



Incentives and risk

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Points from background paper

- **Contracts should provide incentives that align PTA's and operator objectives**
- **Requires clear PTA objectives, frequently increased PT travel**
- **Incentives: payment form, threat of competition, prolongation of contracts, penalties**
- **Many contracts (gross) imply few or weak incentives**
- **Important to meet expectations for quality**
- **Net contracts allocate substantial risk in terms of demand and revenue to operator and travel to PTA**



Background paper II

- The tariff decision is strategic for allocation of risk
- Gross contracts lower risk, weaker incentives (cost efficiency)
- Net contracts higher risk, stronger incentives (demand, quality and cost efficiency)
- ... may decrease burden of monitoring
- Partial incentive (travel or quality) a possible compromise



Background paper III

- Quality incentives: Bonus for super achievement and penalty for under achievement**
- Costly to administer large number of indicators and hard to make them work**



Net contracts and Quality incentives

Research in Sweden shows less travel in cities with net contracts but more satisfied customers and less costs

Research in Stockholm shows weak correlations between the introduction of an individual incentive for a quality indicator and the quality outcome

- Risk that too many incentives spreads attention**
- Hypotheses in Stockholm:**
 - Incentives too small to generate desired effects**
 - Costs for achieving the last effects larger than incentives**



Expert's response to questionnaire

- **88 % Contracts have incentives (among the cities of experts)**
- **38 % only penalties**
- **Among these are for revenues, punctuality, customer survey index etc.**
- **44 % Gross 28% Management or net**
- **80 % consider them relevant**
- **75 % consider them working**
- **83 % consider basis reliable**



Positive vs Negative Incentives

- Limited funds for positive incentives
- Only negative incentives

**PTA officials frequently want to give positive incentives.
Not obvious that positive incentives are superior to
negative from an efficiency perspective**



Questions for discussion

- 1. Have incentives increased PT travel in your city?
What background trends?**
- 2. Have incentives improved quality or efficiency in your city?**
- 3. Which incentives have been most successful in your city?**



Questions II

- 1. Could evaluations of outcomes from incentives for travel and quality be useful?**
- 2. Would it be useful to estimate administrative costs for incentives and monitoring systems?**



Statements

- 1. Incentives have increased PT travel?**
- 2. Incentive contracts can improve quality and efficiency, but little is known, in terms of research.**
- 3. More incentives lead to unpredicted costs for the PTA?**
- 4. Evaluations of outcomes from incentives for quality could be useful?**
- 5. Little is known about the transaction costs for incentives and monitoring systems?**
- 6. The X-incentive has been most successful.**