Incentives in construction contracts: should we pay for performance?


Abstract
Incentives and disincentives are common contractual tools to influence the behaviour of contracting parties. The type of incentivization differs according to the objectives involved. A contract may involve general objectives, for example, the enhancement of the client-contractor relationship, the establishment of long term relationships, or the use of certain business models. Other more tangible objectives concern the issues of cost, performance, and time/completion on schedule. In regard to the latter types of incentive, a range of different types of incentive may be used, e.g. monetary incentives such as fixed-price contracts, cost-plus-incentive fees, cost-plus-award-fees, share-in-savings incentives, and non-monetary incentives such as automatic extension of contract term, more frequent payments, letters of appreciation etc. There is little information available about how they are used and whether they are effective. Questions to be answered in this connection concern the scalability of performance, the choice of the appropriate kind of incentive, the frequency of their use, the percolation of incentives through supply chains and methods of incentive management.

Keywords: incentivization; contracts; performance; procurement