

(Extracts from Chapter III, 'PRI Model for Government of India', 'Synthesis Report of studies on Formulating the Concept, Principles, and Parameters for Performance-Related Incentives (PRI) in Government', IIM Ahmedabad)

### **Feasibility of PRI in GOI**

The five studies carried out by the IIM-Ahmedabad show that the potential for PRI exists in the departments and ministries of GOI. Direct financial gains will be easier to realize in those organizations engaged in revenue generation activities, but for others (and the former) potential for cost efficiency and productivity increase exists. The five studies support the well known fact that, the approach to PRI should be contextual. However, synthesizing the underlying objectives of the studies, we have developed a framework for implementing the PRI model in Government of India. The framework is limited to providing a conceptual framework for designing a PRI program in GOI. While operationalising the same in respective ministries/departments etc. it has to be customized to the objectives and deliverables of the respective organizations. This also means ushering changes in the working style, procedures and specifying accountability and its delivery to public and other stakeholders. Hence "internal reforms" and public/stakeholder accountability becomes integral to introduction of PRI.

### **Definition of PRI**

*Performance Related Incentive (PRI) is the variable component of the pay which is awarded ex-post, after individual/group performance is measured against pre-set (ex-ante) and mutually agreed upon goals for a given period of assessment. It is non-additive and non-cumulative. It is not an automatic default incentive which is given for the nature of duties and responsibilities or levels of difficulty (working conditions) for a certain rank/post. PRI is also linked with respective organizations measurable contribution to responsive governance. PRI will cover all employees of Government of India, irrespective of position in the hierarchy.*

The above definition emphasizes the following points:

1. PRI is not an assured entitlement for all employees. It is totally based on performance assessment (individual, group or combination) and varies according to performance. It does not cover assured incentives like those given for difficult

working conditions, special schemes, normal increments or promotion related pay increase.

2. PRI payment will be made over and above the compensation entitlement for a particular rank/position. Thus the model will be ' $1 + X$ ', where 'X' is expressed as a percent of the annual basic salary. The value of 'X' should be decided by the ministry/department, based on the PRI pool generated internally.
3. The PRI system runs with the support of Performance Management System (PMS) and MIS system. Extensive communication and training of employees should support PRI introduction. It is also necessary that basic conditions required for work and supervision is put in place.
4. Clarity about objectives and deliverables at multiple levels, starting with ministry/department and cascading down the line up to individual level has to be developed. At the apex level, the vision/mission, budgetary goals set by the government and stakeholder commitments/citizen charter can be the guiding posts. It has to be cascaded down the line of hierarchy to all final delivery point (individual or group), through a structured process.
5. Clarity about reporting and monitoring channels, work activities and deliverables (job-descriptions and performance indicators), delegation and accountability charts and work processes flow/government business processes also needs to be developed, as they form the foundation of PRI. This implies initiating the process of internal reforms.
6. The duration of one PRI cycle in normal cases will be 12 months. However, sub-periods suitable to organizational requirements can be worked out.
7. Within the ministry/department/other offices, clear individual and/or group (organizational) targets need to be set at the beginning of the PRI cycle and communicated to all parties involved. These targets are preferably mutually evolved and agreed upon by involved parties. In rare cases it has to be given or self proposed, but agreed-to between performing unit (individual/team) and supervisor. Certain parameters, particularly strategic (long term directions), leadership competencies and service indicators will be common across. Apart from the task involved, targets should also reflect reform commitments.
8. PRI should be based on multiple measures covering work deliverables, product/service quality, efficiency, innovation, improved processes, etc. so that the end result is balanced. While at some organizational and employee levels, fully objective approach may be possible, combined use of objective and subjective measures will be required in many jobs.
9. PRI is based on measures of employees' performance within the ambit of their influence (role/delegation/reporting relationship etc.) & accountability.
10. PRI is only awarded when targeted performance levels are exceeded by the individual or group at the end of cycle (generally one year). Meeting targets may not entitle for any or maximum PRI payment. Hence, benchmarks for acceptable performance levels should be set carefully such that it balances organizational

interests, good governance expectations and motivates individuals/teams. The PMS and MIS systems will capture the extent of target achievement.

11. The fund for pay out of PRI (pool) should be generated internally from benefits accruing through higher productivity, cost efficiency, savings etc. In short, the PRI scheme should be self sustaining, and not become another cost head requiring budgetary support.
12. Generally, PRI is awarded after proper assessment of achievement levels of completed tasks against set targets/benchmarks. It is not for anticipated results.

### **Objectives of PRI**

PRI emerged from the management need of performance budgeting and performance management. It became important in the government because of tight economic and budgetary constraints faced by the governments and the resulting need to incorporate performance objectives and budgeting processes to move towards variability of incentives and recognition and reward of individual/group effort and achievement. The increasing public accountability and economic pressure increased the need for achieving goal congruence between organizational and individual/group goals in the overall interest of organizational performance and service delivery. Thus it can be seen that, the essence of PRI is that *differential performance must be differentially rewarded*, so as to enhance government performance and improve employee motivation and accountability.

- Introduction of performance related incentives (PRI) in government would lead to significant improvements in economy, efficiency and effectiveness in all facets of government (ministries/ departments/subordinate/attached offices etc.)
- In addition, PRI will help to enhance employee motivation by incentivising individual and /or team performance, since it provides performing employees/groups with an opportunity to earn more.
- PRI will serve as a catalyst to usher in responsive governance and public (stakeholder) accountability, by linking tangible rewards to measurable achievements of employees at all levels of government.

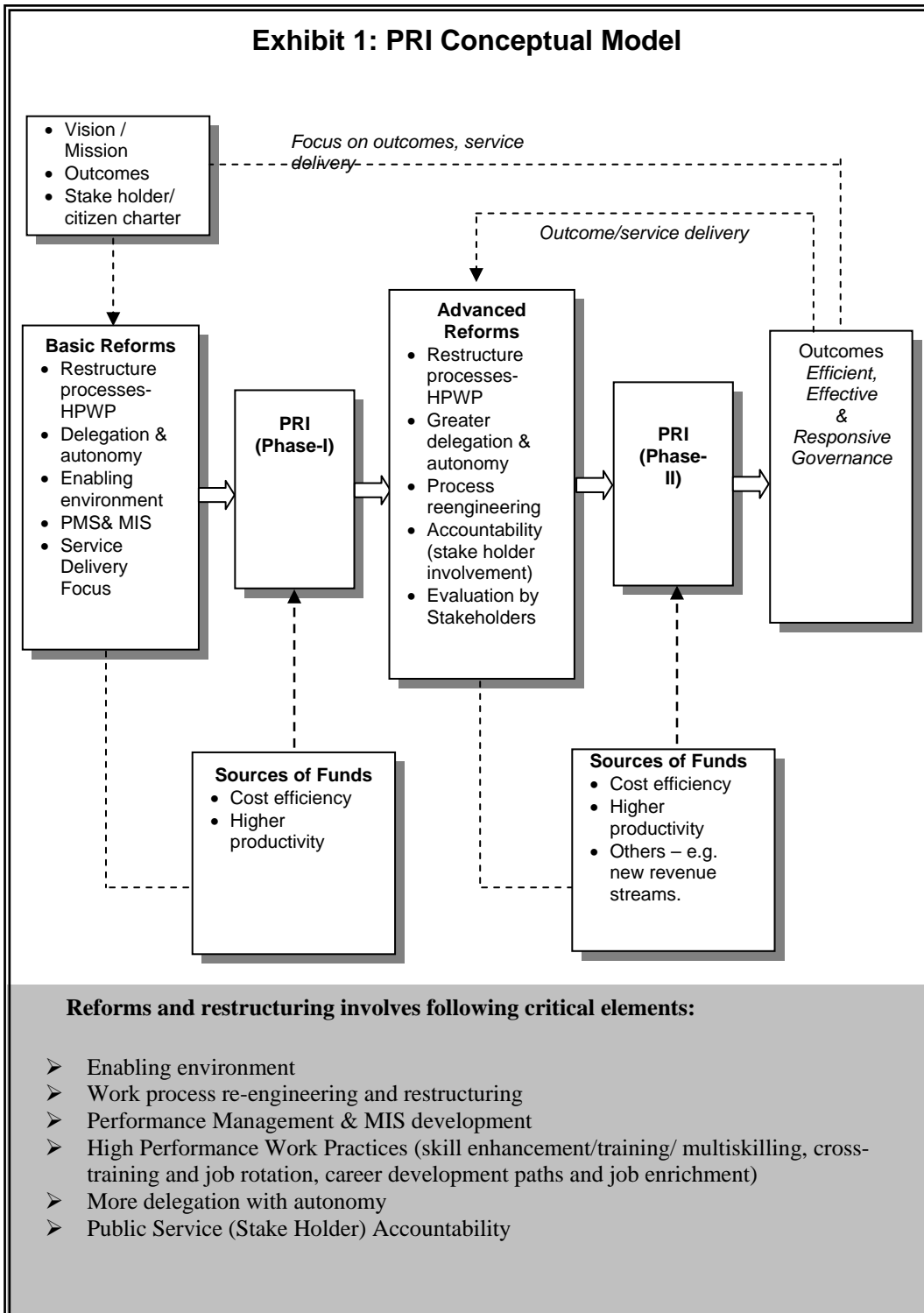
### **Scope and Coverage of PRI**

The PRI model and approach presented in this report covers all ministries, departments, attached and subordinate offices, directorates, field formations, work units and autonomous bodies under Government of India and all categories of employees working in the organizations mentioned above. When the PRI scheme is introduced by GOI, existing PLB schemes, non - productivity linked Ad-hoc bonus and honorarium payments will end.

### **Conceptual PRI Model**

We propose a two-stage conceptual model for introducing PRI in government. We are of the view that the model can be generalized across the government i.e. ministries, departments, attached/subordinate offices, branches, autonomous bodies etc. A schematic representation of the conceptual model is given in Exhibit 1:

## Exhibit 1: PRI Conceptual Model



### Reforms and restructuring involves following critical elements:

- Enabling environment
- Work process re-engineering and restructuring
- Performance Management & MIS development
- High Performance Work Practices (skill enhancement/training/ multiskilling, cross-training and job rotation, career development paths and job enrichment)
- More delegation with autonomy
- Public Service (Stake Holder) Accountability

## **Requirement for Customized and Phased Implementation of PRI**

Within the broad framework described by the conceptual model, each implementing organization should customize the PRI system to suit its context. The conceptual model will be a general guideline for introduction of PRI in the government. PRI will also involve substantial change management efforts, including focus towards service to public and internal improvements. Hence winning commitment of employees through dialogue and communication, and building employee capacity for performance will be required.

### **Phased road map for introduction of PRI.**

In our opinion a phased approach to introduction of PRI will be best suited for GOI, as depicted in Exhibit I. Our studies showed that a large section of employees believe that at the idea level PRI will address their concern about absence of tangible connect between employee performance and rewards.

While our studies established that PRI can be introduced in GOI, we concluded that high degree of customization will be required. Sufficient groundwork needs to be done to ready the organizations for PRI. It is also necessary that the overall PRI objectives described earlier be kept in focus while introducing it; else PRI may also be seen as another mechanism to earn more without change in employee performance as well as impacting outcomes and the quality of governance. Hence we recommend that PRI should be introduced in multiple phases. Individual reports also suggest the same approach.

We have recommended PRI introduction in broad two phases (Exhibit I). Each phase is focused and they are determined by (a) employee/organizational readiness (b) outcome focused reform commitments linked to PRI introduction and (c) mode of financing the PRI. Considering the complexity of the exercise, multiple stages have been incorporated within phases I.

#### *Phase I - Stage I: Organizational Readiness and Pilot*

The first stage we recommend that each ministry/department inclined to accept PRI starts the initiative by setting stage for PRI through organizational readiness exercise. This stage will be initial part of Phase I of the conceptual model (Exhibit I), where broad framework will be set.

- The first step here will be to clarify (re-clarify if required) or evolve organizations vision and mission as well as stakeholder commitments/citizens' charter. The latter is absolutely necessary to keep the focus of employees on accountability to public/stakeholders.
- It is necessary that internal and external constituencies are consulted and communicated with for the purpose, so as to gain acceptance. This exercise will also give an idea whether employees and the organization are ready for PRI and the type of PRI (individual/group).

- This is also the time for organizational leadership to explore avenues to build the PRI pool through internal accruals like cost efficiency, higher productivity and also using resources available from stopping of Ad-hoc bonus and honorarium.
- Acceptance, both by organization and its employees of all the principles behind PRI as given in this report is a necessary condition. Hence communication about the scheme and the importance of reforms that need to be carried out alongside as well as addressing employee apprehensions will be significant at this stage.
- Institutional mechanisms to manage PRI should be set at this stage.

We recognize that ministries/departments opting for PRI will have to go through a learning curve and adapt itself to the changed mode of functioning, before PRI is introduced across the organisation. Hence, to facilitate the employee as well as organizational acceptance of PRI, it may first be introduced in selected department(s)/units on pilot basis. The pilot will be an experimental platform to usher in the basic reforms as described in Exhibit I. Later the reforms and systems can be replicated and PRI introduced across the organization, leading to Phase II of the program coupled with advanced reforms.

- As part of the pilot PRI, organizations should establish a comprehensive system for defining, measuring and benchmarking performance (PMS+MIS). Clarity about work deliverables (Job descriptions), accountability (job targets/ work norms/goals) and reporting relationships should be arrived at.
- We would emphasize that, success of the PRI scheme will much be dependent (not solely) on the choice of performance criterion including indicators, benchmarks and tools to measure.
- At this stage, the performance criteria used for PRI should also emphasize outcomes from the perspective of users of the public service rather than limited only to the usual measures of inputs, workloads and outputs.
- In addition at senior levels, where employee supervision is involved it is necessary that employee satisfaction is also measured.
- Strategies to build the PRI pool and other details about performance levels and payment levels should be further refined at this stage.

*Phase I - Stage II: Cascading*

Learning from the pilot (minimum required will be one cycle of a years' duration) should be captured and with necessary modifications, PRI can be introduced across the organization. With experience from pilot exercise, the PMS and MIS system can be further fine-tuned and system to capture public/stakeholder service delivery can be put in place. This stage of Phase I should additionally support strengthening of the basic reform initiatives like creating enabling environment by creating a high performance work place (HPWP), communication and training for competency building, changes in work processes to bring public/stakeholder service delivery focus and greater delegation of powers.

At the Phase I stage (both pilot PRI and later cascaded across), the rate of performance linked incentives should be at levels that are appreciable (10% -20% of annual basic pay) depending on the organizational capability to pay. Though pre-specifying the number/percentage of employees eligible for PRI is commonly followed, (through forced choice/bell curve method) we recommend that respective ministries/departments etc may be given the freedom to choose the coverage.

#### *Phase II: Ushering Advanced Reforms through PRI*

Once the PRI system has been spread across the organization and basic reforms in place, we recommend that organizations move to the next phase of PRI that will eventually bring it closer to the final outcomes (Efficient, effective and Responsive Governance). This stage will include organizations focusing on deeper reform process as described in Exhibit I. The key focus of Phase-II, will be that the scope of the PRI scheme should be expanded to undertake more ambitious reforms. (Basic systems like job definitions, PMS and MIS should be stabilized by then).

- Reforms should involve a more comprehensive restructuring of operations and process reengineering for greater productivity and improvements in service delivery. This stage will include shift towards HPWP in a more substantive fashion and the internal organization structure and work processes should be re-engineered to meet high levels of public service. At supervisory levels, leadership and satisfaction of team members will be included as performance indicators for PRI
- At this stage, providing superior public/stakeholder service should become the focus for organizations. To achieve this, mechanisms for performance rating by end users (public service accountability, discussed later) and achievement of responsive governance goals has to be emphasized.
- As part of advanced reforms, it would also be advisable to introduce more result-oriented approaches such as performance agreements with senior managers; and introducing lateral entry for senior positions, so as to make government service more challenging and competitive.
- With more efficient internal operations, organizations should be able to realize substantial cost savings and realize gains of higher productivity to fund the PRI pool. They can also explore options for additional revenue generation by providing value added services to users and other innovative arrangements.
- Correspondingly the rate of incentives should be increased substantially in the Phase-II, including multiple slabs for PRI payout based on performance. Eventually the remuneration of high performers should become comparable to the private sector. .

#### **Key Reform Themes**

Introducing PRI in government without supporting reforms areas like work environment, managing performance, decision frameworks, processes and people management may be counter productive. We evaluated two options i.e. introducing reforms first followed by

PRI or using PRI itself as a tool to usher in reforms, and we choose the latter. PRI introduction in GOI will be phased but simultaneously coupled with reforms. The ultimate deliverables of PRI (specifically employee motivation through measurement and recognition of performance leading to efficient/effective and responsive governance) has to be kept in mind in the course of the reform exercise. From the individual studies and implementation experiences of PRI, we have identified six critical reform themes.

*Enabling work environment*

*Performance Management*

*Delegation*

*Process Reengineering*

*Creating High Performance Work Practices*

*Public Service (citizen/stakeholder) Accountability*

### **Operationalizing PRI**

While the conceptual model explains the general philosophy supporting PRI in GOI, we conclude that at operational stage there is requirement for contextualization of the model based on the following activities:

- a) Laying the framework for PRI, in terms of organization and people readiness.
- b) Output/Outcome definition (KRA/SPI) and Performance Measurement and data tracking (PMS/MIS)
- c) Decision rules for classifying performance at individual and group levels.
- d) Linking with financial rewards, thereby increasing employee motivation.

### **PRI Payout: Approach**

As indicated in the definition given above, PRI for GOI is conceptualized as payment based on performance over and above the existing compensation package. Hence the model will be  $1 + X$ , where "X" will be the PRI component, awarded based on evaluated performance. Performance for the purpose of PRI will be determined using a combination of PMS scores/group performance (where relevant) and organizational performance and computed as percentage of annual basic salary. To emphasize the importance of public/stakeholder accountability, we also recommend that suitable weight be assigned for achievements related to public service accountability. Depending on contextual requirements, additional performance dimensions can be added by the organizations. The general consensus arrived at by the IIMA study group is to effect the PRI payment in the form of an "Annual Bonus", given one time. Where-ever group PRI payment or combination has been suggested payout should be affected annually (or in suitable timeframe depending on the organization). Our view is that organizations should have the freedom to set the payment rates considering its peculiarities and PRI pool available. Progressively the quantum of PRI payment can be increased depending on the nature of work and the organizations ability to create the PRI pool. In general, we recommend that PRI (for individuals as well as groups) should be computed considering the following factors:

1. Individual Performance Level or Group Performance Level.
2. Work unit & Ministry/Department performance.
3. Public Service (Stakeholder) Accountability Score (e.g. Sevottam rating).

Respective ministries will have the freedom to add more parameters for measurement, but the above three should be mandatory. Relative weights for each parameter can be different for different categories of employees (Group A/B/C etc.).

### **Budget Neutrality of PRI**

The overall financial logic of the PRI model proposed by IIMA is based on budget neutrality. It implies that the fund for paying out PRI should be generated by the respective ministries/departments from within. No additional budgetary allocation will be provided for the purpose of PRI. The proposed model assumes that delegation and greater autonomy will induce the supervising officers at all levels to restructure and reengineer their work processes to generate substantial savings, cost efficiency and higher productivity. Expenditure currently incurred in terms of ad-hoc bonus and honorarium payments should also be available to ministries/departments to be included in PRI kitty. Needless to say, in those departments that directly generate revenues from their operations, the reform initiatives and employee motivation will lead to productivity improvements and translate into tangible savings which can be used to fund PRI. At the stage of advance reform, respective organizations may consider introducing new revenue streams, through innovation and providing value added services. Government may allow ministries to allocate part of such additional revenue to the PRI fund.

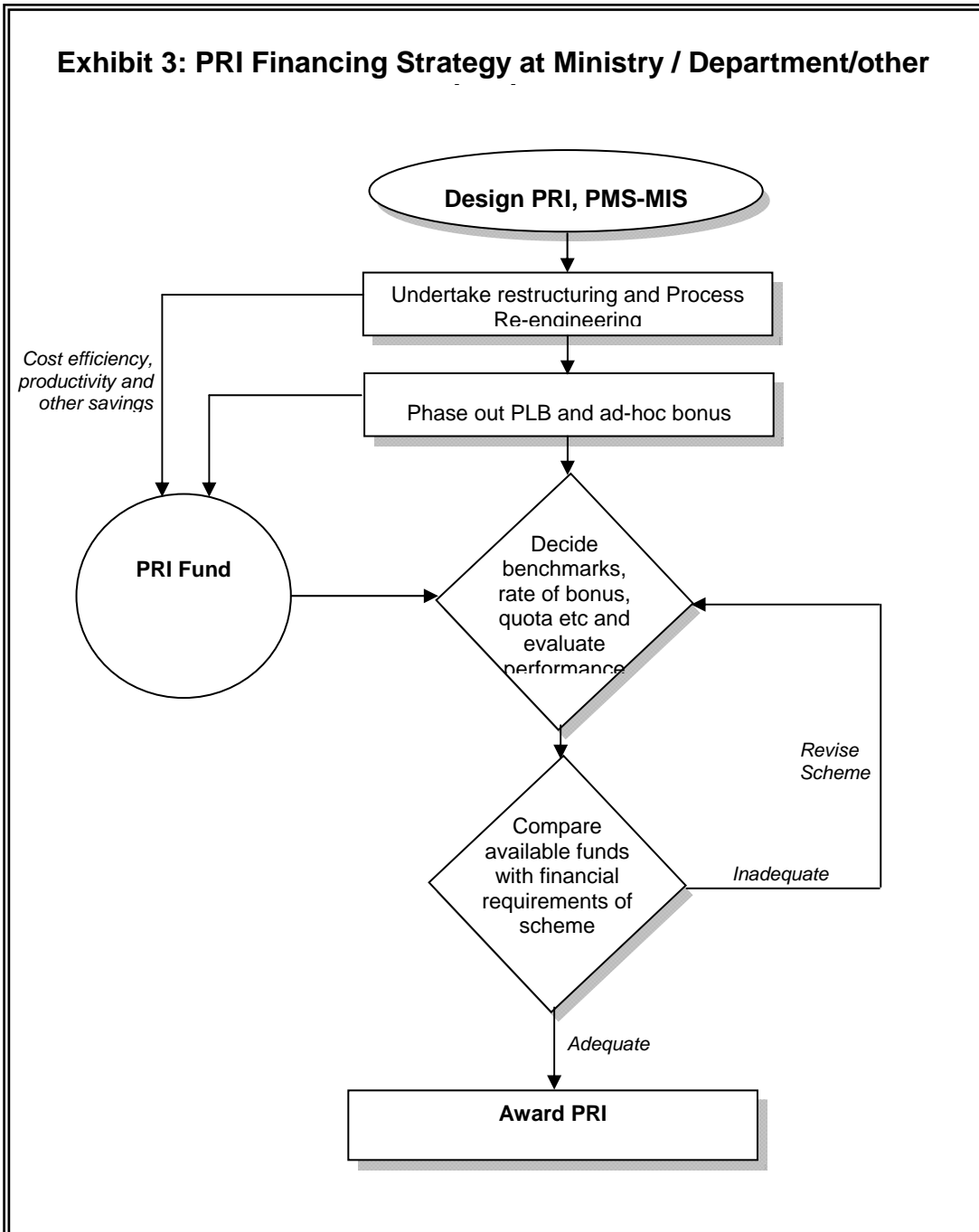
### **Financing Strategy for PRI**

The proposed financing strategy is budget neutral and is conditional on changing work processes for greater efficiency and restructuring for greater effectiveness in public service delivery. It assumes that the performance improvements would result in substantial monetary savings which can be used to fund the PRI schemes of various ministries and departments.

- Bulk of the kitty for financing PRI would have to be generated internally through cost and efficiency improvements and productivity/output increases resulting from improved work processes and extensive use of information and communication technologies. These savings/ earnings would be possible only through greater delegation of responsibilities and authority, de-layering and simplification of office procedures, and accountability mechanisms at various levels in the organization.
- Ministries/departments/offices should be encouraged to innovate and value add their service delivery and explore new revenue streams with part of the revenue earned added to the PRI pool.
- It is proposed that each ministry or department where PRI is introduced should have the freedom to design their own PRI schemes, within the broad framework. The different models we have developed can be used for guidance approaches. This implies that they should develop their own systems for measuring performance,

decide whether performance should be assessed at individual or group level, and determine the form and rate of PRI awards within their own budget constraints.

Exhibit 3 shows PRI financing strategy for a government ministry / department.



### Synopsis of IIM-A studies

The five clusters of Ministries/Departments were identified to ensure that differences across various ministries and departments would be adequately captured. There is significant variation in the PRI models that the different studies have recommended. The synthesis report presents a more generalized PRI model for the government. The following is a brief summary of the five studies.

**Exhibit 4: Summary of IIM-A studies**

	Study-I	Study -II	Study -III	Study -IV	Study -V
Ministries / Departments Covered	Ministry of Health & Family welfare Ministry of Urban Development	Ministry of Company Affairs Department of Revenue	Department of Science & Technology Department of Posts	Ministry of Defense Ministry of Home Affairs	Ministry of Railways
Form of PRI	Annual bonus, merit-increment at top	Annual bonus	Annual bonus	Combination of monthly and annual bonus	Annual bonus
<b>Eligibility:</b>					
Group A	PRI	PRI	PRI	PRI	PRI
Group B	PRI	PRI	PRI	PRI	PRI
Group C	PRI	PRI	PRI	PRI	PRI
Group D	PRI	PRI	PRI	PRI	
<b>Coverage (% of employee strength)</b>	Up to 20%	15-30%	Not specified	1/3 <sup>rd</sup> of employee strength	Not specified
<b>Rate of PRI (Phase I)</b>	(of gross pay) <sup>a</sup>	(of basic pay)	(of basic pay) <sup>b</sup>	(of basic+DP) <sup>d</sup>	(of gross pay) <sup>e</sup>
Group A	10-20%	15% - 20%	1. 10% 2. 15-20%	20%	Formula based
Group B	10-20%	15% - 20%	1. 10% 2. 15%	20%	Formula based
Group C	10-20%	15%- 20%	1. 10% 2. 10%	20%	do
Group D	Fixed Payment	Fixed payment	1. 10% 2. 10%	20%	do

a. Gross pay includes – basic pay plus dearness pay plus dearness allowances

b. The rates shown pertain to the Department of Science & Technology and Department of Posts respectively. In both cases only the recommended rate for stage-1 is shown.

c. A different scheme based on distribution of net savings is recommended for ordnance factories

d. Gross pay includes – basic pay plus dearness pay plus dearness allowances and other allowances. The formula distributes net surplus generated by the organization in a particular year

e. Distributes net surplus generated by the organization in a particular year.

(Source: Extracts from Chapter III, 'Synthesis Report of studies on Formulating the Concept, Principles, and Parameters for Performance-Related Incentives (PRI) in Government', IIM Ahmedabad,)