

and contractors, leading to cost reductions, increased contractor performance and the alignment of objectives of the contract parties (Bower et al. 2002, Meng and Gallagher 2012). Accordingly, much of the studies and articles have been investigating incentive factors, mechanisms and measures in terms of performance (Gruneberg et al. 2007, Kaarbøe and Olsen 2008, Kauhanen and Napari 2012, Meng and Gallagher 2012). However, some of the literature disagree and suggest that incentive contracts can create distorted incentives due to the implicit nature of contracts and the subjective nature of some performance measurements (Baker et al. 1994, Baker 2000, 2002, Gibbons 2005, Kaarbøe and Olsen 2008). Furthermore, all contracts are incomplete mainly due to difficulty in interpretation of its implicit and explicit components. Bresnen and Marshall (2000a, 2000b) suggest the debate within construction management literature has remained at a largely prescriptive level. It is difficult to prove that any monitored improvement in performance, in terms of cost, time, quality, fit for purpose and other criteria are solely due to the incentive contracts (Gruneberg et al. 2007). There seems to be a lack of critical review of the literature that contextualises and critiques the various perspectives and applications in the construction industry. Consequently there is still a need for more in-depth studies of the nature and form of incentives incorporated into contracts and their likelihood of incentivising contractors to improve performance, reduce cost and suitably allocate risks. Structuring an effective incentive scheme can be complex due to the consequences of variation in organizational and environmental contexts that cannot be controlled by the parties to the contract. Arguably, understanding the behavioural outcome of explicit incentives, where the client pays for objectively measured performance, and of implicit incentives, where the contractor gains repeat business from the client is key to structuring and administering incentive contracts successfully. The aim of this review is to explore some of the critical issues and debates about incentive contracting. Our objectives are to offer an evaluation and critical review of the current literature on incentive contracting, drawing on the integration of the theories of incentives and motivation used in organisational economics. Thus the review seeks to contribute new understandings of the relationship between academic theory and practical action and address the different assumptions underlying incentive contracting. It concentrates on enquiring into what makes organisations perform well in the long term rather than individual contracts. Thus while there numerous aspects of incentive contracts; we focus our review on the alignment of goals, balancing risks, cost incentives, performance incentives, delivery incentives as a starting point. In the next sections we provide a systematic and critical review of the specific areas of alignment of goals, balancing risks, cost incentives, performance incentives, delivery incentives, types of incentive contracts and administration incentive contracts. Prior to discussing these main concerns, the review begins with the concept of incentive contracting.