



Driving desired behaviours
through sound incentive
practice

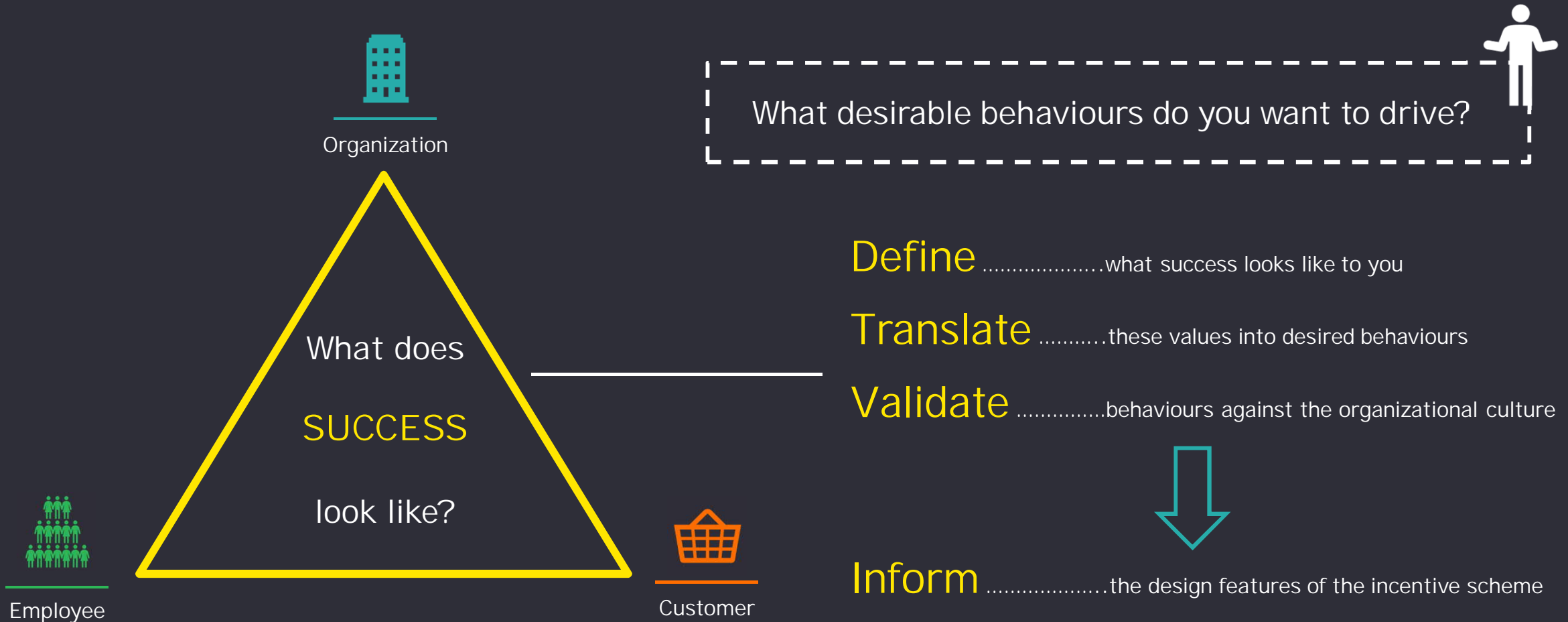


The better the question. The better the answer.
The better the world works.

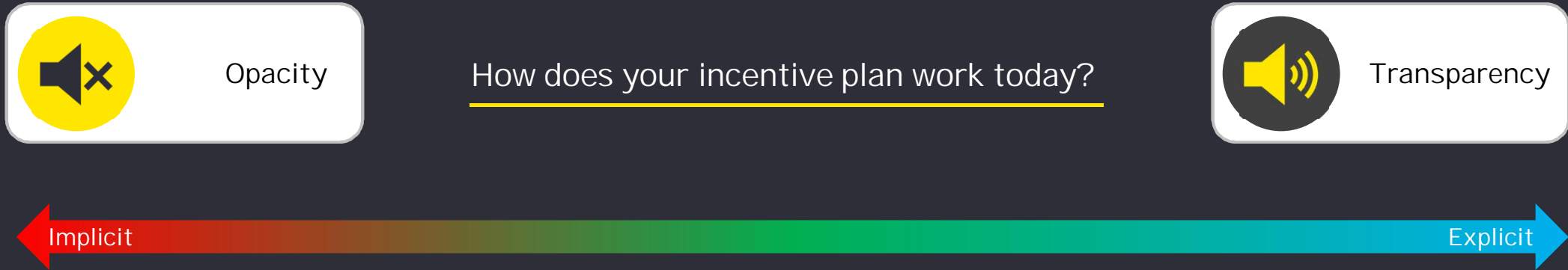


EY 安永
Building a better
working world

What does success look like from an organization, employee, and customer perspective?



Degree of transparency of the incentive design will determine the likelihood of risk-taking activities from employees



Which of the following best describes your employees' understanding of the incentive plan?

1

"Our employees are communicated with the **assessment dimensions** of the incentive scheme"

2

"Our employees are communicated with the **assessment dimensions and measurements** of the incentive scheme"

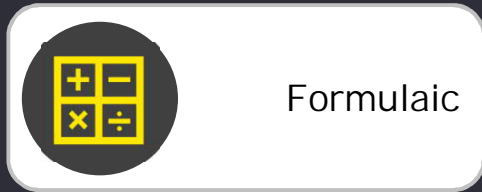
3

"Our employees are communicated with the **assessment dimensions, measurements and their respective goals** of the incentive scheme"

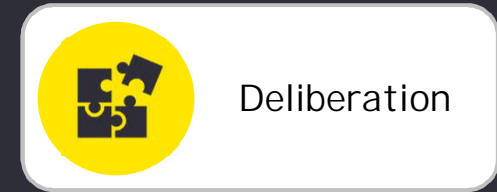


What behaviour does your goal setting encourage? Does it promote risk-taking activities?

Striking the right balance between formulaic and deliberation in incentive outcomes



How does your incentive plan work today?



Deploy a formulaic-based computation, with clear indication of the:

- Factors
- Metrics
- Penalties
- Weightings
- Payout Adjustment associated with each dimensions

Payout adjustment is by discretion, it outlines the components such as:

- Factors
- Metrics
- Penalties

No disclosure on the associated weightings and payout adjustment to each dimensions

Key Considerations

Are the measurements and impact on payout appropriate?

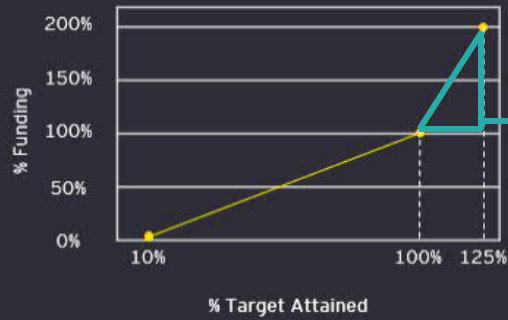
Is the target/ metric reasonable?

Can all metrics be assessed against a defined target?

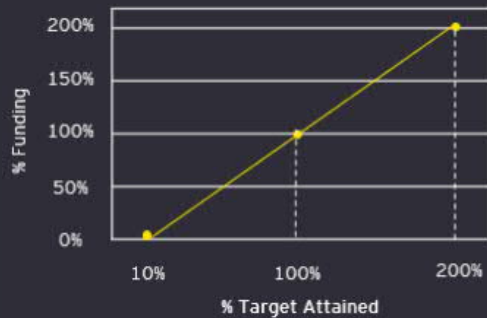
Is the target proportionate to the impact of payout?

Watch for unintended consequences of your incentive plan funding structure

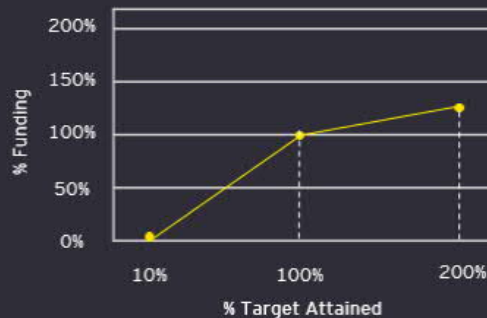
Payout Curve 1



Payout Curve 2



Payout Curve 3



What are the unintended consequences of exceeding different performance targets?

- 1 Potentially exposing the organization to greater risks
- 2 Unintended risk-taking behaviours that conflict with the desired behaviours
- 3 Inadvertently incentivize employees to push plan funding beyond target, in turn possibly leading to poor customer behaviours

Key considerations

- ▶ Weightages between financial and non financial metrics
- ▶ Material weighting of non financial dimension will lessen the impact
- ▶ Robustness of non financial metrics

A sound incentive system aims to promote desired behaviours, strengthen conduct, and drive sustainable growth

1



Clear and Pragmatic

The incentive scheme should be simple and can be easily articulated to promote employee understanding and drive behavioural outcomes

2



Balanced Use of Incentives and Disincentives

An incentive system should be designed to not only sanction mis-behaviours, but also promote positive behaviours through monetary and non-monetary rewards

3



Employee Communication

Maintain regular and effective employee communication and be transparent on the underlying values of the incentive plan in order to drive desired people and business outcomes

4



Validation Through Culture and Role-Modelling

Validate desired behaviors against organizational culture. Reinforce the intended values and behaviours of the incentive design through leadership role-modelling

“ Don't be obsessed over a particular design feature of an incentive system. Start by asking “**What behaviours are we trying to encourage or discourage?**” – and watch for **unintended** consequences resulting from your design.

Incentive is only one aspect in driving the right behaviours – we need to look at **hiring, promotion, and learning** as part of the total framework in driving behavioural change.



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