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The effects of monetary incentives on effort and task performance: theories, evidence, and a framework for research

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Abstract

The purpose of this paper is to review theories and evidence regarding the effects of (performance-contingent) monetary incentives on individual effort and task performance. We provide a framework for understanding these effects in numerous contexts of interest to accounting researchers and focus particularly on how salient features of accounting settings may affect the incentives-effort and effort-performance relations. Our compilation and integration of theories and evidence across a wide variety of disciplines reveals significant implications for accounting research and practice. Based on the framework, theories, and prior evidence, we develop and discuss numerous directions for future research in accounting that could provide important insights into the efficacy of monetary reward systems.

1. Introduction

Monetary incentives frequently are suggested as a method for motivating and improving the performance of persons who use and are affected by accounting information (e.g. Atkinson, Banker, Kaplan, Young, 2001; Horngren, Foster, & Datar, 2000; Zimmerman, 2000), and their use in organizations is increasing (Wall Street Journal, 1999). Further, researchers have been encouraged to employ incentives in experimental studies so that subjects are sufficiently motivated and participate in a meaningful fashion (e.g. Davis & Holt, 1993; Friedman & Sunder, 1994; Roth, 1995; Smith, 1982, 1991). Anecdotal and empirical evidence, however, indicates that monetary incentives have widely varying effects on effort and, consequently, oftentimes do not improve performance (Bonner et al., 2000; Camerer & Hogarth, 1999; Gerhart & Milkovich, 1992; Jenkins, 1986; Jenkins, Mitra, Gupta, & Shaw, 1998; Kohn, 1993; Young & Lewis, 1995). Consistent with this, accounting studies examining the effects of incentives on individual performance find mixed results with regard to their effectiveness (e.g. Ashton, 1990; Awasthi & Pratt, 1990; Libby & Lipe, 1992; Tuttle & Burton, 1999; Sprinkle, 2000). If monetary incentives have disparate effects on effort and performance,

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then suggestions for their use in either the field or the laboratory should be informed by an understanding of the factors that moderate their effectiveness.

We have four objectives in this paper. Our first objective is to provide a conceptual framework for understanding the effects of (performance-contingent) monetary incentives on individual effort and performance and also to discuss theories that suggest mediators of the incentives-effort relation. Here, our focus is on explicating the motivational and cognitive mechanisms by which monetary incentives are presumed to increase performance; understanding these mechanisms is critical for determining how to maximize the effectiveness of monetary incentives. Theoretically, monetary incentives work by increasing effort which, in turn, leads to increases in performance. Given these relations, we first provide a detailed discussion of the various components of the effort construct: direction, duration, intensity, and strategy development. We then describe theories that detail the mechanisms through which monetary incentives are presumed to lead to increases in effort. These theories are expectancy theory, agency theory (via expected utility theory), goal-setting theory, and social-cognitive (self-efficacy) theory.

Our second objective is to enumerate and categorize important accounting-related variables that may combine with monetary incentives in affecting task performance. To do this, we express the monetary incentives-effort and effort-performance relations as a function of person variables, task variables, environmental variables, and incentive scheme variables. This conceptualization allows for a full, yet parsimonious, categorization of the numerous accounting-related variables that may affect these relations, thereby facilitating an understanding of the effects of monetary incentives in numerous contexts of interest to accounting researchers.

Our third objective is to review evidence regarding the effects of the combination of these important accounting-related variables and monetary incentives on individual effort and performance. Here, we choose one specific variable from each of the person, task, environmental, and incentive scheme categories within our framework

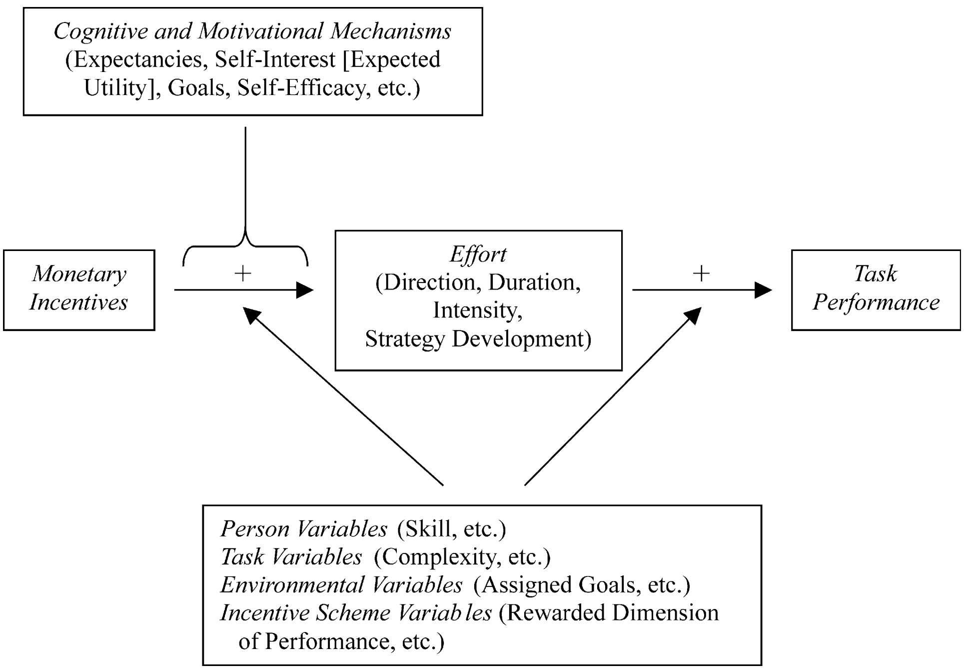

Fig. 1. Conceptual framework for the effects of performance-contingent monetary incentives on effort and task performance.