

Coaching Advice: Merit Pay (Pay-for-Performance, P4P)

The most compelling information that we've seen on this topic comes from the work of Dan Pink. Resources from him include one of his books (DRIVE) and there are lots of articles out there either from him (or referencing his work). I link this video which overviews it nicely.

- The link to a Dan Pink video: <https://vimeo.com/15488784>

The summary points are:

- Forty years of psychological research demonstrates that when someone is faced with a complex work, money is an ineffective motivational tool, and may even delay progress.
- Professionals engaged in complex and creative work are more likely to be motivated by autonomy, and by the feeling that they are part of a larger, socially important enterprise.
- Merit pay systems are best suited in "assembly line" type work situations, in which healthcare is not.

Our 20+ years of reading and observing on this issue have led us to these beliefs:

- At a gut level, it may seem that higher pay raises for higher behaving/performing/contributing employees would be a fair system; yet, such a system would be so complex to design and administer fairly; therefore, the end result would be the perception by many that the system is unfair or at best, questionable. Leaving an all year looming of dissatisfaction about annual raises. And, in the belief of Dan Pink's work, this system isn't even good at motivating a complex workforce.
- Pay fair compensation (internal/external equity to the level possible) to begin with so that pay is taken off the table as a major employment issue. There are really two main systems: how wages are set; and how wages are increased (annually or otherwise). When the system of how wages are set is perceived as fair; this takes a lot of stress off the second issue as to how ways are increased.
- At a basic level, everyone's household expenses are going up; therefore, there is a desire (need?) for annual household income to go up. The ability of an organization to stay on pace with raises that match the rising cost of living is the challenge; but again, a basic desire (need?) of each employee. As well, many people have a desire to better themselves and the situations of their families and their employer (and wages paid by them) is seen as their primary link to doing that.
- I think that an occasional (e.g., not so regular that it is expected) "surprise and delight" monetary award/reward approach can be well administered with good impact on culture (e.g., the organization has an amazing year of profit so that a reward can be afforded and linked to key strategies/goals/accomplishments). These types of rewards are determined in retrospect; versus hung out there in advance saying "if we do X, we will all get Y". Therefore, it is a reward or recognition (with all its positive affects), and not intended as a motivator (which doesn't work).