

Pay 'em or flay 'em: improving productivity in the medical labour market

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Outline

- Background – current policy development
- Economics of incentives and productivity
- Psychology of incentives and motivation
- Current pay and reward of doctors in the NHS
- Conclusions - theory and practice

Background - current policy

- Substantial NHS expenditure increases over recent years, particularly on salaries and workforce expansion
- Increasing concern about returns on this spending, and the importance of 'productivity'
 - e.g. Health Select Committee and Public Accounts Committee both sharply critical of lack of attention to efficiency and productivity in workforce planning and contract reform
 - Grumbach (in evidence to the Health Committee) stressed the importance of "not adding more sugar to your coffee before you've stirred what's already there"

Physician payment mechanisms are inevitably subject to more public monitoring than compensation systems in other occupations, since we all care more about our doctor's immediate motivation than we do about our accountant's or plumber's.

Robinson 2001

Economics and improving productivity: explicit incentives

- Economic theory in an agency relationship focuses on incentive compatible contracts, implying the need for performance related pay
- US and Canadian economists have explored fee for service payment and supplier induced demand – requires regulation to avoid over-treatment
- Other payment systems – capitation, salary, do not contain incentives to over-treat but contain no incentives for productivity – requires regulation to stimulate activity
- Prospect theory – threat of loss of income powerful stimulus
- All contract systems need a balance of incentives and regulation
 - In the words of Morris Barer, we can "pay 'em or flay 'em"

Explicit incentives in medicine

That any sane nation, having observed that you could provide for the supply of bread by giving bakers a pecuniary interest in baking for you, should go on to give a surgeon a pecuniary interest in cutting off your leg is enough to make one despair of political humanity.

George Bernard Shaw (1946)

Economics and improving productivity: implicit incentives

- Individuals are not simply interested in current rewards, but will expend effort to increase the likelihood of future rewards, over a lifetime
 - Economic theory of 'career concerns'
 - An 'implicit contract' links current performance to future pay – often relied on in public sector jobs
 - Minimal empirical evidence

Implicit incentives

Casual empiricism tells us that there is more to incentives than simply more jam today. Many individuals who do not receive any performance related bonus are nevertheless strongly motivated by the possibility of either promotion within the organisation or a better job offer from an outside firm

Burgess & Metcalfe 1999

Economics and improving productivity: non-financial incentives

- Non-financial incentives also determine behaviour
 - Trust, duty, altruism and reputation
- In medicine, reinforced by professional codes and self-regulation
 - Hippocratic tradition
- But self-regulation relies on trust, which appears to have been eroded over recent years – 'accountability revolution'
- Addition of direct financial incentives (such as PRP) to a profession where trust may already be undermined is unpredictable.
 - Do monetary rewards 'crowd' intrinsic motivation

Non-financial incentives

The regard of those general rules of conduct, is what is properly called a sense of duty, a principle of greatest consequence in human life, and the only principle by which the bulk of mankind are capable of directing their actions

Adam Smith 1790

Psychology and improving productivity

- Theories of motivation and satisfaction
 - 'Need' theories and 'goal' theories
- Theories of pay and compensating work
 - Pay as a 'reinforcer' over the long term
 - Parallel with 'career concerns' models in economics
 - The fact of performance related pay, not the amount, may determine performance
 - Along with the measurement that usually accompanies PRP – Hawthorne effect
 - Mixed empirical results - some studies show lower performance and mistrust – parallel with economic theories of explicit incentives 'crowding' intrinsic motivation
 - Merit rating systems – very limited empirical evidence

Current pay and reward of NHS hospital doctors

- Salary payments, with various supplements (e.g. on-call allowances)
- Consultants are eligible for clinical excellence awards – merit pay
- Private practice reimbursed fee for service
- Contract reform neglected productivity

Current pay and reward of NHS general practitioners

- Traditionally self-employed independent contractors with mixed payment systems
- Increasingly salaried employees
- New contract aimed to reward 'performance' directly
 - Practice income linked with a measure of clinical and organisational quality – the 'Quality and Outcomes Framework' (QOF)

Theory and practice: GP contract

- New GP contract embraced direct financial incentives
 - Criticised for generosity, over-rewarding GPs for work they were already doing, limited evidence base for targets and partial coverage
 - Early results promising but evaluation limited
 - If QOF targets are raised, may be a threat of loss of income (relevance of prospect theory)
- Need to increase and refine QOF targets over time
 - e.g. more focus on child health and health inequalities
- Do the financial incentives crowd intrinsic motivation?

Theory and practice: consultant contract

- Limited real reform - still salary based with merit pay
 - Salaries provide limited incentives for productivity
 - Merit pay (form of PRP) – ill-defined or no objective measures of 'performance'
 - Can clinical excellence awards be better related to measures of activity and outcomes?
- Implicit incentives neglected in both medical careers
- Still potential for 'stirring the coffee' in terms of medical productivity?