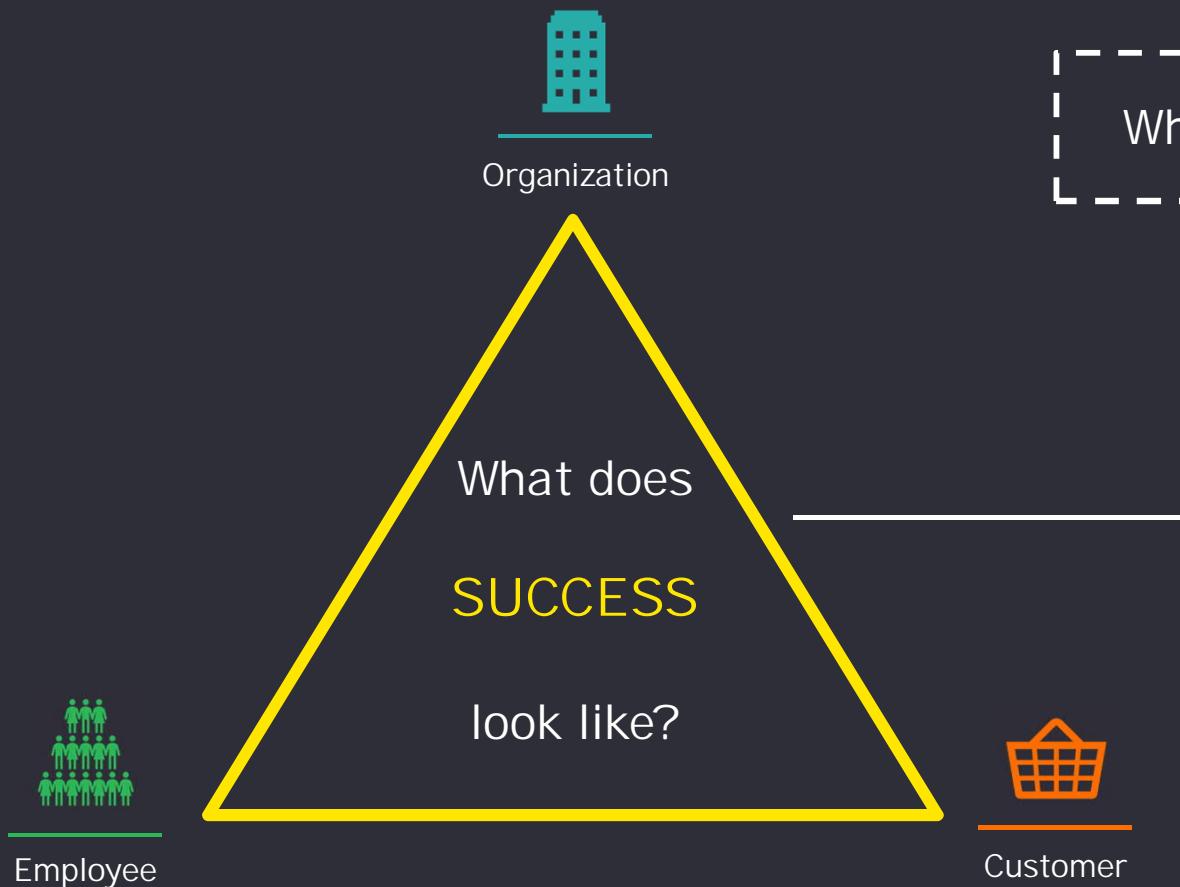


Driving desired behaviours
through sound incentive
practice



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

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



- What desirable behaviours do you want to drive?
- Definewhat success looks like to you
- Translatethese values into desired behaviours
- Validatebehaviours against the organizational culture
- Informthe design features of the incentive scheme

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



Opacity

How does your incentive plan work today?



Transparency

Implicit

Explicit

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

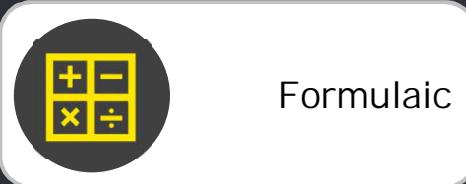
"Our employees are communicated with the **assessment dimensions, measurements and their respective goals** of the incentive scheme"



What behaviour does your goal setting encourage?

Does it promote risk-taking activities?

Striking the right balance between formulaic and deliberation in incentive outcomes



Formulaic

How does your incentive plan work today?



Deliberation



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?

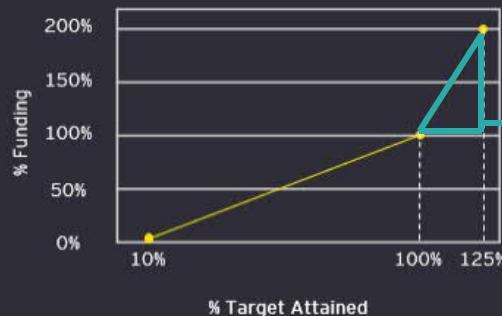
Is the target/ metric reasonable?

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

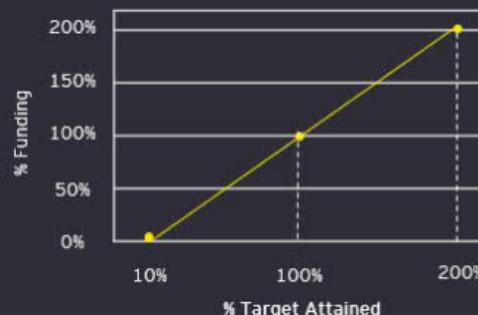
Payout Curve 1



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

Payout Curve 2



Payout Curve 3



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.



Jeff TK Tang
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