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CURRENT HRM ISSUE: COMPENSATION AND BENEFITS
HOW EFFECTIVE ARE FINANCIAL INCENTIVES AT DRIVING HEALTHY BEHAVIOR?

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Introduction

The purpose of this paper is to research the current Human Resource Management (HRM) issue compensation and benefits, concentrating on how effective financial incentives offered by organizations are at driving the healthy behavior of their employees. The discussion will include its importance in relation to the organization and its employees, whether or not research authors agree based on their findings, and the interconnectedness to other HRM functions.

Current HRM Issue: Compensation and Benefits

How effective are financial incentives at driving healthy behavior? Financial incentives are offered by some organizations to their employees as part of a health promotion program. These programs may include a personal health assessment, a biometrics screening, or a health coach. Financial incentives can be offered to employees who participate in various aspects of the program. In 2002 a poll reported that about 40% of major U.S. employers were offering incentive-based health programs to their employees (Finkelstein & Kosa, 2003). These incentives were created due to organizations concerned with the increasing rates of chronic illness among employees, related increases in health treatment costs, and productivity loss from absenteeism and poor health. Since 2002 health care costs have increased an average of 15% per year (Zimmerman, Matthews, & Hudson, 2005) while the occurrences of obesity and related chronic diseases have increased 100% over the past twenty years (Finkelstein & Kosa, 2003). Previously, organizations responded to rising health care costs by increasing what employees pay for their health care benefits. Health care benefits are a job characteristic that attracts employees to a particular organization and, once hired, these benefits play a vital role in retaining and motivating employees (Noe, Hollenbeck, Gerhart, & Wright, 2011). This organizational response negatively impacts employees by lowering their total compensation package along with potential impacts to employee retention. Consequently, this persistent increase in health care costs, fueled by occupational health research regarding loss of

productivity, have caused organizations to shift their focus away from increased spending each year on medical care costs and toward disease prevention by educating and promoting the benefits of a healthier lifestyle to employees.

Importance of HRM Issue

Addressing this HRM issue is important because of rising health care costs and loss of productivity due to employees' poor health and absenteeism. Research has indicated that 70% of total health care costs are associated with employees diagnosed with multiple risk factors and preventable illnesses (Hall, 2006). For the employee, there may be a desire to lose weight, stop smoking, or make different decisions to improve their overall health but they may lack knowledge about the health risks or proper steps to take. Financial incentive programs may be the enticing ticket to learning how to lead a healthier lifestyle or to reach a weight loss goal (Madison, Volpp, & Halpern, 2011).

Organizations also need to stay competitive in today's market so it is vital that their employees are healthy, consistently show up to work, and are productive in the workplace. Studies have reported a strong connection between employee health and work performance (Mills, Kessler, Cooper, & Sullivan, 2007). A number of studies report that health promotion programs are positively linked to improving absenteeism and work performance. A recent study reported that the "average number of absentee days saved was 1.7 per employee per year, estimated to cost \$274 per employee per year" (Baicker, Cutler, & Song, 2010). Finding ways to drive healthy behavior can save organizations money, lower absenteeism rates, and improve productivity (Okie, 2007) and employees benefit by experiencing an improvement in their overall physical and mental health (Dyck & Lovelace, 2012). This combination positively impacts the management of employees and benefits the organization's effectiveness.

Personal Interest

My interest in answering this question arose from the Wellness Program offered this year by my organization, ----- . The program consisted of the opportunity to offset my 2013

annual payroll contribution for medical insurance by \$480.00 by completing a confidential Personal Health Assessment (PHA), getting a biometric screening, and by avoiding the \$25.00 monthly tobacco surcharge by being tobacco-free. In addition, there was the opportunity to earn a \$100.00 gift card for completing four coaching sessions as part of the Lifestyle Coaching Program. There was not a question in my mind as to whether or not I would participate in this program, the answer was yes! Yet, many of my co-workers were reluctant to participate in the program due to concerns that the organization would 'know their numbers' alluding to the PHA and biometric screening. These statements made me curious about how effective financial incentive programs being offered by organizations are at driving the healthy employee behavior.

Concurring and Conflicting References

There was agreement among the authors that financial incentives offered by organizations can motivate employees to take action toward a healthier lifestyle. One study found that financial incentives improve the health choices made by the employee by providing education and the extra incentive (Madison et al., 2005). Hall agreed that both education and financial incentives are required to motivate an employee toward action (2006). And O'Donnell stated that financial incentives are also effective at motivating employees to keep practicing their current healthy habits (2012). However, these and other studies were concerned about whether or not financial incentives could drive long-term healthy behavior.

The research does not state that financial incentives are ineffective but rather that changing an individual's lifetime of behavior and attitude about their health is challenging. Hall states that some health promotion programs are using a cognitive behavioral model to motivate employees toward participation (2006). These programs attempt to advance an employee's motivation through the steps of change: precontemplation, contemplation, preparation, action, and maintenance. For example, if an employee is in the contemplation stage, considering change, the financial incentive adds the push to move the employee toward action. Hall recommends that to drive an employee toward long-term healthy behavior the financial incentive

program should be designed with achievable goals and that it should increase the employee's feeling of wellness to ensure the healthy lifestyle change continues after the incentive ends (2006).

Another study recommends the Intentional Change Theory (ICT) as a model for sustaining healthy behavior (Dyck & Lovelace, 2012). This study proposes that organizations using this model can increase employee participation in their health promotion program and motivate employees toward improving their overall health. This occurs with a process of five discoveries: my ideal self, my real self, my learning and goals, my new behaviors, and my support relationships. For example, an organization's health promotion program can help an employee see themselves as a healthy person: their ideal self. Next an employee can move to the next discovery of identifying their current level of health and fitness: their real self. The discoveries then progress and the authors show that having a greater awareness of one's ideal self compared to one's real self is an effective and efficient way to bring about long-term change (Dyck and Lovelace, 2012).

The concern regarding a financial incentive program's ability to bring about short or long term healthy behavior does not mean these programs are inefficient or without value. Rather more research is needed on program design and the amount of financial incentives that produce positive, long-term benefits for the organization and its employees.

Impact to other HRM Functions

Financial incentives offered by organizations to their employees impact other HRM functions, namely equal employment opportunity, employee privacy, and workplace safety. The laws in the U.S. require that all individuals have equal employment opportunities regardless of their race, color, religion, sex, age, disability, or national origin (Noe et al., 2011). The HR impact from financial incentives is that higher incentives can be achieved by certain employees due to their physical health. Other employees that have difficulty achieving certain incentivized activities or have lower health assessment outcomes may feel discriminated against. The

financial incentives could also be considered discriminating if they discourage unhealthy individuals from applying for a job, if they encourage unhealthy employees to quit their job, or if they discourage unhealthy employees from taking advantage of health care benefits (Madison et al., 2011). To reduce the possible perception of discrimination, organizations should offer other non-financial incentives such as healthier food choices in their cafeteria or health awareness programs in the workplace. My employer, -----, offers both of these non-financial incentives plus an on-site medical department and a wellness program website to help educate employees on ways to improve their overall physical and mental health.

Employees have a right to privacy and some employees may feel that their lifestyle and activities are personal and therefore want to keep their private life separate from work. The federal Health Insurance Portability and Accountability Act (HIPAA) protects employees by regulating that their health information can only be accessible to third party health plan administrators or vendors (Pearson & Lieber, 2009). Organizations can then use this scrubbed data to determine its risks and take the necessary steps to create workplace programs aimed at minimizing these risks. The HRM impact is that organizations must effectively communicate how an employee's health information is being used as part of the health promotion program. This understanding can alleviate privacy concerns among employees that do not want their organization to have intimate knowledge about their biometric health outcome or lifestyle choices.

The Occupational Safety and Health Act (OSHA) protects the health and safety of employees in the work place. OSHA brings awareness to the workplace regarding unsafe working behaviors and conditions (Noe et al., 2011). As mentioned, obesity among U.S. adults has risen dramatically and there are concerns regarding its impact on workplace safety. A study of manufacturing employees found that a higher percentage of injuries to primary body parts (back and shoulder, leg and knee, or hand and wrist) occurred to employees with a body mass index (BMI) in the overweight or obese range (Keshia, Gary, Martin, Linda, Kanta, Oyebode, &

Mark, 2007). The study also reported a higher percentage of abrasions and contusion injuries among workers classified in the obesity category. The factors that may contribute to this increase in injury may come from fatigue, physical limitations, and medications. Today, organizations understand the substantial health care cost associated with obesity and the indirect costs from absenteeism and low productivity. And the increased risk of injury in the workplace due to the growing number of obese workers adds another layer of concern regarding workplace safety in the organization.

Conclusion

Historically organizations and their employees have shared the cost of healthcare benefits and now they share interest in its overall physical and mental health by participating in programs that promote and reward living a healthier lifestyle. The belief that financial incentives are successful at driving short-term behavior but may not be successful at driving long-term healthy behavior is not a reason to discontinue them. There is a serious problem with obesity in America that is impacting families, friends, and co-workers. More research is needed on the education and benefits that will produce long lasting results to improve the overall mental and physical health in our workplaces, and by extension, in our country.

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