

Applying the Efficiency Wage Theorem to Healthcare Contracts

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The Efficiency Wage Theorem (EWT) suggests that worker productivity is elastic in response to wages; in other words, if paid more, more motivated workers will take self-organizing actions to increase their rate of work (Osterman, 1994). EWT has been studied in a number of settings, including healthcare. This essay contains an examination of some of the key literature in the field to determine if there are proven benefits to applying EWT in healthcare and, if so, what are the mechanisms for achieving these benefits. The conclusion is threefold. First, EWT applies to healthcare settings as

to other business settings. Second, EWT works in healthcare because of equity theory (Adams, 1976), which ties more broadly into theories of wages and motivation. Third, EWT only applies differently to different provider populations within the healthcare industry, requiring a customized approach to compensation.

Healthcare Productivity, Quality, and the Discretion of Employees

In healthcare, there are two major work-related problems: (a) The quality problem, which can be measured by such metrics as wrongful deaths and injuries resulting from worker negligence, incompetence, or, in some cases, malice; and (b) reduced productivity of work. Reduced quality of work translates into tens of thousands of patient deaths and injuries every year while reduced productivity translates into millions of dollars in wage losses for healthcare companies. Both of these problems are extensively documented in the literature (see for example the statistical overview provided by Cohen & Hughes, 2007). The question that emerges is: Can paying higher wages to provider groups improve both quality and quantity?

The answer, as Brown, Halbesleben, and Wheeler (2010) provided, is: It depends. Brown et al. discovered that, based on a longitudinal study of 352 hospitals in California, both the quality and quantity of registered nurses' work goes up when they are paid efficiency wages. However, Scott and Maynard (2003) found that the efficiency wage effect did not exist for doctors. There are a number of possible reasons for this effect. It might be the case that doctors already perceive themselves to be suitably compensated and therefore focus on other aspects of their profession as avenues for motivation. Indeed, studies have found that many doctors cite the availability of more free time as a significant form of incentive and motivation (Neuhas, 2007 offers a meta-review of some key literature on this topic).

Of course, in economics, time has monetary value. Thus, it is possible to argue that doctors' stated preferences for more time are also an indication that EWT would apply to doctors. For example, a doctor could be granted more time off, but at the same salary, so that his or her net pay per hour actually increased. If the time variable is factored in to the equation, then the existing research renders it plau-

sible that doctors would respond well to EWT. Unfortunately, there have not yet been any studies—of which the author is aware—correlating doctor performance with time off, but this topic should surely be investigated by future researchers. As it is, the extensive body of literature documenting doctors' need for more time off (see for example Neuhaus, 2007) can be taken as support of an EWT strategy built on offering doctors more free time while keeping pay constant.

Adams (1976), the originator of equity theory, argued that workers organize the quantity and quality of their work based on how much equity they feel they have in an organization. Within bounds determined by personal ability, workers will step up their contributions if they are paid more, because higher pay is a signal that workers mean more to an organization. Interestingly, Adams' (1976) research discovered that workers are not motivated primarily by the thought of more money in itself, but are rather motivated by the emotional ramifications of being recognized and rewarded by their employers. Thus, EWT feeds into psychological as-

pects of workplace motivation that render workers better in terms of both quantity and quality.

Conclusion

EWT has been found to have wide applicability to labor forces in many industries. Although some individual workers may be immune to EWT, because they are motivated by factors other than money, workers en masse will tend to respond well to increased pay by taking self-organizing behaviors to ramp up their efficiency and quality (Osterman, 1994). The reason for this behavioral response is that increased pay is one of the factors that makes workers feel as if they have more equity in their organizations, and equity is itself a foundation for motivation (Adams, 1976). Finally, as Adams argued, motivation leads to an improved orchestration of workers' resources that leads to better results for organizations. Healthcare can benefit from all of these trends. Given the tragic cost in wrongful patient deaths and injuries, to say nothing of vast sums of wages lost in paying non-productive workers, it is surely worth considering EWT as a way of motivating healthcare

workers to raise the quantity and quality of their work.

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