

Research Seminar: Incentive Recalibration through Intra-year Target Revisions: Evidence from Sales Managers' Targets

Datum: 27. Oktober 2015

Uhrzeit: 17:30-19:00 Uhr

Ort: Fakultätssitzungssaal, 3. Stock, SOWI

We investigate whether intra-year target revisions are used by top management to recalibrate the incentives implied by decentralized managers' bonus functions. When actual performance unexpectedly deviates from targeted performance in the course of the year, piecewise bonus functions that are often used in practice can set strong incentives for dysfunctional behavior. We introduce the idea that firms use intra-year target revisions to address this problem. For a sample of decentralized sales managers, we predict and find that the likelihood of a decentralized manager to drop out of his incentive zone is positively associated with the likelihood of an intra-year target revision. Moreover, higher degrees of delegated decision authority and intra-firm interdependencies reduce this positive association. This is consistent with the idea that firms with different given organizational design characteristics have different benefits and costs of target revisions and trade off these benefits and costs. Our theory and findings shed some new light on firms' target setting policies which have not been addressed so far.