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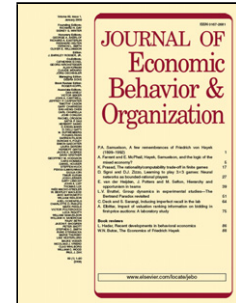
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Motivating for new changes when agents have reputation concerns

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Abstract

Inertia, a tendency to resist initiating and adopting new changes, is a primary issue in established organizations. This paper explores how a principal can optimally address this issue when an agent has reputation concerns. It shows that the principal can motivate the agent to initiate a new change by damaging the agent's reputation when he just sits on the status quo. In doing so, compared to the benchmark case where inertia is not an issue, the principal extends monitoring that assesses the value of the new change, and reduces intervention in the agent's implementation

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