

Performance-based pay linked to employee mental health problems, study shows

March 21 2019, by Chuck Finder



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Roughly seven of 10 companies in the United States, if not around the globe, use some form of pay-for-performance compensation system: bonuses, commissions, piece rates, profit sharing, individual and team goal achievements, and so on. But does such an incentivized workplace create a negative effect on the mental-health wellness of those workers?

In the first big-data study combining objective medical and compensation records with demographics, researchers at Washington University in St. Louis and Aarhus University in Denmark discovered once a [company](#) switches to a pay-for-performance process, the number of employees using anxiety and [depression medication](#) increased by 5.7 percent over an existing base rate of 5.2 percent.

And the actual number of affected employees is almost certainly much higher, said co-author Lamar Pierce, professor of organization & strategy and associate dean for the Olin-Brookings Partnership at Olin Business School.

"This is the tip of the iceberg, and we don't know how deep that iceberg goes beneath," said Pierce, who has focused much of his Olin research on productivity, wellness and pay systems in organizations. "If you believe that the generation of significant depression and anxiety requiring medication represents a much broader shift in overall [mental health](#), it's probably a much bigger effect in terms of people."

While also finding damaging impacts on women and those over age 50 when a company changes to a pay-for-performance workplace, the key conclusion of the study, recently published online by the *Academy of Management Discoveries*, concentrated on the workers prescribed benzodiazepines such as Xanax or selective serotonin reuptake inhibitors (SSRIs), such as Zoloft.

Researchers Pierce and Michael S. Dahl of Aarhus University looked at comprehensive Denmark governmental records covering 318,717 full-time employees in 1,309 companies of 25-plus workers, and found—in firms implementing pay-for-performance compensation—a 5.4 percent increased likelihood that existing workers would take these medications.

This, Pierce noted, constitutes merely the workers who sought and

received medical help through medication. In fact, studies show that only one in three people in the United States seek treatment while facing [mental-health problems](#), with many of those in treatment receiving alternative care.

The co-authors said there's no way to estimate, from this dataset, the overall cost a business absorbs from such issues.

"But these types of mental health problems are incredibly costly to both the individual and firm," Pierce said. "If this is reflective of a broader increase in stress and depression in employees, the costs are very high."

Three critical findings

More about the three critical findings of the study that encompasses Danish workers ages 18 to 65 over a 1996-2006 period:

1. Medication usage: Projecting the Danish data to U.S. companies, this would mean 100,000 more American prescriptions for pay-for-performance workers every year. The study also revealed that workers taking benzos or SSRIs had a 5-9 percent increased likelihood to exit that company in a given year, regardless of gender or age.
2. Attrition based on mental health: While the data didn't directly show workers' reasons for leaving, the researchers observed a trend where women more often than men chose to depart these companies making the change to pay for performance. "Women were more likely to leave a job when it was likely to hurt their mental health—while the men stayed even in the face of similar problems," Pierce said.
3. Individual differences: The overriding differential the researchers found, though, was age. "Basically, older workers seem to be driving all of this effect," Pierce said. "One, it's

harder for them to move, so they have less labor mobility. And, two, they have less flexibility: learning new roles, adapting to change, they have more fully-formed preferences at this point ... The increase in benzos and SSRIs prescriptions comes "almost all among the older workers. For workers ages 50 and over, it's almost double"—an 8.9 percentage increase over the base rate.

Pierce concluded: "What this study shows is that pay policies have broader health and wellness implications."

More information: Michael S. Dahl et al. Pay-for-Performance and Employee Mental Health: Large Sample Evidence Using Employee Prescription Drug Usage, *Academy of Management Discoveries* (2019). DOI: [10.5465/amd.2018.0007](https://doi.org/10.5465/amd.2018.0007)

Provided by Washington University in St. Louis

Citation: Performance-based pay linked to employee mental health problems, study shows (2019, March 21) retrieved 27 April 2024 from <https://phys.org/news/2019-03-performance-based-linked-employee-mental-health.html>

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