

Rocky Mountain Mutual: Promoting Fun or Fitness?

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YOU are the administrative assistant to Joseph Mirola, the Claims Manager for Rocky Mountain Mutual, a growing insurance company which just three years ago built a new headquarters complex in a fairly remote suburban area in Utah. No expense was spared for the complex, which included professionally landscaped grounds, elegant offices, and a Fitness Center featuring an indoor walking/running track, a small lap swimming pool, and an exercise room with free weights and exercise machines. The cost for the Fitness Center alone was almost a million dollars, and a small staff was hired to supervise the activities. A major reason for building the Fitness Center was that no sports club facilities were conveniently available near the firm's headquarters, and management considered exercise to be an important benefit to offer its employees. In fact, with its plans to grow the company in the next few years, management touted the Fitness Center as a major draw for young employees, especially because of the somewhat remote location of the firm's headquarters.

Promoting Health and Fitness

Many of Rocky Mountain's 250 employees use the Fitness Center; in fact, the center is often crowded before the workday and during lunch. Joe Mirola, your boss, began to use the Fitness Center as soon as it opened and now averages five days a week, either walking or swimming, before work. Since he began using the center regularly, Joe has enthusiastically described an increase in his energy and productivity. Because of Joe's enthusiasm for the Center, you have started exercising there, too.

Since Joe Mirola has benefited greatly from using the Fitness Center and because, as Claims Manager, he has an interest in healthcare costs, he asked you to review the company records to see if the center has had any impact on employee healthcare costs or on absenteeism.

Looking over the medical costs for the previous two years, you reported to Joe that Rocky Mountain employees who used the Fitness Center did have lower medical costs. You found that the 25 percent of employees (62 people) who used the center once or twice a week showed medical costs of approximately \$300 per person (for a total of \$18,600). The costs for the 10 percent of employees (25 people) who used the facility three times a week or more were only \$100 a person (total cost \$2,500). In contrast, the 65 percent of employees (163 people) who never used the Fitness Center rang up medical bills of approximately \$500 per person (total cost \$81,500).

“The absenteeism rates were really intriguing, too,” you told Joe. “Fitness Center users missed half as many workdays as non-users. Users missed an average of six days per year, whereas non-users missed twelve days. Although I know that these statistics do not prove that using the Fitness Center caused lower medical costs or lower absenteeism,” you continued, “they do seem to confirm the results of so many scientific studies we all read about in the newspapers: exercise improves people’s health.”

“Right,” Joe replied. “The lower medical costs and the fewer workdays missed by the fitness regulars may be due to the fact that they were healthier people in the first place. Even if they didn’t go to the Fitness Center, they would likely have fewer doctor visits than their couch-potato colleagues! On the other hand, lack of exercise is a national trend contributing to obesity and other health problems which raise medical costs. So even though we can’t prove that the Fitness Center lowers certain employees’ medical costs or reduces their absences, I do believe that exercising in the Fitness Center contributes to their state of good health. If the company could get a majority of the employees to exercise at the Fitness Center regularly, overall medical costs and absenteeism would probably both go down.”

Partly because the company records on healthcare costs and absenteeism supported Joe Mirola’s own belief in the value of the Fitness Center, he began considering ways to encourage employees in the Claims Department to take advantage of the facility. Although he

talked-up the Fitness Center frequently and provided a strong example by his own daily use, the number of users from the department rose only slightly. Dissatisfied with this level of participation, Mirola decided to be more proactive by instituting a *Wellness Program* for his department, using peer encouragement and team-building concepts to promote use of the Fitness Center.

Since the Wellness Program began eight months ago, productivity in the Claims Department has risen by 18 percent and sick days have decreased by 5 percent, as compared with the previous eight-month period. Most of the departmental employees are trying to use the center at least twice a week, and some have even started support teams to encourage each other to continue their exercise programs. Morale seems better than ever, and Joe Mirola has started to talk about the Wellness Program with colleagues in other parts of the company. He believes that increased use of the Fitness Center would benefit the firm, not just the Claims Department.

Proposing to Eliminate the Health and Fitness Center

Recently, Zachary Evans was promoted to Vice President of Operations. Zach has been with the company for 25 years and is likable, smart, creative, and successful in increasing profits. He is known to routinely work 18-hour days and to dislike dealing with issues he considers marginal to making profits (such as employee benefits). He can be hardheaded and stubborn, but he is also fair and listens carefully to others' opinions.

Currently, Zach is preparing a report for the President, CEO, and the Board of Directors in which he will outline his ideas for improving profits and reducing costs. He has let it be known that among his suggestions is a proposal to close the Fitness Center. At a recent one-on-one meeting with Zach Evans, Joe Mirola mentions his strong views against closing the center, noting how much the facility means to him and his department. Zach nods and responds that the Fitness Center is nice, but it is simply too expensive to run. Including the salaries for the Fitness Center staff, maintenance of the machines, and other expenses of the facility, the costs of the Center are almost \$100,000 a year.

"The number of users doesn't anywhere near justify such costs," Zach says. "According to the log of Fitness Center users, only about

35 percent of our employees use the facility on a regular basis. I admit I don't use it myself; I find exercise a bore—a waste of time, in fact. But that's beside the point. The fact is that the majority of our employees are not health and fitness fans. A whopping 65 percent don't use the Fitness Center at all. Of the regulars, only about 10 percent could be called frequent users, logging into the center three or more times per week. We can't afford to run such an expensive facility for the fun of a few. Besides, as we expand and hire more employees, we need the space. The Fitness Center could be adapted to accommodate the growing Corporate Information Systems Department.”

“Wait a minute!” Joe says. “The Fitness Center is not ‘for the fun of a few’! It's for the better health of many of our employees, and as folks see the benefits, more will start using it. Also, it's only three years since we invested a lot in the Center, and it's a great recruiting device.”

“I hear you,” Zach nods. “However, I still don't think we need the Fitness Center to be competitive for new hires. Only about a quarter of the nation's businesses have exercise facilities, and none of our big competitors for talent has a health club in this area. Frankly, I believe that the reason for keeping the Fitness Center is mainly for the recreational enjoyment of a rather small minority of our employees. That just doesn't seem enough to justify these costs or the continued use of this space. But look, Joe, I'm certainly open to hear your views. Why don't you persuade me on paper. I'll review your arguments before I begin preparing my report.”

Joe Mirola expresses satisfaction at Zach's invitation to write him a memo on why Rocky Mountain should keep the Fitness Center open.

“Just remember, Joe, you'll have to come up with some pretty persuasive arguments,” Zach says with a smile, “to get me to change my mind!”

Assignments

Assume the role of the administrative assistant to Joseph Mirola, the Claims Manager for Rocky Mountain Mutual Insurance Company.

Assignment 1: Persuasive Memo

Write a draft of a persuasive memo to Zachary Evans on behalf of Joseph Mirola, presenting reasons for keeping the company Fitness Center. Use the information provided by the case and draw inferences from the case and your own knowledge to support the points but do not invent details. The memo is for Mirola's signature so make sure that the points represent him and his views. In preparing your memo, assume that Mirola will review your draft and determine if any revisions are necessary.

Assignment 2: Oral Presentation

Prepare an oral presentation (five minutes) for Joseph Mirola to present his perspective on retaining the Fitness Center to the Rocky Mountain Mutual executives and the Board of Directors. Although none of these people has revealed his or her views, Mirola advises you that there are strong feelings on both sides of the issue and that you, speaking on his behalf, must be very persuasive to keep the Center.