Course work on costs and benefits of responding to incentives

Business, Marketing

Incentives is a term used to refer to any factor financial or non-financial to motivate a particular course of action in an organization or something that can give a person reason enough to prefer one choice to the alternatives. It is normally aimed at encouraging someone to act in a particular way. Incentives are believed to have an influence of an individual's decision making and this will indirectly have an impact on how an organization performs in terms of co-operation and competition within a larger institutional structure. The main aim of incentives is to provide value for money and contribute to organizational success. However, the provision of incentives to employees has both benefits and costs to the organization at large (Sullivan & Sheffrin, 2001, p 61).

A practical example of the effects of incentives is a recent situation in our organization where the workers were given a remunerative incentive: the kind of incentive where an agent can expect some form of material reward which in most cases is money, in exchange for acting in a particular way (Martimont & Laffont, 2001, p 157). In this situation, the workers were given the kind of incentive where they were paid straight for the number of pieces they produced per day; this is normally referred to as the straight piece rate (Campbell, 2002, p 99). The first reaction on my part was to increase my productivity. This is mainly because as human beings we are purposeful and I was purposed to make the most income by increasing my productivity. The increase in productivity was followed by an increase in consumers who were attracted to the products.

This result can be illustrated by the classical example of the Walrasian chart of supply and demand curves. This theory predicts that the market will always tend towards the equilibrium price, meaning that if the prices were set above this price, they will readjust to the equilibrium price since everyone in the market has the remunerative incentive to do so (Shields, 2007, p 85). When there is increased production of goods in the market, it follows that the prices in the market will reduce and a decrease in the market prices will attract more customers to purchase the good due to its reduced price. The benefits of these incentives were increased customers who were willing and able to purchase the goods provided by the organization, and they were also able to make more money this can be attributed to the increased sales and the economies of scale enjoyed by the organization at large.

However, to gain these benefits, the organization experienced some opportunity costs since most of the workers, decreased the quality of our work. This is because most of us aimed at increasing our productivity so as to increase our income based on the pre-existing incentive. Therefore, in comparison to the goods that were previously being produced there was a decrease in product quality. This cost the organization some of their previous customers since they noticed that the product quality had deteriorated. Luckily, the benefits outweighed the costs since there were more customers consuming the products as opposed to the past scenario.

There are other additional benefits, in that they motivate workers to produce at full capacity, it also helps people to make the kind of decisions which the

organization would like them to make and they also give workers a reason for doing what the management wants them to do (Sullivan & Sheffrin, 2001, p 31). However, the costs of responding to such incentives may cost the organization since as human beings we are quite innovative and the organization's management may have no control over the reactions which the workers will respond to- in simpler terms there is the risk of unintended consequences. However, the outcome of these incentives may be controlled by the formation of policies that strictly outline the conditions of these incentives such as ensuring that there is no reduction in the quality of products.

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