Incentive Systems in Organizations: The Scientific Perspective

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Incentive Systems in Organizations: The Scientific Perspective

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Need: Organizations utilize incentive systems to reward employees for relative performance. However, implementations of incentives and punitive systems (incentive systems) more often lead to degradation and demotivation rather than serving as a platform that encourages contribution for organizational success. Understanding the psychological and organizational constructs behind incentive systems will allow for designing these systems in manner that will deliver the intended and desired results.

Overview: Organizations will quite often indicate that incentive systems are notoriously ‘trickier’ than the intuitive, straightforward, perception of their relationship with employee motivations. Thus, many incentive systems lead to perverse incentives (i.e., incentives that result in unintended and undesirable outcomes). A common example of incentive systems are manufacturing facilities that provide incentives to encourage quality production or safe behaviors. This presentation will introduce psychological theories and organization characteristics that are defining the effectiveness of incentive systems. Various example of incentives system from private industry, municipal entities, and governmental organizations will be reviewed and reflected upon. Attendees will leave with guiding principles for designing effective incentive systems that provide their intended outcomes.

Major Points:
• Incentives and penalties are more often hurting rather than enhancing performances in organizations.
• The intuitive ‘straightforward’ perception of the relationship between incentives/penalties and employee motivations in organizations is deceiving.
• Social and psychological aspects should be included in the design of incentiv e systems.
• Successful incentive systems should be designed based on an understanding of the scientific aspects of the various types of incentives and penalties.

Summary: Organizations use incentive systems to motivate employees to contribute toward organizational success. However, a lack of understanding of how incentives affect employee behaviors lead to implementation of incentive systems that gain undesired outcomes. The presentation will review the psychological and social factors of incentive systems and how to utilize this knowledge in order the structure effective incentive systems.