



Entrepreneurial Perspectives
Assignment - Review of Article

Submitted by

Student Number: 1805231

Course : Doctor of Business Administration

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Review Article Title :

Manso, G., 2017. Creating Incentives for Innovation. *California Management Review*, 60(1), pp. 18-32.

Review of the Adopted literature :

Innovation is a critical process for an organization in order to survive. In the article (Manso, 2017) the author has proposed a model for motivating innovation based on the probability theory and experimental evidence. Exploring and developing new processes and product ensure that the organization can acquire market and value sources. But the process of innovation is an activity of high risk and always requires exceptional commitment from the resources of the organization and especially the talent from the manager. (Manso, 2010). In the modern era, the business recognizes the importance of innovation. Hence it is necessary for the organization to induce right incentive plans for the innovation process to be in place. (Mazouz & Zhao, 2018, p.2).

The author in the Article (Manso, 2017) emphasizes on the challenge that organisation face in order to motivate managers in the process of innovation. As he clearly points out that the process of innovation requires exploring new and untested ideas which may result in failure. The involvement of managers has a positive and substantial effect on the innovation process. (Wong, 2013,p.711). In such a case it is confirmed that arrangement of compensation plays a key role in motivating managers. However, the author also points out that the standard pay for performance compensation arrangement will prevent the managers from innovating new ideas as they mainly recompense only short-term financial results and penalize failure with low or no compensation which could possibly result in termination as well. According to Suff, et al., (2007) “ Performance-related pay (PRP) rewards employees with a financial payment, either consolidated or non-consolidated,

following an assessment of their performance and, typically, the achievement of objectives". (Suff, et al., 2007, p.1) Hence the author clearly points out that an organisation must have compensation plans that allow managers to take risk and innovate new ideas without any fear. The author also highlights that in such executive compensation context the optimal innovation -motivating incentive schemes which mainly focus on the path of performance that is been adopted by the managers to innovate new ideas in addition to options such as vesting periods, repricing in option, golden parachutes and managerial entrenchment. The author provides a comparison between an innovation manager and a conservative manager who have difference in their performance levels at the start of the process and end of the process and it is pointed out the board of the organisation tends to terminate the innovating manager whose performance it is low initially. In such cases the entrenchment process provides the required time for the managers to give efficient results. On the other hand, it is mentioned that the other incentive schemes of golden parachute and option repricing tend to compensate managers in a negative way.

In the next section, the author brings out the relation between the schemes of incentives and productivity. Ude & Coker, (2012, p.33) states that " an incentive scheme (payment or program) is any compensation that has been designed to recognize some specific accomplishment on the part of an employee. It is expected that the prospect of the incentive payment will trigger" the desired performance behavior in the employee" (Ude & Coker, 2012,p.33). In Manso's (2017) research study it is revealed that employees who work on hourly wages or on fixed salary put in very less effort to retain their jobs. Also, the research by author points that the pay for performance incentive plan increases productivity of an organization. Performance-related pay provides an efficient way of improving the performance at the organization level and also that the macro level when the types and the scheme designs are appropriate, and they exhibit increased productivity due to the higher level of commitment and effort made by an employee. (Lucifora, 2015, p.8). To give the

readers a comparison of the workers/ employees productivity the author gives examples of employees working in two different sectors namely agriculture and that of the windshield installers and their working style when their rate of pay changed. These examples clearly depict that pay for performance incentive methods increases productivity. However, it is also seen that different kind of innovation demands different incentives or compensation methods especially the for open-ended and creative tasks.

In the next section, the author focuses on creating a model for incentives in the innovation process for open-ended and creative tasks for managers and employees. In order to create the model the author uses the Bandit problem, which is a decision modeling method from the probability theory. The Bandit problem adopted by the author focuses on the exploration and exploitation as the central idea. (Banks & Olson, 1997) states that the probabilities of success of different working methods are independent which in turn provides and an uncorrelated performance of employees when they use different working methods. The author quotes that when the Bandit problem is considered the principal motivates the agent to involve in exploring the new ideas. Thus there arises a question what types of incentives would make an agent in the exploration process of new methods. Lee & Meyer-Doyle (2014) states that “though, blinded adoption of incentive schemes that encourages more exploration behavior may not always be optimal because the appropriate level of exploration and exploitation of an organization depends on the organization’s mission, dominant logic, and industry conditions. ” (Lee & Meyer-Doyle, 2014, p.25) and the findings suggested that it would be appropriate to a context that is similar in which continuous adaptation to a fluctuating situation is critical, and hence a lift to high-levels of exploration is essential (Lee & Meyer-Doyle, 2014, p.25).

The next section, discusses on the Optimal Incentives for innovation where the author gives the two points that arose as a result of the bandit problem model. The author

suggests that in order to achieve innovation the best results could involve failure at an initial stage and require considerable time before the new methods could be implemented. By which the author confirms that the incentive plans that motivate the exploration and the exploitation process are different. In the later a board discussion on the concepts such a termination, long term contract commitment, feedback, bankruptcy laws and about explicit and corporate culture are discussed and how the process of innovation affects each of them are well presented by the authors. And also an elaborate discussion on the ways in which the independent board and the shareholder litigation also influence the innovation process has been discussed in detail with which the author concludes that the shareholder litigation hinders innovation in corporate organisations.

Review of the Adopted Experimental evidence and data collection :

In the study Manso (2017), 379 participants were chosen and were divided into three groups that had different schemes of compensation and it was found that the participants who were under the influence of the exploration process were innovative had different ways of approaching the problem. Similarly, the author examined another experiment using the exploration process with a different business setting. In order to effect this the study was carried out in scientific research and the author inferred that when compared business, the incentives in the innovation process has similar effects in the field of science as well and concluded that in order for an organization to reinforce its position in the race should promote innovation as a policy goal and manager in the organisation should also consider culture of the organization implement the innovation process. Szczepańska-Woszczyzna, (2014) says that “ Companies often devote much less attention to people-oriented determinants of the culture of innovation, which are more difficult to measure, such as values, behaviors, and organizational climate. (Szczepańska-Woszczyzna, 2014). And the

culture of an organisation can be a favorable element in order to develop the innovation process.

Conclusion of the Review :

Thus the review of the article by Gustavo Manso (2017) has been completed and it can be concluded that the article is an excellent piece of research in the field of innovation and incentive planning. Throughout the article the central focus was based on the exploration and the exploitation of ideas in different contexts and how they influence the process of innovation. The reference cited by the author helps the readers to have a wide knowledge of the concepts. This article will be very used to carry out further research in the field of innovation

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