We know financial and nonfinancial incentives are designed to encourage specific personal behaviors and to achieve both individual and organizational performance goals. What steps can be taken to avoid or minimize their unintended consequences?

Beginning in early childhood, everyone learns the power of incentives, disincentives and sanctions. Their unquestionable influence shaped our daily behavior, attitudes and decisions. As children our actions were often the result of the rewards, praise, applause, criticism, disapproval and perhaps even ridicule we received.

We carry these lessons into adulthood and into our professional careers where we become increasingly aware of how and why the proper alignment of incentives at each level of the organization is essential to producing positive outcomes. The type of organization, its tax status, position in the market, form of governance, leadership and culture all set the stage for either implicit or explicit incentives for both individual and group behavior. Unfortunately, and often too late, many organizations also discover the “dark side” of incentives.

Without proper alignment and oversight, incentives can inadvertently promote unethical behavior. When results are more valued than honesty and pressure intensifies to generate better outcomes, it is not surprising to witness an increase in unethical behavior. This behavior can be demonstrated in the distortion, manipulation or concealment of data to improve:

- Financial results
- Pay-for-performance rewards
- Internal and external comparative analyses relative to finance or patient care
- Public perceptions of the organization
- Job performance of either individuals or work groups
- Support by employees and medical staff for organizational change or CEO decisions

Historically, hospital payment programs are a prime example of the power of incentives to discourage efficiency under cost-based reimbursement (1965 to 1983) and then to encourage cutting even necessary costs under DRG-based reimbursement. Similarly, physician payment policies have been criticized for encouraging unwarranted visits and procedures under fee-for-service payment and discouraging legitimate services under managed care, particularly capitation.

But incentives of all kinds remain a popular instrument of management, so it is worth considering what happens when they are used unwisely. For example, unrealistic budget targets, in addition to stimulating possible financial fraud and abuse, may be set too high in order to meet an income goal or too low for the actual volume of work to be done, damaging staff morale and quality of care. Block scheduling of outpatient visits can improve efficiency while lengthening patient waiting times.

If there is an incentive to reduce incident reports, patient and employee safety will be compromised if adverse events are then underreported. When employees see incentives that are counterproductive, unevenly applied or inadequate, they become cynical about subsequent initiatives.
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Sandeep Jauhar, MD, notes in a Sept. 9, 2008, New York Times article that too little attention has been devoted to the pitfalls of judging physician performance by surgical report cards and compliance with clinical guidelines. According to one study, the proliferation of surgical report cards has encouraged cardiac surgeons to accept only relatively healthy patients.

Challenge a diverse group of staff members to state what negative developments could possibly result from implementing a particular incentive designed to stimulate only positive outcomes.

Jauhar also references the Medicare requirement that antibiotics be administered to a pneumonia patient within six hours of arriving at the hospital. He indicates physicians cannot always diagnose pneumonia that quickly, so now the overuse of antibiotics in emergency rooms has led to a rise in antibiotic-resistant bacteria and antibiotic-associated infections.

Recommendations
To minimize the unintended consequences of incentives:

1. Build a foundation for ethical behavior. Select the right people for the board, recruit morally conscientious employees and appoint highly principled medical staff members. Make discussion of ethics a more prominent topic in board, management and medical staff meetings.

2. Consider the ways an incentive could be abused. Recognize that an employee’s need for job security and/or advancement can trump appropriate conduct, especially when this person feels vulnerable or is overly ambitious.

3. Think imaginatively about the full range of potential unintended consequences of a specific program or policy. Challenge a diverse group of staff members to state what negative developments could possibly result from implementing a particular incentive designed to stimulate only positive outcomes. For instance, is it possible that improvements in infection control or surgical outcomes could be publicized prematurely without verification, or that adverse reports could be concealed, delayed or downplayed?

4. Make a commitment to complete transparency by sharing information fully, quickly and factually—an incentive to promote accountability is hypocritical and unethical if the commitment is fulfilled only when there is good news to share. Help board members avoid overreaction when bad news is expressed openly, even if they fear it will harm the reputation of the organization or worry the medical staff.

5. Incorporate elements designed to minimize and discourage inappropriate behavior within incentive plans.

6. Analyze an incentive’s positive and negative effects on patients, which may raise or lower perceptions of the organization’s integrity and ethics. If families have to endure bankruptcy or forgo needed medical treatment because of a provider’s unreasonable pricing policies or collection methods formed by the use of incentives, the community will not be comforted by the organization’s claim that “all healthcare institutions do this.”

The proper use of incentives can have a positive impact on quality of care and the bottom line. By fully considering all the undesirable consequences of incentives, executives can avoid higher costs and potential embarrassment for the organization. More importantly, patients and the public will be the ultimate beneficiaries.

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