Health Promotion and Wellness Programs As a Generalized Investment in Human Capital

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Abstract

Reexamination of the human capital perspective suggests that expenditures on health promotion and wellness programs may be viewed as generalized investments in human capital. Such investments can reassure employees that the expenditure of their time in the organization will contribute to their development and thus improve employee commitment and loyalty. Health promotion programs can give organizations a competitive advantage by linking the strategic interests of the organization with the interests of their employees.

Key words: transaction cost economics, resource-based view of firm, human capital, health promotion, wellness, human resource management, competitive advantage, strategic management

Introduction

Employers are starting to recognize that the total health care value equation is about more than just costs. They are starting to see employee health as human capital, and thus they are beginning to view it as a manageable asset. According to Prince (1999), employers are recognizing the link between the health of employees and increased productivity and profitability. A new trend in health promotion is called health and productivity management. Making worker productivity the measure of the success of health promotion transforms wellness into a business issue rather than a health issue.

Reynolds (2000) feels that this trend is in its early stages with only a small number of more innovative companies organizationally and philosophically structured to manage the health of their employees as an asset. However, it may be that health promotion programs can use this link between productivity and health to enhance their role in the formulation of the structure and strategy of an organization.

According to Reynolds (2000), most large publicly traded companies place the highest value on investments that generate the greatest returns for their investors. Such firms therefore generally seek to minimize expenditures for overhead since these expenditures do not appear to add direct value to the production or sale of goods. Investments in human capital are often viewed as overhead that does not directly add value. Further, employers often fear that a significant portion of their investment in human capital may be lost to the firm if many employees leave. However, if one takes into account the loss in productivity that has been found to accompany increased health risks, investments in improving the health status of human assets could add direct value because they decrease losses due to decreased productivity. Health educators should make this point when attempting to sell the benefits of health promotion and wellness programs to employers.

Lynch, Pronk, Guidry, & Loube (1999) indicate that worksite health promotion and wellness (HP/W) programs are now prevalent in organizations. A 1999 survey conducted by the Association for Worksite Health Promotion reported that 90% of the corporations in their sample offered at least one health promotion activity (AWHP, 2000). Thirty-nine percent of senior executives in the sample ranked employee health and well-being near the top of their business priorities. Clearly, employee health promotion activities are increasingly being viewed as an important consideration for the continued financial viability of an organization.

While extensive support for employee HP/W programs can be found in the health promotion literature, these programs are typically viewed very narrowly in the human resource management (HRM) literature. The HRM literature tends to focus on the potential for controlling health care costs (Levine; 1996; Sunoo, 1997). However, there are indications that HP/W programs may offer benefits beyond cost containment of medical expenses. An increasing number of researchers are reporting additional benefits including reduced absenteeism, lower turnover rates, improved mental acuity, increased productivity, improved stamina, increased self-esteem, new networks of communication, and incentives for recruitment (Chapman, 1996; Powell, 1999; University of Michigan Health Management Research Center, 2001; Wellness Councils of America, 2000).

Social scientists take a somewhat broader view. Walsh (1988) views HP/W programs as being used for social control. In other words, they can be used to shape attitudes and values. Conrad & Walsh (1992) indicate that in addition to benefitting operational measures such as increased productivity, reduced turnover, and reduced absenteeism, HP/W programs can result in higher mental acuity, enhanced self-esteem, and heightened creativity.

Statement of Problem

The goal of this paper is to consider worksite HP/W programs in the context of the strategic management of an organization. It focuses on the issue of whether or not expenditures on health promotion might confer a competitive advantage upon the employer. In so doing, it is hoped that health education and health promotion professionals can gain better insight into a concept of HRM that might provide a platform from which to establish strengthened rationale and justification for the existence of employee health programs.

Upon first reviewing the traditional HRM views, it would appear that there is little support for the inclusion of employee health promotion programs as an integral part of corporate strategy. However, today's volatile economy has prompted new ways to view old concepts. The authors first examine health promotion and wellness programs from the more traditional interpretations of transaction cost economics, the resource-based view of the firm, and human capital theory. They then re-examine the relationship between employee health promotion and wellness programs and HRM theory in the more current contextual perspectives of these theories.

Traditional HRM Views

Effect of Human Resource Management on Productivity

Koch & McGrath (1996) report a study of the effect of human resource policies on labor productivity in 319 business units. They develop their hypotheses from a resource-based perspective on strategy. They report positive and significant effects on labor productivity for organizations that utilize more sophisticated human resource planning, recruitment and selection strategies.

There is also evidence that strategic human resource management can affect more general measures of organizational performance. Arthur (1994) found that HR practices affected performance. Becker & Gerhart (1996) review a number of studies on the effect of human resource practices on organizational performance. The studies were done at the facility, business unit, and firm level of analysis. They conclude that the choice of human resource management system can have a significant effect on performance. A recent landmark study utilizing a database of over 45,000 employees explored the association between 10 modifiable risk factors and health care expenditures (Whitmer, Goetzel, & Anderson, 1999). This study found that certain health risks were related to decreases in some measures of productivity, such as quality control and customer service.

Transaction Cost Economics

Williamson (1975) indicates that, in an effort to find the most efficient form of obtaining labor, organizations either rely upon the market to govern a transaction, or they approach this process internally. Thus, according to transaction cost economics, internalization of employment is appropriate when it allows organizations to more effectively monitor employee performance and ensure that their skills are deployed correctly and efficiently.

In keeping with this line of thought, Miles & Snow (1984) suggest that the management of human capital is similar to other capital investment decisions in that they can often be broken down into "make-or-buy" decisions. In some instances, firms may choose to hire employees at the entry level and train them. In other instances, the firm may simply choose to hire someone from another firm who already has the knowledge, skills, or abilities that the firm requires. Amit & Schoemaker (1993) indicate that firms will want to develop highly specialized and tailored resources internally in order to earn economic rents (i.e., higher profits).

Lepak and Snell (1999) argue that transaction cost economics suggests that employers will prefer to make investments in the human resources only when the investments would develop firm-specific resources. In other words, they will prefer to develop employee skills and knowledge that are specific to a unique product or service provided by the firm and which are not easily transferred to another corporate setting. If one takes the position that investments in worksite HP/W programs do not create firm-specific human resources, but rather generalized development of human resources, then investments in employee health would not appear to confer any particular competitive advantage on the firm.

Resource-Based View

Wernerfelt (1984), Rumelt (1991), and Barney (1991) offer a resource-based view of the firm, which assumes that firms within an industry or group may be heterogeneous with respect to the strategic resources in their control. This view also holds that the resources may not be very mobile, and the heterogeneity may, therefore, be enduring. Barney (1991) classifies these resources into three groups: physical capital resources, human capital resources, and organizational capital resources. Daft (1983) considers firm resources to be all assets, capabilities, organizational processes, firm attributes, information, and knowledge controlled by the firm.

Amit & Schoemaker (1993) expand the resource-based view. They view the firm as a bundle of resources that the firm is built on to create conditions that contribute to the realization of sustainable economic rents. Because of resource-market imperfections and discretionary managerial decisions about resource development and deployment, firms are expected to differ in the resources and capabilities they control. This asymmetry can, in turn, be a source of sustainable economic rent.

Lepak and Snell (1999) argue that the resource-based perspective suggests that core employee skills that are central to the firm's competitiveness should be developed and maintained internally, whereas those of limited or peripheral value are candidates for outsourcing. Therefore, they argue that resources are valuable when they enable a firm to enact strategies that improve efficiency and effectiveness, exploit market opportunities, and/or neutralize potential threats. Accordingly, the value of human capital is inherently dependent upon its potential to contribute to the competitive advantage or core competence of the firm.

Once again, one assumption is that investments in the health of employees through worksite HP/W programs do not create or improve core employee skills, but rather produce generalized development of human resources. Under this assumption, investments in HP/W programs would not appear to confer competitive advantage on the firm.

Human Capital on a Microeconomic Level

The human capital perspective can be applied at the microeconomic level of the firm. For example, Becker (1964) suggests that organizations develop resources internally only when investments in employee skills are justifiable in terms of future productivity. Firms may hire and develop internally or secure these skills from the labor market. In short, the decision to develop internally or hire externally rests on a comparison of the expected returns of employee productivity. Since firm-specific skills are nontransferable, the value of any employee's human capital will be less with any other firm, and internal development will be less likely to result in a capital loss.

According to Flamholtz & Lacey (1981), human capital theory proposes that people's skills, experience, and knowledge are a form of capital; and that returns are earned from investments made by the employer or employee to develop these attributes. Human capital theory holds that temporary losses in productivity while training an employee are an investment, rather than an expense, if the training results in a specific skill. Human capital theory stresses the importance of matching individual and company goals in order to maximize labor force value, increase the employee's marginal product, and reduce turnover. Human capital theory also holds that employees should invest in specific training to enhance employees' career path prospects. Thus, the human capital perspective at the level of the firm, due to its emphasis on skills, appears to offer no more support for generalized investments in health promotion than transaction cost economics or the resource-based view.

Concerns of Employers

In spite of the increasing popularity of HP/W programs, many employers are uncertain as to the value of such programs to their organizations. On the one hand, some aspects of worksite health promotion sound attractive to employers. After all, there is the old adage that “An ounce of prevention is worth a pound of cure.” Further, it does seem logical to have health promotion and wellness programs in the worksite. Work is central to the lives of most people. They spend the majority of the hours that they are awake at work, and research clearly supports the idea that convenience is an important factor in determining a person’s probability of participating in health promoting activities.

On the other hand, many employers have a nagging concern about investing in employee health. They may or may not be familiar with the literature on transaction cost economics and the resource-based view of HRM, but, at some level, employers are acutely aware that workers today are perhaps more mobile than ever before. Thus, many employers are concerned that their current employees will be long gone when the benefits from an investment in health promotion are realized. Accordingly, the primary focus of this paper is to address this concern of employers, viz., that generalized investments in work-site HP/W programs for employees will not improve their competitive position, but may, in fact, through workforce mobility, actually provide an advantage to a competitor.

Emerging HRM Views

Human Capital on a Macroeconomic Level

One can justify generalized investments in people using a human capital approach at the macro or community level. For example, Rosenszweig & Schultz (1987) use a human capital perspective to estimate the effect of birth control on the birth weight and years of schooling attained in a low-income country. Similarly, Schultz (1997) utilizes a human capital perspective to study the effect of nutrition programs on the productivity of individuals. The study proposes a model of the demand for several distinct forms of human capital, of how public agencies and private firms work with households to produce human capital, and of how these investments increase the productivity of individuals.

Thus, from a human capital perspective, investments in worksite HP/W programs would appear to be worthwhile on a macro level. But would such generalized investments confer a competitive advantage to individual firms? There are a number of researchers who are now viewing traditional human capital theory from a slightly different perspective, and, thus, helping to establish a theoretical foundation for the importance of HP/W programs to the viability of an organization.

Human Capital on a Microeconomic Level -- Revisited

In order to make the case for generalized investments in human capital, Galunic & Anderson (2000) go beyond the more traditional outcome measures of medical care costs. They begin their argument by noting the trends by employers toward downsizing and the use of contract labor. The increased turbulence of the workplace in recent times increases the potential for the erosion of employee commitment and loyalty. Galunic & Anderson note the importance of the psychological contract between employer and employee.

Based on the results of their empirical study, they suggest that employers can foster greater employee commitment and loyalty by offering workers greater assurance of remaining competitive in the job market by offering generalized skill development and training. By increasing employee prospects of remaining marketable they can reduce employee anxieties about diminished job security. If one considers that improved health and the resultant increases in productivity heighten both an employee's value to the firm as well as their marketability, it is logical to conclude that, in return for this sense of enhanced security in turbulent times, employees will respond with higher levels of commitment and loyalty to their employers.

Employee Perspective of Human Capital

Davenport (1999) suggests that the human capital perspective is also illustrative of the employee’s point of view. He contends that employees are not costs, factors of production, or assets, but rather investors in a business. They invest their own human capital, and they expect a return on their investment. Further, he indicates that, in times of low unemployment, employees do not behave like assets, but rather they behave like owners of a valuable commodity demanding value in exchange for their contribution.

Davenport (1999) indicates that the predisposition for an employee to invest his/her time in an organization is based on sense of commitment to the organization. He identifies factors likely to encourage discretionary investment in the organization as compensation based on performance, a comprehensive benefit package, collaboration with peers, and trust in senior management. Health promotion programs are often viewed as an important part of a comprehensive benefit package, and decreased risks to the employees have been shown to correlate with increased productivity. Thus, employees could view the provision of HP/W programs as a positive investment in them as assets to the corporation. As a result, the corporation is rewarded with increased loyalty and commitment of the employees.

Specialization versus Flexibility

Amit & Schoemaker (1993) suggest strategic reasons for generalized investments in human resources. Although they concede that specialization of assets is necessary for increased profits, they caution that excessive specialization can leave the firm in a lurch when the environment shifts. Therefore, specialization must be limited somewhat in order for the firm to be robust when faced with a new environment that may not be favorable to the old form of specialization.

Under changing or unstable environmental conditions, it would seem logical that the previously mentioned health promotion program benefits of higher mental acuity, enhanced self-esteem, and heightened creativity might be just the specific employee "skills" needed to allow the company to be competitive under such market conditions.

Contributions of Health Promotion and Wellness Programs

There is evidence that generalized investments in human resources, such as HP/W programs, benefit organizations. According to Howard & Mikalachki (1979), fitness programs attract competent employees, improve attitudes and loyalty, reflect concern for the non-work aspects of employee lives, and indirectly increase productivity. White (1987) says fitness programs reduce absenteeism but not medical costs. Falkenberg (1987) reports three rationales for fitness programs: they are attractive to employees; they reduce the impact of stress; and they improve productivity.

According to Walsh (1988), human resource professionals use health promotion and wellness as a recruiting tool. Further, Walsh reports that corporate image specialists use health promotion to project a corporate image of youth and vitality. Stokols, Pelletier, & Fielding (1996) report that worksite fitness programs can increase creativity, group cohesion, and organizational effectiveness. In summary, Milligan (2000) reports that the major reasons for offering health promotion programs include keeping workers healthy (45%), reducing health care costs (34%), retention (32%), improving morale (31%), recruitment (28%), and improving productivity (21%).

Discussion

According to Reynolds (2000), the employers are likely to view the management of the health of their employees as an investment in human capital. Further, they are likely to view it as the management of an asset that can yield a competitive advantage. While in no way negating the value of firm specific investments in human resources, it seems clear that a case can be made that generalized investments in human resources can confer competitive advantage on a firm. The advantage can accrue from the increased commitment or loyalty of employees, as well as from the increased robustness and flexibility of the workforce in the face of an environmental shift.

Neill (1999) believes that companies will be forced to change their perspective on human capital to establish corporate advantage. He indicates that most companies take a rather haphazard and disconnected approach to building human capital. As the demand for program justification within the overall HRM strategy of the organization increases, competence in health promotion will require an understanding of the practical science of human performance and human capital building.

Human capital theory clearly provides an answer for employers who question the value of health promotion and wellness programs. For the employer, this perspective transforms health promotion and wellness programs from an expense to a productive asset. For the employee, human capital theory justifies time spent at the workplace on regenerative activities. For the whole organization, human capital theory is the linchpin that aligns the interests of the employer and employee with regard to health promotion and wellness programs.

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