



Tomorrow's Doctors, Tomorrow's Cures

Incentive Compensation Plans for Research Faculty

ACDP Fall Retreat Meeting

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Association of
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Agenda

- **Types of Faculty Incentives: How Do They Work?**
- **Who's Doing It?**
- **Why Are Schools Adopting Incentives?**
- **What's to Worry About?**
- **Toward a Balanced Compensation Policy**

Faculty Incentives

- 3** types
- **Recognition awards**
 - **Research program incentives**
 - **Salary incentives**

1 Recognition programs

One-time rewards offered to limited number of faculty

2 Research program incentives

- **Provide additional monies to cover research-related expenses such as additional personnel costs, travel, journal subscriptions, equipment, recruitment costs, etc.**
- **Specifically do not provide a salary incentive**

3 Salary Incentives and Bonus Plans

Structure: 3 types

- **Percentage or amount of salary recovery**
- **Amount of indirect cost recovery**
- **Combination plan**

Who's Doing It?

- **82 of 126 medical schools allow basic science faculty to receive bonus or incentive payments in addition to regular salary (2005 AAMC Survey)**
- **54 medical schools awarded bonus/incentive payments to basic science faculty in FY 2004 (AAMC Salary Survey)**

Trends in Bonus Pay For Basic Science Faculty

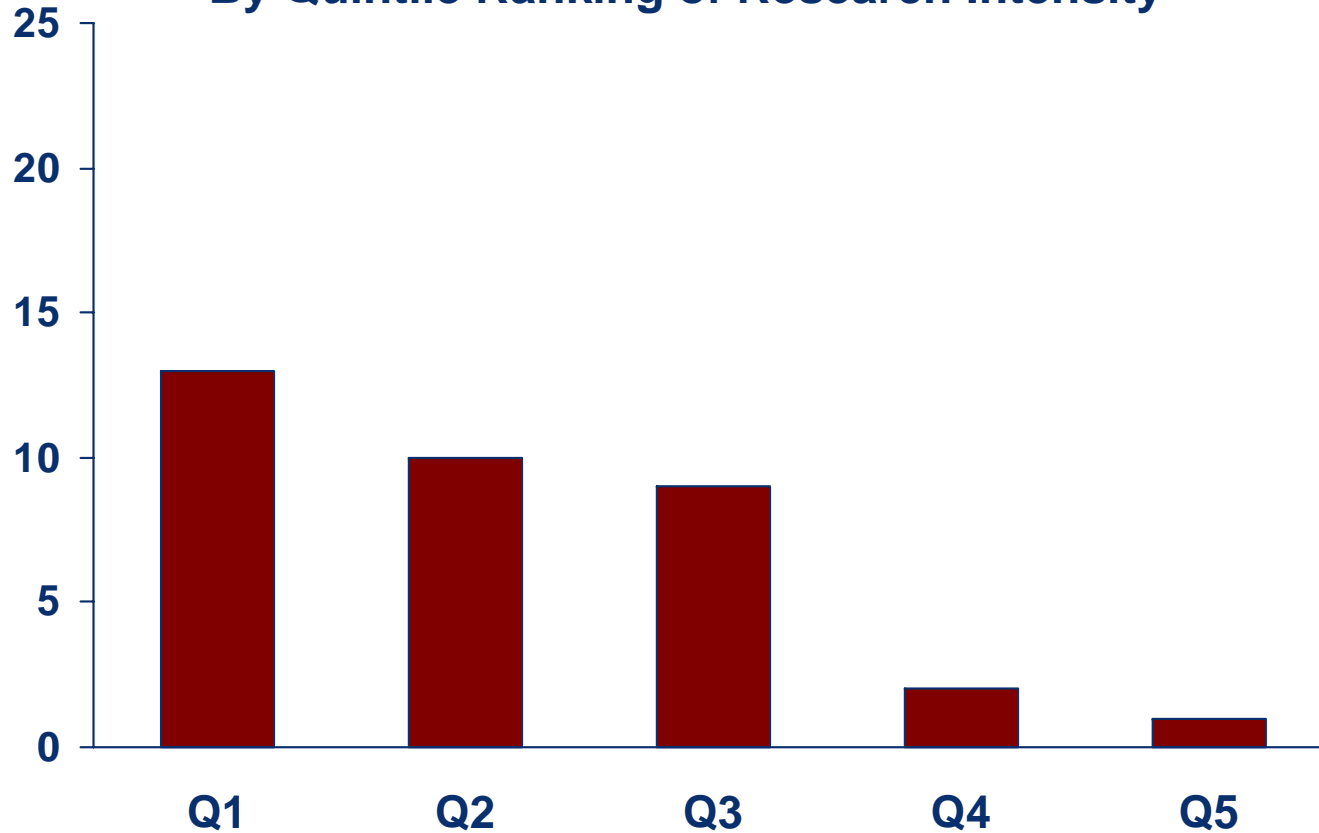
	2000	2001	2002	2003	2004
Total Number of B.S. Faculty*	10,718	11,033	11,309	11,613	12,018
Number Eligible for Bonus	3,912	4,446	5,861	5,537	6,091
Number Receiving Bonus	626	624	960	1,190	1,210
Percentage Receiving Bonus	6%	6%	8%	10%	10%
25th Percentile	\$3,000	\$2,000	\$2,000	\$2,000	\$2,000
50th Percentile	\$5,000	\$6,000	\$5,000	\$5,000	\$5,000
75th Percentile	\$11,000	\$13,000	\$12,000	\$11,000	\$15,000
Mean	\$8,900	\$10,300	\$9,500	\$9,100	\$11,200

* Total number of Ph.D. and M.D. basic science faculty, all ranks, reported in AAMC Faculty Salary Survey. Data Source: AAMC Faculty Salary Survey, Fiscal Years 2000-2004

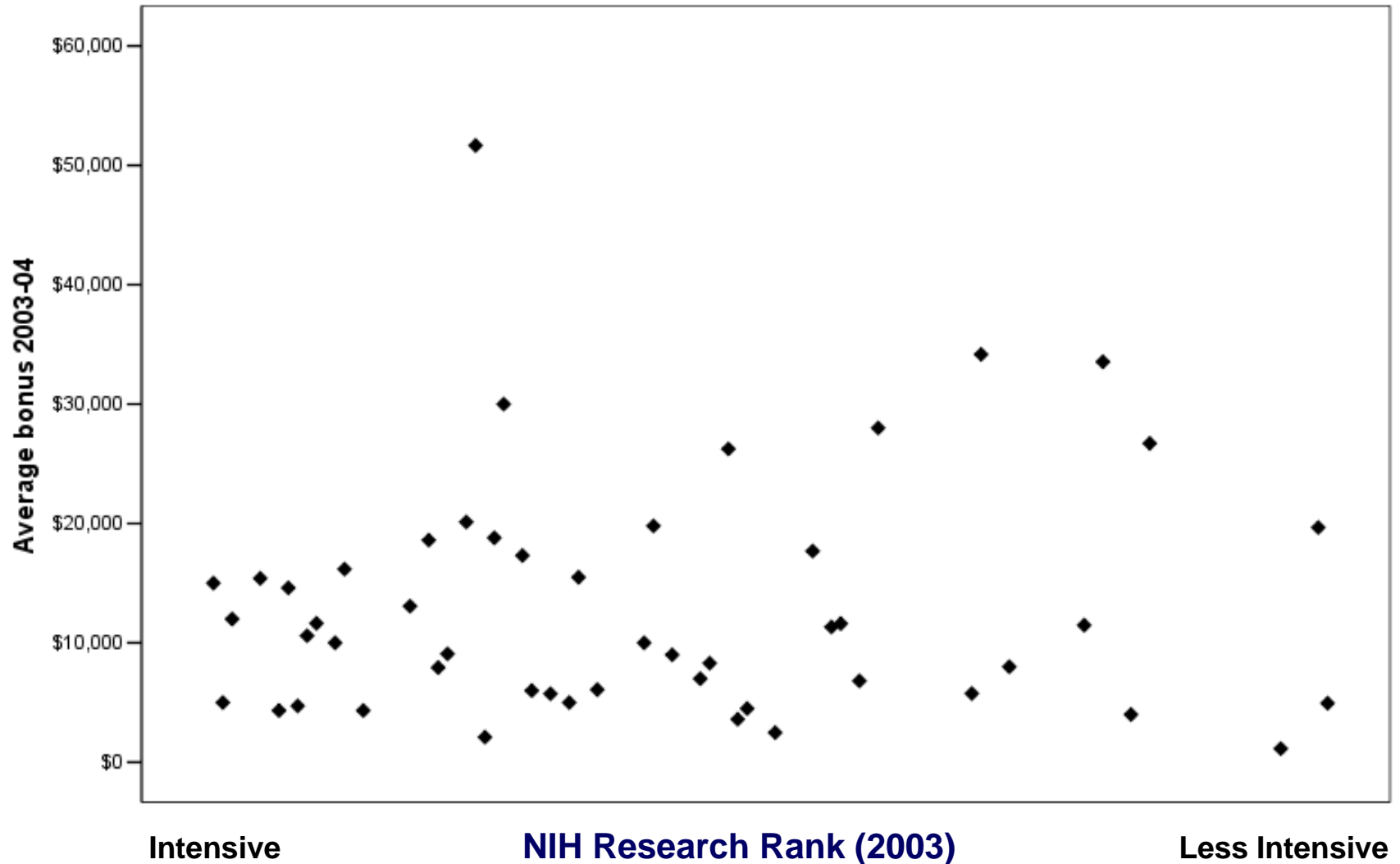


Who's Doing It?

**Schools Offering Bonus Pay
to One or More Basic Science Faculty, 2002-04,
By Quintile Ranking of Research Intensity**



Is There a Relationship Between Amount of NIH Grant Funding and Size of Bonus Pay?



Do Schools That Offer Bonuses Differ From Those That Do Not?

	Schools with at least one faculty with bonus pay each year, 2002-04 (N = 35)		All Other Schools (N = 85)	
	<i>Average Grants per BS faculty</i>	<i>Change</i>	<i>Average Grants per BS faculty</i>	<i>Change</i>
2000	\$176,783		\$112,814	
2001	\$201,566	14.02%	\$120,052	6.42%
2002	\$211,032	4.70%	\$131,161	9.25%
2003	\$232,324	10.08%	\$149,495	13.98%
2004	\$260,996	12.35%	\$166,691	11.50%

WHY?

Incentive Pay: National Trends

- National shift (for-profit and not-for-profit) to performance-based, variable pay
- Compensation in higher education adopting a business model, but most faculty compensation still contract salary system (merit) or single salary schedule
- History of academic medicine = Insatiable desire for growth

Benefits of Incentive Compensation

- Helps schools achieve better financial flexibility. Convert salary savings to discretionary funds to target priority areas.
- Encourages faculty to secure more extramural grant funding, thereby generating more revenue, helping to climb the NIH rank list and enhance institutional prestige
- Enables salary increases in a time of budget cutbacks (state schools)
- Long-run cost-savings; salary increases tied to static base
- Affords faculty sizeable boost in income; aids in recruitment and retention

WHAT'S TO WORRY ABOUT?

- 1. Are Incentive Plans Legal?**
- 2. Are Incentive Plans Sustainable?**
- 3. Do Incentive Plans Work?**

Are Incentive Plans Illegal?

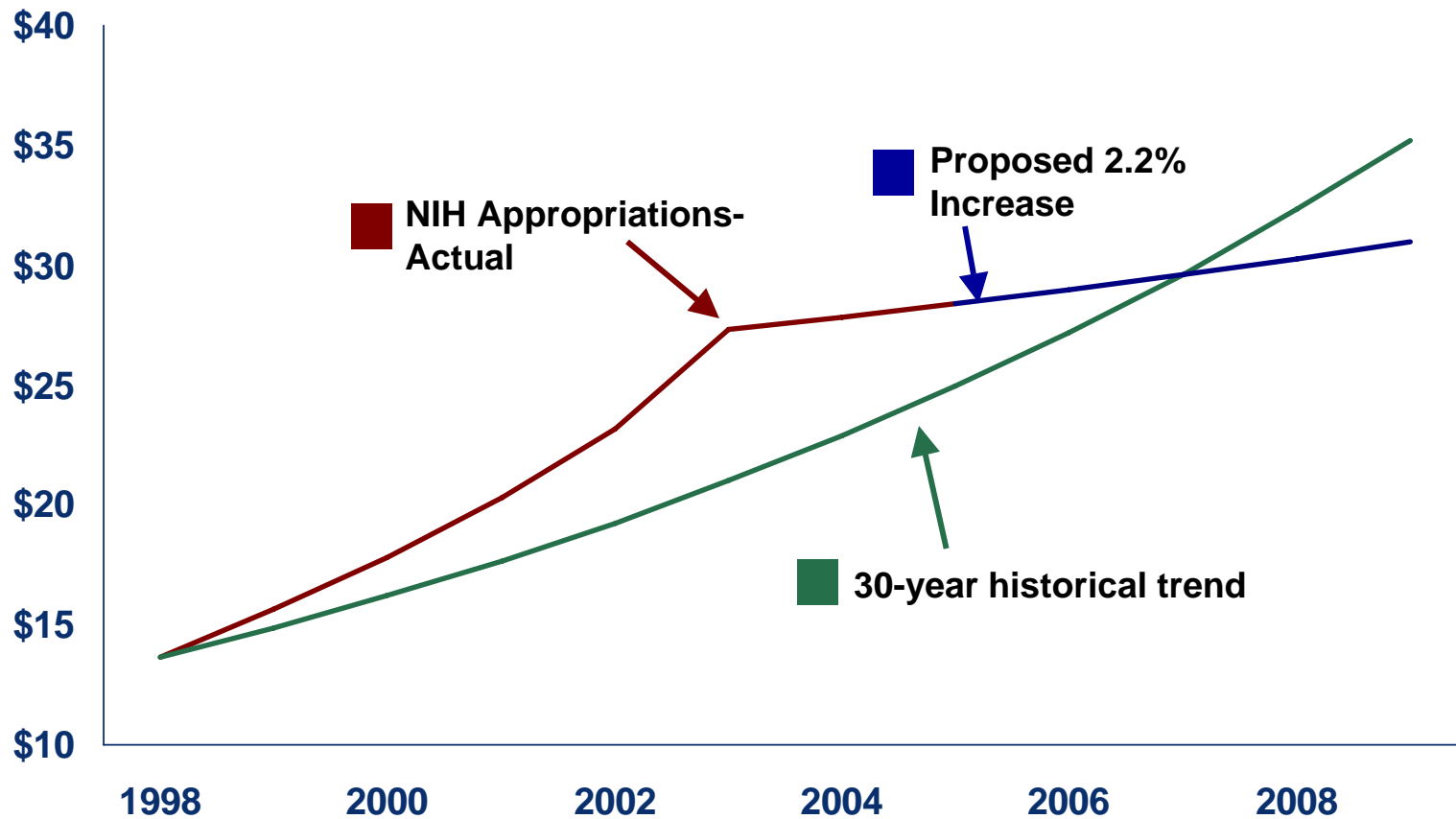
NIH Grants Policy Statement, Dec. 2003

Bonus Funds/Incentive Payments:

“Allowable as part of a total compensation package, provided such payments are reasonable and are made according to a formal policy of the grantee that is consistently applied regardless of the source of funds.” (98)

Are Incentive Plans Sustainable?

NIH Appropriations - \$ in Billions



Source: AAMC



Do Incentive Plans Work?

Conceptual Frameworks

1. Rational-economic
2. Psychological

Rational-Economic Model

- People are primarily motivated by economic self-interest and act to maximize financial rewards.
- Empirical research:

INCENTIVES MATTER

Paying people to do X causes them to do X

Rational-Economic Model

Empirical Studies:

- Auto workers installing windshields
- Canadian tree planters
- Sales staff in retail stores
- British jockeys
- Chinese agricultural workers

Complex Jobs → Dysfunctional Behavior

Rational-Economic Model

CONCLUSION:

**Incentives do matter,
for better or worse**

Psychological Model

- **Hygiene Factors:** supervision, relationships, work conditions, salary, status, security
- **Intrinsic Motivation:** achievement, peer recognition, the work itself, advancement, growth

CONCLUSION:

Incentive compensation might remove dissatisfaction, but does not improve motivation. In fact, it might harm intrinsic motivation (academic culture and values).

Toward a Balanced Compensation Policy

- Faculty achieving above satisfactory levels should receive increased compensation
- Consonant with values and mission
- Incentive programs should be based on a variety of factors, not just one or two

Toward a Balanced Compensation Policy

- Incentives should be interwoven into an inclusive and motivating culture

“Surprisingly, the secret of persuading people to focus simultaneously on developing new businesses and managing current operations may be to rely less on pay for performance.”

“In fact, companies that achieve both objectives de-emphasize performance pay. Crucially, they combine it with an usually inclusive culture.”

—*McKinsey Quarterly*, 2002