

Foreword

Incentives lie at the heart of management control. In particular, the design of formal incentive systems is widely discussed. Even if formal incentives are not everything, they have a pervasive impact on the behavior of an organization's members. Thus, it does not come as a surprise that there is an abundance of academic contributions to this topic. Empirical research, however, so far focuses predominantly on incentive effects, i.e., the effects of an incentive system on effort and productivity. By contrast, sorting effects, i.e., attracting a certain type of organizational member by the design of an incentive system, are somewhat neglected by empirical research.

This is the starting point for the analysis contained in this book. Dennis D. Fehrenbacher chooses the method of a real-effort and real-pay experiment and develops a subtle and state-of-the-art experimental design to separate sorting from incentive effects and to assess the influence of personality characteristics such as anxiety, risk aversion, locus of control, and need for achievement on both types of effects. He finds evidence that sorting effects have a greater impact on productivity than incentive effects and that sorting and incentive effects are influenced by different personality characteristics. Clear implications for the design of incentive systems are derived.

The results significantly advance existing research on incentive systems and will prove useful for both further research and the design of practically implemented incentive systems.

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Design of Incentive Systems

Experimental Approach to Incentive and Sorting Effects

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