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Basing Employee Raises on Merit

If you ask medical staff employees how their last pay raise was awarded to them, replies will probably range from the humorous to alarming examples of employer insensitivity. Unfortunately, many physicians, their practice managers, and administrators do not know how to use salary increases to motivate employees. In some cases, they fail miserably.

A pay raise should always be coupled with a sincere effort to evaluate work performance. Thus, the employee is made aware that their compensation is tied directly to their performance. The evaluation should be scheduled at least annually, with new employees evaluated more frequently during their first year of employment. This system allows physicians to concentrate on evaluations and make sure that no one is forgotten.

Evaluations should be handled by the practice manager or administrator in larger practices, with physician involvement in smaller group practices. The strengths and weaknesses of each staff member should be discussed, along with goal-setting for the next year's performance and a review of the prior year's accomplishments.

For a meaningful evaluation, honesty is essential. In order for the employee to fix a problem, you must first identify it. Listen to what the employee says in response to make sure you have understood the true circumstances surrounding the issue. If someone is clearly performing below expectations and, even after discussion, is unable or unwilling to change or to improve, then that employee is a liability for your practice and should be moved out. It is important for your practice's success that your employees earn their salaries by providing a meaningful contribution to your practice.

However, make sure you stick to how well the employee has performed the requirements of the job, rather than an evaluation of the person. Focus on objective measurements of work performance and behavior to the extent possible. If subjective factors come into play, try to be concise about your point and illustrate it with concrete examples.

There are many forms available to document and facilitate the evaluation process, or you can design your own to identify the issues important to you. Make sure that the same one is used for all employees having similar positions.

After evaluating an employee through your practice's annual review process, meet privately with him or her to actually discuss strengths and weaknesses, as the review as identified them. In a similar fashion, discuss work deficiencies and areas for improvement. Then, advise the employee what his or her raise, if any, will be.

If practice finances generally permit generous pay raises, emphasize the connection between the employee's good performance, your practice's overall success, and the pay raise you are giving. If practice finances won't permit you to give the kind of pay raise you'd like to give to a good employee, explain, generally, the situation and stress your appreciation for the employee's good performance and loyalty.

The net effect of merit pay raises should be that, individual employees will each receive different percentage pay raises. Thus, if the average pay increase is 3%, the "good" employees will merit a pay raise greater than 3% (perhaps significantly greater), an "average" employee will receive 3% and the "poor" employee will receive less than a 3% (and sometimes no) increase.

A pay raise should serve two important functions: rewarding employees for their work and motivating them to continue striving for improvement. One advantage to having a definite system for determining compensation levels includes separating yourself from the emotional sympathies of the process. You also have a fair way to evaluate the employee's contribution to the practice and his or her ability to handle the job. The employees also have an opportunity to contribute toward the development of their own job descriptions and to establish their own objectives toward accomplishing the job.

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