course, is that this information will likely not be offered unless H&P professionals are active at getting workforce health on leaders' agendas. That may mean taking the direct approach of asking senior leaders for explicit guidance on what kinds of metrics and results they would find compelling. When direct input from senior leaders is not practical, H&P professionals should consult operations personnel who routinely *report* results to leaders. In either case, obtaining early guidance on business metrics will provide the best opportunity for H&P professionals to report outcomes that leaders will find relevant and persuasive.

It is also important to understand how leaders connect human capital to business results when the relationship is not straightforward. For example, the primary metric for comparing the performance of different solar power plants is how much electricity they generate. Irradiance – the amounts of sunlight solar plants receive – is the critical factor in that process. Clearly, healthier employees cannot influence

[7] When metrics for revenue-generating activities are unavailable or are not particularly relevant – for example, in a public sector setting that operates on a fixed budget – metrics that capture directly the drivers of the business costs should be considered.

how much the sun shines, but they should be better able to maintain and repair solar plants for optimal power generation. **Understanding this pathway between human capital and core business processes helps reinforce the role of health without overselling its impact relative to other factors**. A demonstration of the value of workforce health to a solar energy company may focus on electricity as the business performance metric (controlling for irradiance), or may instead focus on how often a plant could not generate electricity due to delays in performing repairs or maintenance. What matters is that the selection of either metric (or any other) makes sense from a revenue-generating or service-providing perspective.

Second step: Determine to measure health and performance at the individual- or business unit-level

Once a critical business performance metric is identified, the next step is to map out how an evaluation will link it analytically to workforce health. This entails gaining a greater understanding of how an organization captures, compares and reports the metric. Generally, there are two possible approaches: analyzing metrics at the level of individual workers, or at an aggregated level of workers.

Individual workers

The first approach examines critical performance metrics collected by an organization at the individual employee-level (by shift, month, quarter, etc.). Examples of employee-level metrics could include:

- A salesperson's retail sales
- % of calls answered by an operator or technician within a targeted amount of time
- % of packages delivered on time by a driver

This type of H&P evaluation would compare individual employees and assess how much of their observed performance is a function of their health status, health risks, and health-related absences.

Aggregate units

The second approach examines critical performance metrics at an aggregate-level – such as results for entire business units, locations, work groups, or shifts. Examples of aggregate-level metrics could include:

- Store sales
- Customer satisfaction survey results
- Defect rates at a factory
- % of maintenance or repair down-time for essential equipment at a power generation plant
- Overtime hours per pound of freight delivered
- % of on-time departures for airline flight, maintenance or ground crews

This type of H&P study would compare business performance across units or compare a single unit's performance at a given time to its performance in the prior year (or quarter, etc.) and assess how much of an aggregate's observed performance is a function of its workers' health status, health risks, and health-related absences (either at the average, or with regards to specific "tipping points" such as % of workers with diabetes or near-diabetes risk).

Deciding on the unit of analysis

From a research standpoint, metrics at the individual employee-level are preferred because they link health directly to discrete revenue-generating or service-providing tasks. Aggregate data would be used primarily when employee-level metrics are not tracked or when the performance of a unit cannot be described by simply summing the performance of individuals (for example, when jobs are diverse and highly interdependent). On the other hand, because data for aggregate units are more readily available and less complex than individual data (for example, they avoid issues of employee confidentiality), reporting aggregate results could provide H&P professionals with the exploratory evidence they need to make the case for more targeted performance measurement.

However, from the standpoint of increasing the salience of results to senior leaders' overall business strategy, the most important factor is what *they* would consider meaningful given how job functions are organized and how business performance is currently assessed. The unit ultimately selected will likely emerge out of discussions with various stakeholders (such as analytics and IT staff) about the trade-offs between what leaders would find most compelling and what is feasible. Again, early engagement with senior leaders is indispensable.

Final thoughts

Even in organizations that enjoy a strong culture of health, H&P professionals can no longer afford to assume that analyses showing reduced costs, better health status, or reduced absence will ensure support for specific health initiatives indefinitely. Leaders and corporate priorities change. Even programs that pay for themselves in reduced absence and medical costs may nonetheless become vulnerable eventually if other business initiatives can (or claim to) demonstrate a stronger ROI. The business case for H&P efforts may be demonstrated more compellingly if organizational leaders play an early role in spelling out the standards by which they will judge success. Everyone won't get everything they want from an H&P evaluation. But conversations with leaders that get them thinking about how health impacts performance in principle – even if not one cell of data is ever analyzed – accomplishes the goal of raising the relevance of workforce health to business strategy. Benefits leaders need to be at the table where business decisions are made. This strategy will help them get there.