

Study
on

**Formulating the Concept, Principles, and
Parameters for
Performance-Related Incentives (PRI) in
Government**

by

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Background

1. Accountability and efficiency of government employees has become very critical for competent public administration. One of the key ways of achieving this is by linking performance to incentives, commonly referred to as performance related incentives (PRI). PRI has been debated since the fourth pay commission in the mid 80s, but has not yet been implemented. The Government of India (GOI) faced a lot of criticism for selectively implementing the recommendations of the fifth pay commission that increased the burden on public exchequer without bringing in the desired work ethos [IIMA (2006)]. Exhibit 1 gives a brief on the earlier pay commissions.

2. In July 2006, the GOI approved setting up of the sixth central pay commission (SCPC). The SCPC is examining the issue of PRI more seriously. It had asked the Indian Institute of Management, Ahmedabad (IIMA) in October 2006 to study this and come up with appropriate recommendations. The terms of reference of the study as specified by the SCPC are given in Exhibit 2. IIMA's proposal, including the methodology and conceptual framework is given in Exhibit 3. The six month study began in January 2007.

3. Ministry of Railways (MOR) is among one of the nine ministries selected for the PRI study. The team working on PRI for MOR consists of Prof G Raghuram of IIMA and Prof Narayan Rangaraj of Indian Institute of Technology, Bombay.

Methodology

4. The project started with a meeting of nodal officers of the ministries, the secretary and senior executives of the SCPC and the faculty members of the study teams of IIMA on January 5, 2007 at the SCPC office Delhi. Subsequently, for PRI in MOR, meetings, field visits and discussions (listed in Exhibit 4) were carried out with the railway board (RB), unions and at various railway units.

5. In addition, the project included:

- i. Understanding the relevant background of IR
- ii. Study of existing variable pay schemes in practice in IR. (For the purpose of this study, we view any variable/additional component of pay beyond the specification of the scale and linked to 'performance' as manifestations of PRI.)
- iii. Exploration of some international experience in PRI practices/incentive schemes/variable pay programs of railways and transit organizations.
- iv. Consultation through two workshops organized at Railway Staff College (RSC) and IIMA

6. The team then examined various concepts and followed it up by analysis of the issues and recommendations.

Indian Railways: Background

7. The Indian Railways (IR) is the largest employer among public sector undertakings in the country with a total employment of over 1.4 million. It has adopted manpower planning as a strategy for nearly 15 years now. Fresh creation of posts is being allowed only for new assets and new activities and that too with matching surrender. The orientation now is to enhance competitiveness and permit manpower intake to meet the emerging business needs consistent with financial viability of the system [Business Line (2006)].

8. In 2004-05, around 46% of central government employees belonged to IR and 40% of the wage bill of the central government consisted of expenditure on IR employees. The number of employees and the wage bill of IR and central government are given in Exhibit 5.

9. The IR employees are broadly divided into four groups (Exhibit 6) as in all other central government institutions. Further, the employees are spread over more than 750 categories across field units and departments (Exhibit 7). Each category of employees has a different job profile and the nature of job description/duties vary from category to category. The number of employees (group-wise) and total employee expenditure of IR over the period is given in Exhibit 8. Though there has been a decrease of 9800 in the number of employees from 2004-05 to 2005-06, the expenditure on employees has grown by Rs 1394.5 crores. The decrease has primarily taken place in Group D employees. On the other hand, there has been an increase in the employees in Groups A, B and C.

10. The IR spends a substantial portion of its gross expenditure on employee costs including pension liabilities. After reaching an all-time high operating ratio (OR) of 98.3 per cent during 2000-01, the IR prepared a 'reform agenda'. The two major components of IR's operating expenditure, employee and energy, were identified for focus [Business Line (2006)]. The wage bill and ordinary working expenses (OWE) of IR from 2000 to 2006 are given in Exhibit 9. Over the last six years, the percentage of the wage bill as a part of the OWE has remained quite uniform and varied between 45-47%. The contribution to pension fund (which is outside the OWE) as a proportion of wage bill has been in the range of 39% to 47%, stabilising near 44% in the recent two years.

Existing Variable Pay Schemes

11. Indian Railways has many forms of PRI. These are productivity linked bonus (PLB), running allowances, individual and group incentive schemes in production units and workshops, overtime, extra compensation for certain kinds of jobs and awards.

12. We have categorized the existing incentive/variable pay schemes into the following conceptual heads:

- i. Physical Output Based (Direct)
- ii. Physical Output Based (Beyond Normal Output)
- iii. Input Based (Beyond Normal Input)
- iv. Input Based (Nature of Task)
- v. Incidental Revenue Based
- vi. Awards

13. Physical Output Based (Direct)

Running allowances are paid to the non-gazetted railway staff for performance of duty directly connected with the charge of moving trains. Based on the crew category and salary scale, the rates for running allowances have been fixed [Kumar A (2006)]. The rates for the loco and traffic running staff are given in Exhibit 10. The kms to be incentivised for running allowances are calculated on various heads which are given in Exhibit 11.

Keeping in view the depression of pay scales of running staff, the Running Allowance Committee (RAC), 1980, determined the pay element in running allowance to be 30% of the basic pay. For the computation of retirement benefits, the MOR approved 55% of the basic pay. However, the RAC-1980 had recommended this percentage to be 60% (double of 30%) [MOR (2005)]. On being medically de-categorized, the pay of running staff is fixed after adding 30% of their basic pay [Verma B B (2007)].

RAC-2002 recommended that the 'add on element' to the basic pay should be changed to 10% from 30%, as it felt that the recommendations of fourth and fifth pay commissions had reduced the depression in the pay scales of the running staff to a great extent. Consequent on this, it was also recommended that the rate of kilometrage allowance at the maximum grade should come down from Rs 83.80 to Rs 75.05 per 100 kms. For the purpose of retirement benefits, 20% of the basic pay would be reckoned as pay [MOR (2005)]. Decisions on the recommendations of RAC-2002 are pending.

14. Physical Output Based (Beyond Normal Output)

- i. In the production units and workshops of railways two types of incentive schemes are in practice:
 - a. The Individual Incentive Scheme (IIS) was introduced in 1954 in production shops and in 1958 in maintenance workshops [Mishra D C (2005)]. Incentive paid is the total time saved on

the allowed time for each operation during the month multiplied by hourly rates (which are fixed by the RB for each category of staff given in Exhibit 12). The incentive payments at the Integral Coach Factory (ICF), Chennai for 2004, 2005 and 2006 are given in Exhibit 13. The incentive earned has an upper limit. The time saved cannot be more than 50% of the actual time [ICF (2007)].

In the early years, IIS gave good results, but over a period, distortions crept in. The incentive performance is not directly linked to final outturn. So the incentive earnings were high, but physical outputs tended to stagnate. Hence RITES was asked to undertake a review of the IIS in 1989 [RITES (2005)]. The results of the RITES study were not accepted in the ICF.

- b. The Group Incentive Scheme (GIS) was introduced in 1990 in Rail Wheel Factory (RWF), Bangalore, upon the recommendation of RITES. It was later introduced in the Rail Coach Factory (RCF), Kapurthala and Diesel Component Works (DCW), Patiala. The group incentive paid is based on performance of the group and overall performance of the workshop or production unit. Currently, there are three production units and four workshops following GIS (Exhibit 14) There is no upper limit for incentive earning potential, unlike IIS [RITES (2005)]. The main features of the GIS are given in Exhibit 15. The results of the implementation of GIS in production units and workshops are given in Exhibit 16.

Exhibit 17 gives the incentive earnings at RWF for 2005-06. Exhibit 18 gives a comparative view of production and staff at ICF (using IIS) and RCF (using GIS). The manpower productivity at RCF is about twice that of ICF. A comparative assessment of IIS and GIS is given in Exhibit 19.

- ii. PLB was introduced in 1979-80 to reward staff for achieving higher productivity by way of increased output and improved quality of service. It is paid every year during September/October to all Groups C & D staff (excluding railway protection force (RPF) and railway protection special force (RPSF)). For 2005-06, a record bonus of 65 days was paid upto the ceiling amount of Rs 2500 per month [Verma B B (2007)]. However, it is interesting to know from Exhibit 9 that the absolute PLB amount has not been increasing since most of the 14 lakh employees are affected by the ceiling. In fact, it has reduced since the number of staff has reduced over the past five years from about 15 lakhs. The formula for calculation of PLB is given in Exhibit 20.

15. Input Based (Beyond Normal Input)

Overtime allowance is paid to the railway servants of Groups C & D for actual time worked in excess of the hour of employment prescribed by any law or rule. 'The Railway Servants Hours of Employment Regulations' specify the classes of staff in respect of which a railway administration is under an obligation to pay overtime allowance when such staff are called upon to work in excess of the number of hours prescribed under the said Regulations [MOR (2002-a)]. The overtime allowance paid and the number of staff benefited from it is given in Exhibit 21. Over

9% of the staff has been benefited from an overtime amount which is nearly 1.5% of the total wage bill. This amounts to nearly two months of wages for those who got overtime.

16. Input Based (Nature of Task)

- i. Overseas pay is granted to a railway servant in consideration of the fact that he is serving in a country other than the country of his domicile [MOR (2002-b)].
- ii. Special pay is an addition to the emoluments of a post of a railway servant, granted in consideration of
 - a. the specially arduous nature of duties (such as working in difficult locations like north east)
 - b. a specific addition to the work or responsibility (such as teaching) and includes non-practicing allowance granted to doctors in lieu of private practice [MOR (2002-b)].
 - c. being on call for accident duty, including operating and staffing accident of relief trains.

17. Incidental Revenue Based

Cash incentive scheme to ticket checking staff to recognize their good work was introduced in March, 1993. The incentive paid to ticket checking staff is 5% of the earnings from the penalty cases [Verma B B (2007)]. The scheme was revised in 2004. The details are given in Exhibit 22.

18. Awards

- i. 'Accident-free' awards are given to all categories of safety staff at the time of retirement. It is paid based on the entire length of service of the staff. More details are in Exhibit 23.
- ii. Group/cash awards in production units/workshops are given to officers/staff of zonal railways/production units. These are awarded by Minister of Railways (MR) or Minister of State of Railways/RB and other Board Members after getting the approval from the MR. The amount is based on the importance of the occasion/activity carried. More details about these awards are given in Exhibit 24.
- iii. Cash awards during Railway Week
- iv. Spot awards

International Experience

19. Apart from salary or hourly wage increments that are based on achieving performance goals, the railways and transit organizations in other countries use cash, special benefits, recognition, prizes and special opportunities as ways to incentivise their employees for good performance.

20. Railway and transit organizations have been using performance indicators which are financial in nature, such as reduction in OR, increase in business return, performance of capital projects, or which reflect improved services such as on-time performance, increase in customer satisfaction, reduction in number of accidents. The employees are evaluated on both tangible and intangible performance indicators depending upon the hierarchical level they belong to and the nature of their task. The experience of some railways and transit organizations is given in Exhibit 25. Incentive programs have been developed at both worker level and managerial level. For incentives at worker level, the performance indicators are individual based whereas at manager level, they are more group based as managers are the ones responsible for the collective performance of the organization/team.

21. International experience is that transit organizations face difficulties in data collection about the performance of an individual/group. Such data is seen as subjective in nature and its reliability questioned. Many times, union support is missing - hence involvement of employees in developing the incentive program is hindered. Sometimes, the degree of control of the organization/individual/group on factors affecting their performance is very little. This leads to perceived loss of opportunities for the incentives they can earn.

22. In a study of transit organizations, it was observed that there are certain common principles followed by them for developing incentive programs [Hartman, Kurtz and Moser (1994)]:

- i. Involve employees in the design of the program
- ii. Extend the program to as many employees as possible
- iii. Get union support and endorsement
- iv. Link criteria for performance to key business goals
- v. Publicize the positive results
- vi. Budget enough to meet the expectations

Consultative Workshops

23. The first workshop was organized by the MOR study team and RSC at Vadodara on April 18, 2007. Four organizations (private and public) discussed their PRI schemes, unions presented their views on the PRI concept. Three railway officer working groups presented their ideas on the following questions related to PRI:

- i. What types of jobs and units can PRI be applied to?
- ii. What will/can be the expected success of PRI at officer and staff level?
- iii. What can be the performance measures across the entire cadre of officers and staff of Mechanical Engineering Department (as an example department)?

The views of the railway officer working groups on the above questions are given in Annexure 1. The experience of the four organizations regarding PRI is summarized in Annexure 2.

24. The second workshop was organized by IIMA at Ahmedabad on May 1, 2007. This was across all the study teams. Nine organizations (public and private) put forth their viewpoints on the following:

- i. Drivers for introducing PRI
- ii. Scope and design of the system in practice
- iii. Implementation of PRI

The experience of the nine organizations regarding PRI is summarized in Annexure 2.

Conceptual Issues and Analysis

Takeaways from Visits and Discussions

25. The IIS at ICF had an upper limit in earning potential and most of the eligible staff was at this level. The natural corollary would be that this amounted to a base salary increase rather than be a function of performance that resulted due to the incentive scheme. This was largely due to the fact that the work norms were decided so as to enable everybody to get some incentive, which was further capped at a level feasible for everybody.

26. At an aggregate level, ICF has been able to increase its throughput, partly due to better technology and partly due to the incentive scheme. Recently, the upper cap has been revised from 50% to 70%, but with a reduced incentive rate. The scheme is considered to be deficient since it is individually focused, while the output in many of the shops is a function of the group performance. It is with this in view that the GIS has been adopted in all the newer production units and workshops. Also, indirect workers had a perception that they earned less incentive compared to their contribution to the process of generating outputs.

27. The study by RITES in evolving GIS and the post-implementation impact demonstrates that the GIS has resulted in better output.

28. At RWF, the officers felt that GIS was a successful scheme and gave them leverage to increase productivity. While other employees were satisfied with GIS, there were concerns about working conditions. There was also discontentment that many categories directly connected with the 'supply chain' of production were not eligible for GIS, including the staff involved in raw material preparation, dispatch, maintenance of production equipment etc. This was directly linked to the department to which they belonged (stores, civil engineering etc). Mechanical and electrical engineering staff was eligible for GIS, even if they were in 'indirect' roles in support services like laboratories. This brings out inconsistencies due to the department structure taking priority over the supply chain structure.

29. One of the important concerns for both IIS and GIS are the revision of standards that qualify for incentives, especially due to technology upgradation. There is generally a lag in doing such reviews, and the reviews do not go well with the staff. The discussions indicated that such reviews should be triggered each time there was a technology upgradation.

30. The POH workshop at Lower Parel has an incentive system in place, but no overtime. The incentive scheme is considered unsatisfactory, and workers feel that they are capable of more and should be compensated accordingly. Working conditions are almost hazardous at some places and would form the major focus for improving motivation and productivity. The workers at this workshop (as in some other locations) felt that difficult work conditions had to be 'compensated' by monetary allowances.

31. The train care centres at Basin Bridge (Chennai) and New Delhi, the coaching depots at Kankaria (Ahmedabad) and the EMU workshop at Kurla are line maintenance units for coaches. There is no incentive system in place for the staff at these units. The work content for each

activity is variable to an extent, and the timing is also uncertain depending on train running. The measures used to achieve the desired levels of service are overtime and flexible days off (compensatory holidays in case of unscheduled work). The output is directly assignable to certain well defined teams of maintenance personnel. From the discussions, there appeared to be a possibility to define a group incentive for each gang that is given responsibility for a certain set of trains/rakes.

32. Sabarmati Diesel Loco Shed was an example of a self contained unit with clear norms of performance and output. Incentives are not in place in this unit. The discussions indicated that incentives can be considered, keeping in mind the measurable objectives of the unit as a whole, and their subsequent breakdown of targets for small groups and individuals.

33. There are many units in the IR where the working environment is similar to those in production units and workshops. These are in the domain of asset maintenance. However, while the aggregate demand on these units is known (like in the production units and workshops), the demand at a micro-level is a function of train operations. Currently, *performance is ensured either through commitment to task, dynamic work re-allocation or overtime.*

34. It is important to recognize that many customer centric activities are getting outsourced. Catering and cleaning of trains at 'clean train stations' are examples. The payment contracts for such arrangements are performance related.

35. Working conditions are very tough, especially in the older coaching depots and other maintenance/production units. The workers and their representatives were quite clear that improving working conditions would form the main factor in motivating them, and increasing productivity and output.

36. The discussions with the apex federations in New Delhi yielded two lines of response for PRI implementation for Groups C & D. *One of the federations was open to the idea initially, but has subsequently not been able to support the idea at the level of plausible implementation, quoting the interdependence of work and the possible subjectivity of evaluation mechanisms as two of the major hurdles. The other federation felt that PRI should be taken up, if at all, after the negotiated pay increases due to them. Their view was that the railways have always believed in a bilateral negotiation of all benefits and independent norms and recommendations would have limited impact, as of now.*

37. The meeting with divisional officers at the Divisional Railway Manager's (DRM) office at Ahmedabad was fruitful in terms of possible measures for performance at the officer level. The key role of the head of such a unit (in this case the DRM) was apparent, since it is he/she who is responsible for the cross functional performance of the unit. In the railway structure, officers of all departments are assessed by this officer (the DRM), who therefore carries the single point responsibility of the working of the division. A similar situation obtains, by extension, at the zonal level and of course, at the RB level.

38. Meetings with the representatives of the Officers' Federations (Groups A & B) stressed that there are difficulties in using uniform measures of performance in different parts of railways

because of different operating environments. Different areas differ drastically in revenue potential, operating costs, safe running environment, facilities available to staff etc. These would be difficult to rationalize in any performance measurement scheme. Having said this, officers were open to PRI as a possible incentive to increase motivation and overall monetary benefits, since the gap between IR salaries and the private sector was seen to be too wide, at present. Group B officers were more vocal about transparency in postings, anomalies in salary (same pay for same work), and work environment, as positive measures for increasing motivation and output.

39. Meetings with the Member (Staff), Advisor (Industrial Relations) and the Executive Director (Pay Commission) and other officers outlined some of the difficulties in implementing PRI. For example, the running allowance issue has been quite controversial and has become cumbersome and artificial [MOR (2005)], but has proved to be almost impossible to re-negotiate for the past many years. Industrial relations have been harmonious for the past many decades, but at the cost of continuing certain ways of working without change.

40. Based on the discussions with many officers in their individual capacity, there are concerns of retaining quality talent at the managerial level. There are many reasons.

i. Comparisons with private sector

It is felt that even accounting for job security and other perquisites, the salary structure for the IR officers compares extremely unfavourably with respect to the private sector. Also, there is generally no recognition for better performance.

ii. Retention

Out of about 6000 Group A (non medical) officers, 122 have left IR on voluntary retirement in the three years from 2004-07. In addition, 62 officers have resigned during the two years 2004-06 [MOR (2007-e)]. It is felt that a PRI scheme can play some role in retaining talent, so that the best of the managerial workforce is less tempted to leave the organization.

iii. Talent attraction

The best talent is no longer seeking to join the IR. PRI could serve as a feature that attracts better quality entry level managerial talent.

iv. Hiring freeze

At this time, with a hiring freeze in many departments (especially in Group C & D posts), there is a widespread feeling that the output per person has gone up significantly (albeit with significant technology inputs), but has not been adequately compensated.

The overall impression gathered was that PRI could be one of the means to address the perceived imbalances, quality concern and lack of appropriate compensation.

41. The key learnings from the workshops were

- i. The officers (Groups A & B) of the IR were more ready to consider PRI than the staff (Groups C & D).
- ii. Examining performance measures across a departmental hierarchy (eg Mechanical Engineering Department) may not be the right approach. It is units (Diesel Locomotive Shed, Divisional Office, Zonal Office, RDSO, RSC, etc), that have responsibility for outputs and leverage various departments providing inputs, and such units need to be considered for performance measurement assessment.
- iii. PRI is being attempted in many large organizations with varying degrees of success. Key parameters for success were communication, simplicity of the scheme, phasing and decentralization, continuous review and modifications in the process.

Issues for Discussion and Resolution

42. Why PRI?

PRI proposes variable pay as one of the incentives for performance in the organization.

PRI as a concept is built on the premise that better performance can be achieved when pay (fiscal incentives) is related to performance. Given the attempts by various organizations to incorporate elements of PRI in their pay structure, and the inherent need felt for better recognition for better performance of employees, we conclude that in an organization like IR, the concept of PRI can work.

This conclusion should be seen in the context that IR employees have always been known to perform, many times defying the normal expectations. They work long hours in unsupervised conditions (eg trackmen), at times of emergency (eg accidents, natural calamities) and when routine is disturbed (eg trains running late). While the above, which most often happens without PRI, deserves praise, it needs to be sustained (for which PRI would be a sweetener) without bringing in a mercenary attitude (which PRI may induce). However, IR needs to improve in customer oriented service delivery and strategic change initiatives with respect to the changing environment. It is here that PRI can work.

PRI would help in (a) setting right perceptions of not being recognized for better performance, (b) enabling IR to increase its output in various areas with the same workforce and (c) aligning the responsiveness of the organization to key stakeholders like citizens (customers), other departments (internal customers), depending on the performance measures chosen.

43. Manager vs Worker Level

The consensus that has emerged is that PRI needs to start at the top managerial level and go top down. This is because work definition is more and more constrained, and defined as we move down the hierarchy in most organizations. Performance at lower levels is more a function of proper job description and execution according to certain work norms. The scope for initiatives leading to variable performance is generally less, and there is interdependence in tasks at these levels (which is one of the tasks of a 'manager' at the next level to co-ordinate).

However, it is clear that at least at lower levels in any organization, PRI, needs to be taken up in tandem with a host of other managerial initiatives to make it successful in an overall context. Some of these are discussed in the section on enabling conditions for PRI.

44. Extent of Variable Pay

The industry standard for variable component of pay seems to be about 10-15% for lower levels of management, going higher to 30% for top management. The higher the level, the more is the direct control of the actions. The reward structure generally reflects that.

Whether there should be a limit on the extent of variable pay could be an issue. In many organizations, at the highest levels, it is theoretically unlimited, being a percentage of profits.

As we move lower in the management hierarchy, the performance rating becomes a determinant of the variable pay. Limits are not only put on the extent of variable pay, but also on the number of people who can be rated at various levels at excellent/good levels of performance.

At the worker level, a limit is considered more necessary, since there is fear of a compromise on quality of output.

45. Budget for Funds to be Disbursed as PRI

The amount allocated for variable pay is often limited as a percentage of disburseable profits.

In the long run, IR should move towards a system where the budget for PRI is decided at a broad level based on the financial performance of IR. Currently, the PLB is decided on output measures, not on financial performance.

46. Definition of Unit/Department/Group

IR operates under a dual system of reporting and performance measurement. All employees belong to a department (eg Civil Engineering), but a large proportion of employees (except for a few which come directly under the RB) would be part of a production unit/workshop/division/zone. So, while progression is in the cadre department, year to year performance is specified and measured by the unit to which the person belongs. It is this unit that is relevant for the PRI exercise.

Even within such units, work processes that depend on group performance would be more appropriate for assessing the output. Hence PRI would need to have a significant group component.

The PLB operates with the whole IR as a unit. While it definitely contributes as a 'feel good' factor, its efficacy as a performance driver at that level of group definition is questionable.

47. Performance Measures

PRI schemes in practice typically include (a) some measures of performance at an individual level, (b) some measures of an appropriate group in the organization, and (c) sometimes a measure of how the entire organization performs. Running allowance is an example of the first type of measure and the PLB is an example of the last type of measure. In IR, because of the system of management, reporting and monitoring, it is possible to define meaningful measures at all these levels within the existing set up. All departments and units already have detailed norms for staffing, work measurement, targets for individuals and groups and monitoring of these. It would be possible for each part of the organization to use some of these measures in a PRI scheme.

48. Unequal Opportunities due to Difference in Department wise Tasks/Posting

This was a concern raised by many during discussions. This arises from the fact that financial measures (such as OR and earnings from loading) are the ones that are discussed most within the organization. Opportunities towards these and thereby scope for performance are perceived to be unequally distributed across the IR system, eg between line and staff functions, high density routes and branch lines.

However, the use of incremental measures (essentially based on agreed upon targets), would mitigate this problem to a large extent. In the case of staff functions, the overall performance of the line functions supported could be a measure.

49. Period of Evaluation

IR has a detailed reporting system and some measures are recorded even monthly. Depending on the tenure in a job and the time for results to show, the PRI for managers can be considered half yearly or annually. If the period becomes longer, the value of PRI to the individual would go down.

50. Transfers

Transfers of officers in IR are quite frequent.

- i. Any performance assessment should take transfers into account in a pro rata manner.
- ii. The system should eventually evolve into a more stable and transparent transfer policy so that individuals can plan their work vis-à-vis targets and try to achieve them in

predetermined time frames. Those tasks which require a relatively longer gestation will benefit from such a policy.

51. Annual Confidential Report (ACR) vs Assessment for PRI

The system of ACR by a superior is in place in IR, and is the primary input to the promotion process and career progression in the organization. This has got some historical legacy, and some merit in an organization that requires regular, co-ordinated and committed action of several people (most important being train running and all associated maintenance activities). It is one of the ways of building an organizational culture of a chain of command that is generally considered acceptable in the IR context.

However, PRI would require a different way of assessment and appraisal of performance and associated financial benefits. This has *to be transparent and mutually agreed upon*. This would have targets specified for each important part of a person's activity and would be assessed based on completion of these targets at points in time.

If the ACR continues to be used, it is clear that it cannot be too divergent from the individual component of the PRI assessment. Over a period of time, if the ACR itself becomes less confidential and more transparent, these anomalies, if any, will reduce.

52. Continuation of Current Incentive Schemes

The current incentive schemes are mostly at the worker level in production units/workshops and for running staff. These are quite well entrenched and would be difficult to dismantle. However, in the long run, proper alignment of the incentive schemes with organizational goals would be essential. We would point out that there are alternate ways of achieving similar goals of motivation and effectiveness. These may be worth considering.

IR has an award and recognition system which does have its role as an incentive to good performance and motivation. However, the financial benefits associated with these awards are considered to be very small and more as token gestures, by most of the staff.

53. Impact of PRI on Quality/Work Ethics

These are some concerns with organizations who have been trying to implement PRI systems for some time. There could be distortions when there is a possibility of individual gain overriding organizational benefit. Appropriate checks and balances with transparency need to be in place.

Enabling Conditions

54. Delegation and Organization Structure

Unless people at one level are empowered to define the scope of work to some extent, there is no point in rewarding 'performance' as such. This means that there has to be significant delegation

of the span and extent of work. Targets have to be set on achievable goals with some autonomy on how to achieve them. Only then is the concept of variable performance valid.

For example, academic institutions like IIMs have PRI which compensates extra teaching and research publications in quality journals. A similar system at RSC may not work in the current context, since the autonomy on what to teach and for creating teaching opportunities is limited. Ideally, apart from delivering in the required programmes, the faculty should be free to identify and nurture opportunities for programmes and teaching relevant to the mission of IR and RSC. However, if a PRI is introduced even without the freedom, internal pressure could get generated for the required autonomy. This could enable better performance both at the individual and the organizational level.

At a more macro level, the organization structure of the IR needs a significant change from being functionally (departmentally) driven to being business driven. Many past studies on the IR have analyzed and remarked on this. Here again PRI could serve as an internal pressure point in bringing about change.

55. Transparency

A system which seeks to differentiate among good, average and poor performers has to be transparent and open to scrutiny and appeal, if necessary. Since monetary benefits are involved, it is all the more important that the basis of performance is unambiguous and accepted by all.

56. Assessment

Training of assessors to ensure quality assessment would be essential. Assessment involves the fixing of targets of performance, communicating to individuals in advance, regular monitoring, timely and fair feedback, etc.

To really focus on excellence in performance, it would be important to have a relative basis for assessment. This would imply that there should be categories of recipients for the variable pay and limits should be set on the number who can be in each of the categories.

57. Multiple Assessors

A single assessor is probably not in a position to escape inherent biases in judgment and assessment would carry more credibility if done by multiple assessors. One simple way is to have assessment done by a superior and then reviewed by someone else or by a team consisting of superiors and 'customers.'

It is in this context of transparency and minimizing bias that the current system of ACR and PRI assessment would differ.

58. Working Conditions

Working conditions are important factors to improve productivity in general and for PRI schemes in particular. Standardized and positive work atmosphere in a safe and quality conscious environment would bring out inherent performance in an employee. PRI schemes would instigate the workforce to demand good work conditions so that their productivity is enhanced. This positive drive is a good signal for system improvement as a whole. Exhibit 26 provides an indicative list of working conditions that need to improve, based on some of the inputs gathered by the authors.

59. Miscellaneous Factors

i. Communication

It is important that the details (attributes of performance that are going to be assessed, who is going to do the assessment, the extent of reward, timing of reward etc) of a PRI scheme are communicated to the employees of an organization to take the scheme forward in a convincing manner.

Training of relevant functionaries would be a useful instrumentality of communication.

ii. Simplicity of the scheme

The set of performance measures that individuals have to achieve and the set of measures that a unit will be assessed upon should be simply stated, visible, and computable, and available for scrutiny of all employees. This will ensure a better buy in.

iii. Phasing

PRI is applicable in principle to all levels in an organization, but would make sense to start from the top management level. The implementation of a PRI should start with a top down system of transparent target setting. Once a system emerges where a person at one level is held responsible for the combined performance of a unit under his/her charge, it makes sense to incentivize performance of individuals in that unit. This would mean that performance measures and targets are propagated downwards in a phased manner.

iv. Decentralization

It is quite feasible to think of the concept of PRI for workers at a decentralized level. If an agreed upon pool is available, then a decentralized scheme (ie not one applicable to all of IR) is possible to define to link individual performance to pay at the level of the unit. Even now, different units do have different incentive schemes, which are accepted for the most part.

v. Involvement of beneficiaries

The details of the PRI in the IR should be worked out with the involvement of those affected (direct beneficiaries, indirect beneficiaries and non-beneficiaries).

Recommendations

- I. The study should examine the correct basis of pay increases and their relation, if any, to performance and productivity of the employees, and examine possibilities of evolving a direct correlation between PRI and delivery of services to citizens/organization/other departments, as the case may be.

Currently, pay increases are a function of time (increments) and promotions. While promotions are expected to reflect a person's ability and scope for performance, the best performance of an individual (and consequently the organization) is not captured in a continual and consistent manner. PRI as a concept is built on the premise that better performance can be achieved when pay (fiscal incentives) is related to performance. Given (a) the attempts by various organizations to incorporate elements of PRI in their pay structure, (b) the inherent need felt for better recognition for better performance of employees and (c) aligning the responsiveness of the organization to key stakeholders like citizens (customers) and other departments (internal customers), *we conclude that in an organization like IR, the concept of PRI can work.*

- II. The study should, inter alia, examine international best practices in this regard.

The practices that we have examined in some of the railways and transit organizations in other countries show that PRI is a part of the pay structure. However, there are wide variations in the implementation context and the performance measures used. In an earlier section on international experience, certain principles for successful implementation of incentive programs have been outlined. *The critical ones are involvement of employees/unions and communication.*

PRI is also being implemented at the managerial level in several organizations in India in various sectors.

- III. The study should evolve measurable, quantifiable criteria for judging performance and productivity of different grades of employees in various government organizations depending on the nature of their work and the relationship with their users/clients.
- IV. The study should develop a model suited to Indian conditions which is transparent, measurable, fosters accountability and is linked to deliverables.

We respond to points III and IV together.

Applicability

At the officer level, we recommend that PRI be applicable over and above the salary that is applicable to each post. We recommend that PRI be first applied at the officer level (Groups A & B), with a top down approach. As a starting target, 15% of the total pay for this category could be earmarked for PRI. PRI should be based on a performance index with an individual and group component, each with an equal weight. The maximum that an individual is eligible for is 30% of his/her total pay.

The principles of PRI are applicable for Group C & D staff. We recommend that, subject to union agreement, PRI be considered for this category of staff, as a replacement for the PLB which they are currently getting. As a starting target, considering the financial implications, 5% of the total pay for this category could be earmarked for PRI. At the Group C & D level, since there is less autonomy for work definition and initiatives to increase performance, the PRI should be based on a group performance measure only. The maximum that an individual would be eligible for is 15% of his/her total pay.

Financial Implications

To maintain budget neutrality, it is suggested that the kitty for disbursement through PRI is based on the surpluses generated over and above the current surplus (Rs 6000 crores as of 2006-2007). *We suggest that a maximum of 15% of the surplus (if above Rs 6000 crores) be set aside as the PRI amount, in aggregate.* This figure (approximately Rs 900 crores) is arrived at by considering an average of 15% for Group A & B and an average of 5% for Group C & D as per current figures (2006-07). The maximum aggregate disbursement percentages should be decreased pro rata if this surplus drops.

Exhibit 27 brings out the implications of setting aside an average of 15% of the total wage bill of Groups A & B. This would amount to just over 1% of the net surplus after dividend, pension funds and DRF. It is felt that this amount of PRI would lead to corresponding improvements in the aggregate surplus. There is a link between the disburseable surplus and the extent of PRI benefits.

Exhibit 28 brings out the implication of the current PLB, which as of now, amounts to 4% of the wage bill for Groups C & D. For Groups C & D, an average 5% PRI would lead to about Rs 785 crores, compared to the Rs 635 crores, currently paid through PLB. We expect corresponding improvements in performance, since this would be payable to performing units/groups, rather than across the board.

Performance Measures

Where possible, the performance measures should be financial. If this is not possible, then key physical measures can be used.

i. Individual component (Group A & B employees)

The individual assessment of an officer would be assessed using a set of agreed-upon measures. Each measure would be derived from a process that the individual is responsible for, along with colleagues who constitute a team. The individual could be a part of more than one process. For example, an officer in the personnel department could be involved in the following processes with performance measures as specified:

| Process | Performance Measures | Type | Process | Performance Measures | Type |
|------------------------|----------------------------------------------------------------------|--------------------------------|----------------------|----------------------------------------------------------------------|--------------------------------|
| Settlement of dues | Percentage settled within ten working days | Quality/ Customer satisfaction | Pay roll | Percentage errors | Quality/ Customer satisfaction |
| Selection & promotions | Percentage processed within the due time | Efficiency/ Productivity | Passes | Percentage processed within one working day | Quality/ Customer satisfaction |
| ACR | Percentage processed within the due time | Quality/ Customer satisfaction | Legal activities | Assessment based on office's own commitment, moderated by a superior | Competency/ Skill |
| Job analysis | Assessment based on office's own commitment, moderated by a superior | Result/ Output/ Value Addition | Welfare activities | Assessment based on office's own commitment, moderated by a superior | Effort/ Activity |
| Man power planning | Assessment based on office's own commitment, moderated by a superior | Result/ Output/ Value Addition | Industrial relations | Assessment based on office's own commitment, moderated by a superior | Competency/ Skill |

The performance measures for each process would have a certain weightage, decided in consultation with a superior assessing officer, at the beginning of each year. On these measures, the officer would then perform a self assessment, followed by an open assessment by the superior and then an assessment by a reviewing officer (or a team consisting of the superior(s) and 'customers'), to achieve a score out of 100. This score would determine the individual component of the performance index.

ii. Group component (All employees)

For Group A & B employees, the group component of the variable pay would be determined by the performance of the unit to which the officer belongs. Examples of units are Diesel Locomotive Shed, Divisional Office, Zonal Office, RDSO, RSC etc. Each of these units would be assessed on a set of targets for agreed performance measures by the appropriate higher entity (eg divisions by the zone, or zones by the RB).

For a *Diesel Loco Shed*, the set of measures could be:

| |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Outage measured by number of locomotives made ready Reliability measured by number of failures per 100 locomotives Punctuality loss in running trains (assignable to loco failure) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

We see a *Division* as a logical unit of overall management of investment and operation of passenger and freight services on IR. Almost all facilities and operations are under the charge of the relevant DRM, which office therefore becomes the single point of responsibility and control.

The current system of review against targets is very detailed. It takes each department and identifies several areas of performance. For example, the Mechanical Engineering Department performance is reviewed under different headings to do with availability and reliability of freight rolling stock (wagons) and passenger rolling stock (coaches), diesel locomotive performance and the performance of maintenance workshops. These measures include safety features, customer oriented measures like punctuality loss (ascribable to this department) and operating measures like availability and turn around.

These measures for different departments can be aggregated to give a divisional performance measure. Each Division has its own mix of freight and passenger traffic, originating and through traffic etc.

For a *Division*, the set of measures could be:

| |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Customer Satisfaction: Punctuality, safety, waiting list not cleared and average number of unprocessed rake indents |
| Outputs: Passenger kms (suburban and non-suburban) and NTKMs (these capture the quantities of the major deliverables of the railway system) |
| Inputs: Tractive effort (no of locomotives and their HP), track kilometers and other major assets (these capture the major investments and assets available to the railway system) |
| Productivity: Wagon turn around (this captures the co-ordination of activities to achieve the desired goal) and coaching stock utilization |
| Financial: Earnings and OR |
| Besides these, each supporting department would have its own norms of performance which can be included on a weighted basis. Since the weights are subjective, any formal technique of comparison can be used, that is transparent (such as data envelopment analysis). |

This score would define the group component of the performance index for Group A & B employees.

The final performance index for each employee is got by taking the individual and group performance measures in equal weights. Finally, they can be represented as a normalized figure, where a score of 1 means that the performance is as per the stated target or benchmark, 1.2 means an aggregate 20% overachievement with respect to the target and so on.

For Group C & D employees, the relevant group has to be defined. For the bulk of the employees, this would be a unit smaller than a division. Examples are as follows:

Example of Track Maintenance Team

The relevant group could be the Section engineer's office in a division, where all trackmen and supervisors would get a common percentage incentive, based on the performance. Performance

could be based on a set of parameters such as (a) the track safety index vis-a-vis kms of track under the office and (b) track fixture replacement and repair indices. We note that staffing norms for appropriate maintenance and equipment for this purpose as per norms have to be sought and provided as this is safety critical (ie inputs cannot be compromised).

In this manner, there is scope to bring other units under the PRI scheme. Other examples could be maintenance units and staff at railway stations. *Revenue collection and customer centric frontline activities are particularly amenable to PRI.* Staff involved in ticket counters, ticket checking, catering, cleaning at stations etc would be examples. At another level, such roles are also amenable to outsourcing, where PRI-like contracts would provide leverage for IR on the delivering party.

Here, there is an issue of whether the performance is measured in output terms (such as number of units maintained), or in input terms (number of hours worked). The latter is nothing but overtime, but with the difference that for many maintenance type activities, such overtime (within the legal labour laws) is obligatory for the staff.

Implementation

We list a number of points that need to be managed during implementation.

Task Force

Given the size, complexity in operations, and already existing sophistication in performance measures, it is best that a task force focus on the detailing out. We recommend that a task force be created in Indian Railways to define units that are relevant for group performance, performance measures (both individual and group) and monitor implementation.

Existing Variable Pay Schemes

For some Group C & D staff, the existing variable pay schemes, can be continued, as they are situation specific.

For the variable pay schemes in production units and workshops, it would be important to move from IIS to GIS in production units and workshops. A review of standards and bases of the incentive schemes should be conducted whenever there are changes in technology, capacity and practices.

Disbursal

The principles of disbursal are as follows.

- (a) The total disbursed amount among the eligible employees equals the total amount available*
- (b) The performance incentive is proportional to the performance of the individual; and*
- (c) The performance incentive is proportional to the salary of the individual.*

There are many ways of achieving these goals. We provide one formula that can be used. Suppose performance is measured in a way that assigns 1 for the target (benchmark performance), a performance index represents the relative achievement (1.2 represents 20% over-achievement, etc.). We can then define the eligible performance measure [EPM], as $EPM = \text{Max} [\text{Performance Index} - 1, 0]$. This figure takes on a value zero for all values of the Performance Index less than or equal to one. This will ensure that only people who perform better than the target will be eligible. The performance incentive for person 'p' is calculated as

$$\frac{[\text{Disbursable amount}] * [\text{Salary of person 'p'}] * [\text{EPM of person 'p'}]}{\text{Sum of } \{[\text{Salary}] * [\text{EPM}]\} \text{ for all eligible people}}$$

We provide illustrative examples to show how the disbursable surplus can be distributed through PRI.

Step 1: Compute available disbursable surplus (maximum 15% of the total relevant salary component for Group A and Group B and 5% for Group C and Group D, subject to surpluses above the current figures for 2006-2007).

Step 2: Compile all individuals whose performance is measured and are eligible for PRI and list their base salary (fixed) component and performance index.

Step 3: Compute actual amounts of PRI so that total amount equals the disbursable amount and relative amounts are as per the relative performance. (This is shown below for several illustrative examples).

Step 4: Ensure that the PRI for each individual does not exceed 30% of pay for Group A/B employee and 15% of pay for Group C/D employee.

Examples of PRI Disbursal

We assume that there are two employees (say in Group A or B) and that the total wage bill is Rs 2000 (so maximum disbursable amount is Rs 300)

| Case | Disbursable Amount | Salary | | Performance Index | | PRI | |
|------|--------------------|----------|----------|-------------------|----------|----------|----------|
| | | Person 1 | Person 2 | Person 1 | Person 2 | Person 1 | Person 2 |
| 1 | 300 | 1000 | 1000 | 1.2 | 1.4 | 100 | 200 |
| 2 | 300 | 500 | 1500 | 1.2 | 1.4 | 43 | 257 |
| 3 | 300 | 500 | 1500 | 1.4 | 1.2 | 120 | 180 |
| 4 | 200 | 1000 | 1000 | 1.2 | 1.4 | 67 | 133 |
| 5 | 300 | 1000 | 1000 | 1.0 | 1.2 | 00 | 300 |
| 6 | 300 | 500 | 1500 | 1.4 | 1.0 | 150 | 00 |

Note that if the performance of an employee is at the target level or lower, then no incentive is earned.

A more general formula which allows for different weights for performance and salary is

$$\frac{[\text{Disbursable amount}] * [\text{Salary of person 'p'}]^m * [\text{EPM of person 'p'}]^n}{\text{Sum of } \{[\text{Salary}]^m * [\text{EPM}]^n\} \text{ for all eligible people,}}$$

for some indices m and n , which reflect the weights of these two factors. We have given the example of m and n equal to 1.

Anomalies

There may be some anomalies with the existing variable pay schemes and the PRI schemes that are being proposed for Groups C & D. It is felt that the PRI framework we are suggesting will be more focused on organizational effectiveness (performance of the relevant unit), and will apply at a larger unit of measurement than the current Group Incentive Schemes, but there may be still be some areas where the task force will have to reconcile these measures.

It is also possible that overall surpluses could be there, but very few individual performances could be eligible for incentives. This would create an anomalous situation where only a few people could get incentives even though the organization has performed well. Such situations point to anomalies in the performance measurement system, which would need to be addressed by the Task Force overseeing the PRI initiative.

Another possible anomaly is that an officer is eligible for PRI, but all the units functioning under the officer (and thereby the staff in the units) are not. This is unlikely to happen if the group performance measure for the officer is properly defined.

Longer Term

In the long run, the 15% figure for Group A & B and the 5% figure for Group C & D can be modified along the following lines:

- It can be a percentage of net revenue before dividend, which is often reflective of disbursable profits earned.
- It can be a higher proportion for higher levels of management.

Comment on the Current PLB

We note that the current PLB scheme is based on a computation of physical output vis-a-vis the number of employees, which takes into account some, but not all, capital inputs. It does not have a financial component of output or an efficiency component.

The PLB is calculated in terms of a productivity index (PI), a base figure (B) – which is the average PLB paid for the base three years and the Base Index (BI).

$$\text{PLB} = \frac{[(\text{PI}) * (\text{B})]}{(\text{BI})}$$

The productivity index is the net ton km divided by the modified staff figure, which includes a capital input term. The base index is the same figure averaged over the base years.

The modified staff figure is arrived as follows. The number of staff is discounted by a capital input factor that includes tractive effort (50%), wagon capacity (20%) and seating capacity (30%). The percentage increase in these figures over the previous years (weighted as above) is taken as the Capital Weight, to discount the staff input.

The capital input factor includes different inputs connected with the rolling stock. This formula does not take into account all other capital investments of the railways, which allow for faster train movement and faster turn-around of wagons/coaches and asset utilization. These include investments in track, electrification, signalling, stations, sidings and terminals, information technology and other establishment investments that facilitate greater productivity of the staff.

V. The study should devise means by which PRI can be introduced in the Government. Specifically it should consider the following:

- Should PRI be applied to all jobs and all sectors, or higher managerial positions/percentage of jobs or sectors to begin with?

We recommend that PRI be first applied at the officer level (Groups A & B), with a top down approach.

We recommend that the implementation of PRI at Group C & D level also be considered, subject to acceptance by unions and withdrawal of the PLB.

- Should PRI be individual based or group based?

We recommend that the PRI for Group A & B employees should be a maximum of 30% of basic, with an equal weight to an individual performance index and a group performance index.

We recommend that the PRI for Group C & D employees should be a maximum of 15% of basic, based on a group performance index.

- Should specific percentages be prescribed for restricting number of posts to which PRI is given?

We suggest that the initial application of PRI be across the board, till the basic performance measures are agreed upon in a suitably transparent and acceptable manner and the performance measurement system is streamlined. This will be one of the means of achieving some buy-in from the organization, arising from performance vis-a-vis stated goals. Once the initial gains from this are observed, the next step is to reward differential performance, if suitable to the organizational culture. As of now, interdependencies are too many to reward people in a pattern of a forced distribution. Organizationally speaking, it is better to inculcate the feeling that *all* good performances with respect to stated goals will be rewarded, and then move to rewarding only the top performers.

PRI Summary

For Who

We recommend that PRI be applied at the officer level (Groups A & B), with a top down approach. As a starting target, 15% of the total pay could be earmarked for PRI. PRI should have an individual and group component, each having an equal component. A maximum of 30% over the salary can be earned through PRI by an individual.

For Group C & D staff, with the concurrence of unions, the suggestion is to move to PRI instead of PLB, with an average of 5% additional pay through PRI (compared to about 4% as the current PLB scheme). This would be subject to a maximum of 15% by an individual.

The existing variable pay schemes can be continued, perhaps with modifications to suit the present day environment. Where possible, a group component of incentive should be introduced to ensure organizational benefit. As of now, all such initiatives at Group C & D level are through bilateral negotiation with the concerned unions.

Financial Implications of PRI

At this point, the financial implications of the PRI Proposed for Officers (Groups A & B) are about 1% of the available surplus (see Exhibit 27). The current PLB implications are shown in Exhibit 28, amounting to about 4% of the surplus.

In the long run, IR should move towards a system where the budget for PRI is decided at a broad level based on the financial performance of IR. In contrast, currently, the PLB is decided on output measures, not on financial performance.

Limits on Benefit

The industry standard for variable component of pay seems to be about 10-15% for lower levels of management, going higher to 30% for top management. The higher the level, the more is the direct control of the actions. The reward structure generally reflects that. We have recommended an average of 15% and a maximum of 30%, across all Group A & B, and an average 5% and a maximum of 15%, considering the current Indian Railway organizational culture.

We have not recommended any limit on the number of people who can earn variable pay at different levels. Given the existing tight reporting structure and transparent measures of performance, it is expected that the system would itself not have too many anomalies. This can be re-examined over a period of time.

Components of Assessment

Some PRI schemes are largely individual based, where the scope of work is largely controlled by the individual. Some have a group element in them, where work is inter-related in a strong way. We recommend a combination of individual and group performance measures in determining the

total performance related pay to an individual. We stress the individual component, as it is an aspect of managerial functioning that is currently under-exploited in the Indian Railways style of working. Individual incentives and differentiation, in a transparent and fair manner, are possible and can be a means of increasing organizational effectiveness. We note that the very definition of tasks of an individual could include contributions to group working in some way, and certification and acceptability by a larger group could be part of the assessment. So there is not much danger of losing the group effectiveness in this process.

i. Individual component

The individual assessment of an officer would be assessed using a set of agreed-upon measures. Each measure would be derived from a process that the individual is responsible for, along with colleagues who constitute a team. The individual could be a part of more than one process.

ii. Group component

The group component of the variable pay in all cases (Groups A to D) would be determined by the performance of the unit to which the officer belongs. Examples of units are Diesel Locomotive Shed, Divisional Office, Zonal Office, RDSO, RSC etc. Each of these units would be assessed on a set of targets for agreed performance measures by the appropriate higher entity (eg divisions by the zone, or zones by the RB).

Measures and Assessment Procedures

Performance measures per se are quite mature, evolved and extensively used already in Indian Railways, and it is best that they pick the relevant ones for ownership. The organizational commitment of the workforce at all levels, demonstrated by implementing clearly assigned tasks, is quite strong. This can form a good basis for PRI. The IT infrastructure for collecting performance measures in IR is among the strongest in government.

Although transfers are frequent at the officer level and not always transparently done, officers are used to working effectively even immediately after transfer. This is because of good reporting systems, documentation and procedures. This feature of IR's work culture is well-suited for objective assessment of individual and group performance by multiple assessors, and across multiple postings within a review period, if need be.

A key issue in implementation is a consistency between the current ACR system of review for promotions, settlement etc., and any new measures for PRI.

The performance measurement step starts with a setting of targets for each individual and for each unit. It is imperative that the measures suggested are transparent, quantified where relevant and agreed upon, for the post in consideration. Changes of these can be considered only in exceptional cases, where working conditions are seen to be completely transformed. These do happen sometimes in Railway working (e.g. floods causing long term disruption in certain regions) and should be recognized.

The scheme we have suggested for the individual evaluation is (a) a self assessment step (b) an assessment by a superior and (c) a review by an independent team, which can include customers and peers. In all cases, the results of (b) and (c) should be made available to the concerned individual. The group component should be transparent and made available to all (which is largely the case even today, as the group component would be typically based on published performance measures of the relevant unit).

Work Culture

For officers, PRI does present an opportunity for increased earnings, and can address some of the aspirations of the workforce. There could be some distortions and anomalous behaviour due to PRI oriented working, but this is expected to be in control, given the good organizational culture. The benefits of PRI are therefore expected to outweigh some of the pitfalls.

For staff, although there are a number of complaints of stagnation in levels, inadequate recognition of qualifications and poor working conditions, even now, organizational de and morale in work is quite high and needs to be preserved. The PLB is an across-the-board addition to the salary for the entire C & D category workforce. PRI in its present form at the staff level is perhaps not seen as adequate, but as of now, the over-riding sentiment at this level is a desire for increase in base pay rather than PRI related opportunities.

Implementation of the PRI Initiative

We feel that IR is suitable for an across-the-board implementation. Given the size of the organization, it would be necessary to have an implementation group that has credibility across the organization. From data access, it is better to have this centrally, but for widespread buy-in, the composition of this group can include personnel from various field units of the railways. There are bound to be rough edges in implementation in the first year, given the size of the organization, so the first year can be monitored by a task force at the highest level (Board), to maximize the communication, credibility and commitment to the system.

Other Issues

IR is part of government, but is a profitable enterprise and it can be compared to an industry in many ways. The bonus that IR workers get is different from the rest of government and the conditions of work are governed by industrial norms in many ways. IR has been generating revenues in a viable manner and despite some debates about autonomy and social responsibility, has shown that it is commercially viable, while meeting the obligations it has, with government support. PRI in IR therefore offers a unique opportunity to design an effective government organization using a variety of performance measures (including revenue and customer satisfaction in significant ways).

While PRI schemes with an *individual* component in variable pay are widely prevalent in almost all sectors of industry, worldwide, it must be pointed out that there is not too much empirical validation of the effectiveness of this as a tool for increased organizational effectiveness. The

group component of PRI and the rewarding of individual performance through job enrichment, progression and other means (other than variable pay) are relatively better validated.

PRI is only one of the many initiatives to create a professional and effective working environment. Unless a PRI scheme is monitored well, implemented in a fair way and makes adjustments to accommodate genuine concerns, it will not be effective by itself. Working conditions at all levels, fairness and objectivity in staffing, work definition and assessment and a positive work atmosphere would make PRI a success. It is hoped that implementing PRI would itself push the system towards a more transparent and effective work culture.

As a final point, we mention that *all* organizations where PRI has been implemented have gone through a regular review of the entire process of performance norms, assessment procedures and all the parameters associated with the scheme. Indeed, most organizations with large geographical and cultural spread would have more than one scheme operating and there is fine tuning as per the requirement. IR would be no exception to this and would have to evolve a suitable set of schemes, perhaps locally adapted to different parts of the organization as the enterprise itself evolves.

Exhibit 1

Brief on the Earlier Pay Commissions

A pay commission is an administrative system/mechanism that the government of India (GOI) set up in 1946 to determine the salaries of government employees. [Rediff News (2006)]

The first pay commission was established in 1946, and since then, almost every decade has seen the birth of a commission that decides the wages of government employees for a particular time-frame.

They examine various issues like pay and allowances, retirement benefits, conditions of service, promotion policies, etc. of the central government employees. There is no stipulation regarding any specific time period for constitution of a pay commission for central government employees. Till now, five central pay commissions have submitted their reports as below:

| Pay Commission | Date of Appointment | Date of Submission of Report | Financial Impact (Rs crores) |
|-----------------------|----------------------------|---------------------------------------------------------------------|-------------------------------------|
| First | May, 1946 | May, 1947 | N.A |
| Second | August, 1957 | August, 1959 | 39.6 |
| Third | April, 1970 | March, 1973 | 144.6 |
| Fourth | June, 1983 | Three reports submitted in June, 1986; December, 1986 and May, 1987 | 1,282.0 |
| Fifth | April, 1994 | January, 1997 | 17,000.0 |

[PIB (2006)]

In July 2006, the GOI approved setting up of the SCPC. The cost of hikes in salaries is anticipated to be about Rs. 20,000 crores for a total of 5.5 million government employees as per the SCPC. [Indianews (2006)]

Exhibit 2

Terms of Reference

The TOR for the study as specified by the SCPC is as follows:

- VI. The study should examine the correct basis of pay increases and their relation, if any, to performance and productivity of the employees; and examine possibilities of evolving a direct correlation between PRI and delivery of services to citizens/organization/other departments, as the case may be.
- VII. The study should evolve measurable, quantifiable criteria for judging performance and productivity of different grades of employees in various government organizations depending on the nature of their work and the relationship with their users/clients.
- VIII. The study should, *inter alia*, examine international best practices in this regard.
- IX. The study should develop a model suited to Indian conditions which is transparent, measurable, fosters accountability and is linked to deliverables.
- X. The study should devise means by which PRI can be introduced in the Government. Specifically it should consider the following:
 - Should PRI be applied to all jobs and all sectors, or higher managerial positions/percentage of jobs or sectors to begin with.
 - Should PRI be individual based or group based.
 - Should specific percentages be prescribed for restricting number of posts to which PRI is given.

[IIMA (2006)]

Exhibit 3
IIMA's Proposal to SCPC

Methodology

IIMA will have five teams to study a sample of ministries for the application of the PRI concept. All the ministries are clustered into five themes, from which nine ministries are selected to be examined by the five teams as follows:

| S No | Cluster | Team | | | | |
|------|-----------------------------|------------------------------------------------|------------------|------------------------------------------------------------------|---------------------------|------------|
| | | 1 | 2 | 3 | 4 | 5 |
| I | Basic Social Infrastructure | -Health & Family Welfare -Urban Development | | | | |
| II | Industrial Sector | | -Company Affairs | | | |
| III | Modern Services | | | -Science & Technology -Communication & Information Technology | | |
| IV | Miscellaneous | | | | | |
| V | Others | | -Finance | | -Defence -Home Affairs | - Railways |

In each study, the following will be looked into:

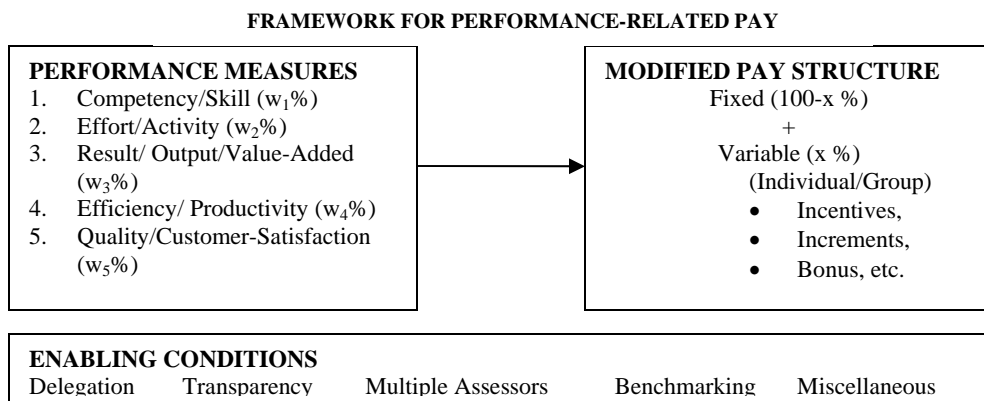
- ❖ Developing generic framework for performance measurement at the ministry level.
- ❖ Evolving guidelines for developing specific performance measures and MIS.
- ❖ Comprehensive illustration with specific performance indicators for 1 department for each of the two ministries covered in that cluster.
- ❖ Guidelines for implementation of PRI.

Our reports will form the basis for consultants/ in-house teams who may be engaged to develop comprehensive PRI for each ministry.

Conceptual Framework

The overall framework as given here comprises three main parts:

1. Performance Measures
2. Modified Pay Structure
3. Enabling Conditions



Performance Measures

The starting point for the study would be to clearly identify the metrics for five measures of performance. These measures are:

1. Competency/Skill Measures ($w_1\%$)
2. Effort/Activity Measures ($w_2\%$)
3. Result/Output/Value-Added Measures ($w_3\%$)
4. Efficiency/Productivity Measures ($w_4\%$)
5. Quality/Customer Satisfaction Measures ($w_5\%$)

Indices for applicable (relevant to respective organizations) measures are to be developed in this study. The weightages will be determined as part of the study. Total of these weightages will be 100.

Modified Pay Structure

The current pay structure does not provide sufficient flexibility to properly implement PRI. The modified pay structure will have two main components: Fixed & Variable. The variable component will comprise of incentives, increments, bonuses, etc. and will be linked to the performance measures. Variable component will be $x\%$ of total pay, and this x will depend upon a number of factors. This study is going to look into these factors and suggest a range for x . Variable pay can be at individual and/or group level. There is a trend towards group measures rather than individual measures in countries who have implemented PRI. Their experience suggests that objectives of PRI are better achieved when some of the measures are at group level.

Enabling Conditions

PRI cannot be effective without proper enabling conditions. The study is going to prepare guidelines for these conditions. Some of these conditions are described here:

Delegation: Delegation of authority giving required autonomy to the department heads and other employees is important for motivating employees as well as for establishing public accountability.

Transparency: Transparency is needed not only for measuring performance but also for linking it to variable component. This will help to increase employee motivation, improve public accountability, and reduce corruption.

Multiple Assessors: Multiple assessors increase the reliability and dependability of the assessment process. Public accountability can be incorporated by taking customer feedback. Team-efficiency also improves team members assess each other.

Benchmarking: Organizations should have data pertaining to national/international standards for the indices used in performance measures.

Miscellaneous: Some other factors like proper communication of the objectives of the process, better interaction among various departments, top management support, etc. are also important for successful implementation of PRI.

[IIMA (2006)]

Exhibit 4

Meetings, Visits and Discussions by the Study Team

January 05, 2007 (Delhi)

- Discussion with Nodal Officers of the Ministries being Studied for Feasibility of 'Performance Related Pay'
- Discussion with Ms Sushama Nath, Member Secretary, Sixth Central Pay Commission
- Discussion with Ms Sangeeta Singh, Joint Secretary, Sixth Central Pay Commission

January 06, 2007 (Delhi)

- National Federation of Indian Railwaymen (NFIR)
 - Discussion with office bearers of NFIR led by Mr M Raghavaiah, General Secretary and R P Bhatnagar, Working President

January 19, 2007 (Chennai)

- ICF
 - Discussion with Federation of Railway Officers' Association (FROA)
 - Discussion with Indian Railways Promotee Officers' Federation (IRPOF)

January 20 (Chennai)

- ICF
 - Visit to the shops
 - Discussion with Indian Railways Technical Supervisors Association led by Mr M Shanmugam, President
 - Discussion with Dr P Raja Goundan, General Manager, ICF
- Visit to Train Care Depot, Basin Bridge (Southern Railway)
 - Discussion with officers and union office bearers

January 31, 2007 (Delhi)

- RB
 - Discussion with Mr BB Verma, Executive Director, Pay Commission, RB
 - Discussion with Mr Jitendra Singh, General Secretary, IRPOF
 - Discussion with Mr A K Nigam, Adviser (Industrial Relations), RB

February 01, 2007 (Delhi)

- Visit to Train Care Depot, New Delhi (Northern Railway)
 - Discussion with officers and supervisors
- RB
 - Discussion with Mr K C Jena, Member (Staff)
 - Discussion with Mr R L Arora, Additional General Manager, RITES Limited
- All India Railwaymen's Federation (AIRF)
 - Discussion with office bearers of AIRF led by Mr J P Chaubey, General Secretary
- RB
 - Discussion with Ms Ragini Yechury, President and Mr Arun Arora, Secretary General, FROA

February 13, 2007 (Mumbai)

- Visit to EMU Maintenance Workshop, Kurla (Central Railway)
 - Discussion with officers and union office bearers
- Visit to Coaching POH Workshop, Parel (Western Railway)
 - Discussion with officers and union office bearers

February 23, 2007 (Ahmedabad)

- Discussion with Mr BB Verma, Executive Director, Pay Commission at IIMA.

February 24, 2007 (Ahmedabad)

- Exchange of Ideas across Clusters at IIMA

March 13, 2007 (Ahmedabad)

- Visit to Diesel Shed, Sabarmati (Western Railway)
 - Discussion with officer bearers, supervisors and union office bearers led by Mr Vishal Kapoor, Senior Divisional Mechanical Engineer, Western Railways
- Visit to Karnavati Coaching Depot, Ahmedabad (Western Railway)
 - Discussion with officers and union office bearers

March 14, 2007 (Ahmedabad)

Visit to Ahmedabad Division

- Discussion with Mr Arvind Khare, Divisional Railway Manager and Mr Rajiv Mishra, incumbent Divisional Railway Manager, Western Railway.
- Discussion with Officers

March 30, 2007 (Ahmedabad)

- Exchange of Ideas across Clusters at IIMA

April 18, 2007 (Vadodara)

- Consultative Workshop at Railway Staff College

May 1, 2007 (Ahmedabad)

- Workshop on Pay for Performance at IIMA

May 28, 2007 (Bangalore)

- RWF
 - Visit to the shops
 - Discussion with Staff Council
 - Discussion with officers

June 7, 2007 (Ahmedabad)

- Exchange of Ideas across Clusters at IIMA

Exhibit 5

Number of Employees and the Wage Bill of IR and Central Government

| 2004-05 | No of Employees (lakhs) | Total Wages (Rs crore) |
|-----------------------------------------------------|--------------------------------|-------------------------------|
| Railways (a) | 14.3 | 15,436.8 |
| Central Government (b) | 30.9* | 38,652.8 |
| Share of Railways to Central Government (%) (a)/(b) | 46.2 | 39.9 |

* Includes Civilian Defence Employees
[GOI (2006)]

Exhibit 6

Groupwise Classification of IR Employees

| | |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| Groups A & B: | Officers (senior and junior grade) |
| Group C: | Workshop and artisan staff (skilled includes senior technician, supervisor, technician grade I, II and III), running staff and other staff |
| Group D: | Workshop and artisan staff (semi skilled and unskilled) and other staff |

[MOR (2007-d)]

Exhibit 7

Major Departments in IR

| | |
|------------------------|------------------------|
| Accounts | Civil Engineering |
| Commercial | Electrical Engineering |
| Mechanical Engineering | Medical |
| Personnel | Operations |
| Safety | Security |
| Signal & Telecom | Stores |

[Raghuram G (2007)]

Exhibit 8

Number of Employees Groupwise and Total Employee Expenditure of IR

| Year | Number of Employees as on 31st March | | | | | | | Employee Expenditure (Rs crore) |
|---------|--------------------------------------|------|---------|-------|---------|-------|---------|---------------------------------|
| | (thousands) | | | | | | | |
| | Groups A&B | % | Group C | % | Group D | % | Total | |
| 1950-51 | 2.3 | 0.25 | 223.5 | 24.46 | 687.8 | 75.28 | 913.6 | 113.8 |
| 1960-61 | 4.4 | 0.38 | 463.1 | 40.03 | 689.5 | 59.59 | 1,157.0 | 205.2 |
| 1970-71 | 8.1 | 0.59 | 583.2 | 42.44 | 782.9 | 56.97 | 1,374.2 | 459.9 |
| 1980-81 | 11.2 | 0.71 | 721.1 | 45.87 | 839.9 | 53.42 | 1,572.2 | 1,316.7 |
| 1990-91 | 14.3 | 0.87 | 891.4 | 53.97 | 746.1 | 45.17 | 1,651.8 | 5,166.3 |
| 2000-01 | 14.8 | 0.96 | 900.3 | 58.26 | 630.2 | 40.78 | 1,545.3 | 18,841.4 |
| 2001-02 | 14.3 | 0.95 | 890.0 | 58.91 | 606.5 | 40.14 | 1,510.8 | 19,214.1 |
| 2002-03 | 13.6 | 0.92 | 870.0 | 59.11 | 588.3 | 39.97 | 1,471.9 | 19,914.8 |
| 2003-04 | 14.3 | 0.99 | 860.1 | 59.67 | 567.1 | 39.34 | 1,441.5 | 20,928.4 |
| 2004-05 | 14.7 | 1.03 | 872.1 | 61.32 | 535.4 | 37.65 | 1,422.2 | 22,559.8 |
| 2005-06 | 15.4 | 1.09 | 883.9 | 62.58 | 513.1 | 36.33 | 1,412.4 | 23,954.3 |

@ Includes RPSF personnel and expenditure on them from 1980-81 onwards.

[MOR (2007-a)]

Exhibit 9

Wage Bill and OWE of IR

| Year | Total Wages (Rs crore) (a) | OWE (Rs crore) (b) | Total Wages/ OWE (%) (a)/(b) | PLB (Rs crore) (c) | Contribution to Pension Fund (Rs crore) (d) | Contribution to Pension Fund/Total Wages (%) (d)/ (a) | Employee Expenditure (Rs crore) (e) |
|---------|----------------------------|--------------------|------------------------------|--------------------|---------------------------------------------|-------------------------------------------------------|-------------------------------------|
| 2001-02 | 12,934.2 | 28,703.0 | 45.06 | 655.4 | 5,817.0 | 44.97 | 19,214.1 |
| 2002-03 | 13,463.9 | 29,684.0 | 45.36 | 671.3 | 6,192.1 | 45.99 | 19,914.8 |
| 2003-04 | 13,737.1 | 30,637.0 | 44.84 | 650.7 | 6,445.5 | 46.92 | 20,928.4 |
| 2004-05 | 15,160.1 | 33,389.0 | 45.40 | 653.4 | 6,875.7 | 45.35 | 22,559.8 |
| 2005-06 | 16,158.2 | 35,002.0 | 46.16 | 635.5 | 7,151.5 | 44.26 | 23,954.3 |

[MOR (various years-a), MOR (various years-b)]

Exhibit 10

Rates for Running Allowance for Loco and Traffic Running Staff

| S No | Crew Category | Scale (Rs) | Rates of Running Allowances (Rs per 100 km) |
|-----------------------|---------------------|------------|---------------------------------------------|
| Loco Running Staff | | | |
| 1 | Mail/Exp Driver | 6000-9800 | 83.85 |
| 2 | Sr Passenger Driver | 6000-9800 | 83.85 |
| 3 | Passenger Driver | 5500-9000 | 83.80 |
| 4 | Sr Goods Driver | 5500-9000 | 83.80 |
| 5 | Goods Driver | 5000-8000 | 83.75 |
| 6 | Sr Shunter | 4500-7000 | 65.10 |
| 7 | Shunter | 4000-6000 | 62.90 |
| 8 | Sr Assistant Driver | 4000-6000 | 62.90 |
| 9 | Assistant Driver | 3050-4590 | 60.35 |
| Traffic Running Staff | | | |
| 10 | Mail/Exp Guard | 5500-9000 | 75.75 |
| 11 | Sr Passenger Guard | 5500-9000 | 75.75 |
| 12 | Passenger Guard | 5000-8000 | 75.70 |
| 13 | S Goods Guard | 5000-8000 | 75.70 |
| 14 | Goods Guard | 4500-7000 | 75.65 |
| 15 | Sr Assistant Guard | 4000-6000 | 44.85 |
| 16 | Assistant Guard | 3050-4590 | 43.00 |

[Kumar (2006)]

Exhibit 11

Heads for Running Allowance Calculation

- Journey based
 - Earned km
 - Out station rest km
- Fortnightly
 - Overtime allowance
- Monthly
 - Night duty allowance
 - National holiday allowance
- Others (event based) calculated monthly
 - Accident allowance
 - Train cancellation waiting
 - Out station relieving allowance
 - Allowance for working on special trains
 - Allowance for taking over and making over of shunting staff
 - Pre departure and post arrival allowance
 - Officiating allowance
 - Allowance in-lieu-of running room facility

[Kumar A (2006)]

Exhibit 12

Hourly Rate for Various Staff Categories for IIS Calculations

| S No | Grade | Incentive Hourly Rate (Rs) |
|------|-----------------|-------------------------------|
| 1 | Jr. Engineer/I | 26.45 |
| 2 | Jr. Engineer/II | 24.00 |
| 3 | Sr. Technician | 24.00 |
| 4 | Technician I | 21.65 |
| 5 | Technician II | 19.25 |
| 6 | Technician III | 17.55 |
| 7 | Helper | 13.20 |

[ICF (2007)]

Exhibit 13

Incentive Payments and the Number of Staff Benefited by IIS at ICF

| Year | 2004 | 2005 | 2006 |
|---------------------------|-------------|-------------|-------------|
| Total Incentive Paid (Rs) | 146,383,730 | 165,604,388 | 169,630,371 |
| No of Staff Benefited | 10,010 | 9,805 | 9,951 |
| Average Incentive (Rs) | 14,624 | 16,890 | 17,047 |

[ICF (2006)]

Exhibit 14

Production Units and Railway Workshops under IIS and GIS

Out of six production units, three follow GIS and three follow IIS.

GIS

- RWF, Bangalore, Karnataka
- RCF, Kapurthala, Punjab
- DCW, Patiala, Punjab

IIS

- ICF, Perambur, Chennai
- Diesel Locomotive Works, Varanasi, UP
- Chittaranjan Locomotive Works, Chittaranjan, West Bengal

Out of 44 railway workshops, four follow GIS and the rest follow IIS.

GIS

- Mancheswar, East Coast Railway
- Tirupati, South Central Railway
- Guntapalli, South Central Railway
- Bhopal, West Central Railway

[MOR (2007-c)]

Exhibit 15

Main Features of GIS

- i. All workers in a shop/section including attached crane drivers, forklift drivers form one incentive group. Maintenance staff is not attached to individual incentive groups but forms a separate incentive group.
- ii. Various types of output from a particular incentive group is expressed in a single equated unit.
- iii. Payment of group incentive is based on performance of the group and overall performance of the workshop or production unit.
- iv. Linkage with quality through user complaints.
- v. Discourages absenteeism and overtime.
- vi. No provision for idle time.
- vii. Review as and when there are changes in technology and periodic review to take care of change in methods and innovations.

[Mishra DC (2005)]

Exhibit 16

Results of Implementation of GIS

| Scheme was implemented in June 1990 | | | |
|-------------------------------------|------------|-----------|------------|
| RWF, Bangalore | Before GIS | After GIS | % Increase |
| Production per month (No) | | | |
| Wheels | 3492 | 6450 | 84.7 |
| Axles | 2157 | 3685 | 70.8 |
| Staff Strength (No) | | | |
| Wheels | 283 | 373 | 31.8 |
| Axles | 162 | 181 | 11.7 |

| Scheme was implemented in January 1999 | | | |
|----------------------------------------|------------|-----------|------------|
| DCW, Patiala | Before GIS | After GIS | % Increase |
| Production (Rs crores) | | | |
| 1998-99 | 184.8 | 203.3 | 10.01 |
| 2002-03 | 184.8 | 297.0 | 60.71 |
| 2003-04 | 184.8 | 298.3 | 61.42 |
| Staff Strength (No) | | | |
| 1998-99 | 2569 | 2561 | -0.31 |
| 2002-03 | 2569 | 2517 | -2.02 |
| 2003-04 | 2569 | 2523 | -1.79 |

| Scheme was implemented in October 2004 | | | |
|----------------------------------------------|-----------------------------------|---------------------------------|------------|
| Coach Rehabilitation Workshop, Bhopal | Before GIS (September 2004) | After GIS (December 2004) | % Increase |
| Production per month (No) | | | |
| Coach | 29 | 40 | 37.93 |
| Standard Production Unit | 31.07 | 43.05 | 38.53 |
| Staff Strength (No) | 1882 | 1895 | 0.69 |

[Mishra D C (2005)]

Exhibit 17

Incentive Earnings for 2005-06 at RWF

| Month | Production Quantities (No) | | | Incentive Earnings - Skilled Gr II (Rs per month) | | | | |
|-------------------------|-------------------------------|------|----------|------------------------------------------------------|--------|----------|---------------------|--------|
| | | | | Production Workers | | | Maintenance Workers | |
| | Wheel | Axle | Assembly | Wheel | Axle | Assembly | Wheel | Axle |
| April, 2005 | 8366 | 4099 | 0 | 3376.4 | 1766.1 | 0 | 2701.1 | 1412.8 |
| May, 2005 | 10382 | 3767 | 0 | 3145.7 | 654.8 | 0 | 2516.5 | 523.8 |
| June, 2005 | 12189 | 5319 | 0 | 4282.7 | 2966.1 | 0 | 3426.2 | 2372.9 |
| July, 2005 | 11833 | 5190 | 0 | 3917.0 | 2537.0 | 0 | 3133.6 | 2029.6 |
| August, 2005 | 12106 | 5593 | 0 | 4223.1 | 3306.9 | 0 | 3378.5 | 2645.6 |
| September, 2005 | 11827 | 4261 | 0 | 4130.4 | 1689.3 | 0 | 3304.3 | 1351.5 |
| October, 2005 | 11128 | 3813 | 0 | 3794.9 | 1107.8 | 0 | 3035.9 | 886.2 |
| November, 2005 | 10375 | 3501 | 0 | 3658.4 | 1030.1 | 0 | 2926.7 | 824.0 |
| December, 2005 | 11000 | 4504 | 0 | 3255.8 | 1650.5 | 0 | 2604.6 | 1320.4 |
| January, 2006 | 0 | 2580 | 0 | 0 | 1124.2 | 0 | 0 | 899.4 |
| February, 2006 | 7542 | 2982 | 0 | 1858.6 | 1779.1 | 0 | 1486.9 | 1423.2 |
| March, 2006 | 10677 | 4009 | 0 | 2968.5 | 988.2 | 0 | 2374.8 | 790.6 |
| Average Earnings | | | | 3217.6 | 1717.5 | 0 | 2574.1 | 1373.3 |

[RWF (2007)]

Note:

Some personnel in the Axle shop who were engaged in assembly were paid a separate incentive during September-December 2006, and this was discontinued subsequently. Their incentives were subsequently paid as was applicable to the relevant axle shop workers. The numbers in the last 5 columns are the average incentive per employee earned in rupees in the respective month.

Exhibit 18

Production and Employees at ICF and RCF

| Year | ICF | | | RCF | | |
|-------------|-----------------------------------------------|-----------------------------------|--------------------------------------------|-----------------------------------------------|-----------------------------------|--------------------------------------------|
| | Production (No of Coaches) (a) | Employees (No) (b) | Employees per Coach (b)/(a) | Production (No of Coaches) (c) | Employees (No) (d) | Employees per Coach (d)/(c) |
| 2000-01 | 1000 | 14368 | 14.37 | 1190 | 7036 | 5.91 |
| 2001-02 | 1025 | 13926 | 13.59 | 1204 | 6981 | 5.80 |
| 2002-03 | 944 | 13647 | 14.46 | 944 | 6842 | 7.25 |
| 2003-04 | 1070 | 13322 | 12.45 | 1201 | 6716 | 5.59 |
| 2004-05 | 1119 | 13086 | 11.69 | 1201 | 6743 | 5.61 |
| 2005-06 | 1175 | 12866 | 10.95 | 1263 | 6824 | 5.40 |

[MOR (various years-a), MOR (various years-b)]

Exhibit 19

Comparative Assessment of IIS and GIS

| Basis | IIS | GIS |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Based on | Individual performance | Group performance |
| Measure of Incentive | Time taken | Output |
| Introduction | Introduced in 1954 in Chittaranjan Locomotive Works, Chittaranjan. | Introduced in 1990 in Rail Wheel Factory, Bangalore. |
| Formula of Calculation | Incentive payment = Time saved* Hourly incentive rate (Time saved = Allowed time – Time taken) | Incentive payment = $\frac{X*Y*Z}{W}$ X= Incentive ratio of production group Y=Clocked in attendance hours by member Z= Bonus factor W=Actual working hours of the month |
| Limit to Incentive | Ceiling limit of savings in time can not be more than 50% of the actual time taken and now increased to 70% under special incentive scheme | No top limit for incentive earning potential |
| Eligible for Incentives | Only workshop staff are eligible for incentive which includes direct workers (engaged in production-measurable) and indirect essential workers (whose services are essential but cannot be measured). Excludes officers, ministerial staff and supporting departments. | Personnel in production shops, support shops and support departments. Excludes service departments. Coverage goes upto supervisory level only thus excluding managerial hierarchy. |
| Main Limitation | More pilferage of working hours. | More focus on numbers rather than on quality. |
| Success | In the earlier years, it gave good results but over a period distortions crept in. Incentive performance is not directly linked to final outturn so incentive earnings are high, yet physical outputs tended to stagnate. | In 1989, a need was felt by RB to review incentive scheme model. RITES were asked to undertake a review study. In this scheme, financial rewards are directly linked to physical output in identifiable units and overall targets. Groups turn to be cohesive and their output is clearly measurable. More and more production units and workshops are following this system. |

[ICF (2007), RITES (2005)]

Exhibit 20

PLB Calculation

| | | |
|---------------------------------------------------------------------------------|---|---------------------------------------------------------------------------------------------------------------------------------------------------|
| PLB | = | $\frac{(PI*B)}{BI}$ |
| Productivity Index (PI) | = | $\frac{\text{Equated}^1 \text{ net ton kms (NTKMs)}}{\text{Total modified}^2 \text{ non gazetted staff (excluding RPF/RPSF)}}$ |
| Base Index (BI) | = | $\frac{\text{Average equated NTKMs for the base years}^3}{\text{Average of modified non gazetted staff for the base years (excluding RPF/RPSF)}}$ |
| Base (B) | = | Average of PLB days paid for the base years |
| ¹ Equated for freight, suburban passenger and non-suburban passenger | | |
| ² Modified for capital investment into more productive assets | | |
| ³ Base years: immediately preceding three financial years | | |

[Verma B B (2007)]

Exhibit 21

Overtime and Number of Staff Benefited

| Year | 2003-04 | 2004-05 | 2005-06 |
|-----------------------------------------------|----------|-----------|----------|
| Overtime (Rs crores) (a) | 166.14 | 201.79 | 238.85 |
| No of Staff Benefited (lakhs) (b) | 1.35 | 1.33 | 1.32 |
| Total Wages (Rs crores) (c) | 13737.05 | 15,160.15 | 16158.23 |
| Total Staff (lakhs) (d) | 14.41 | 14.22 | 14.12 |
| Overtime/Total Wages (%) (a)/(c) | 1.21 | 1.33 | 1.48 |
| No of Staff Benefited/Total Staff (%) (b)/(d) | 9.37 | 9.35 | 9.35 |

[MOR (2007-b), MOR (various years-b)]

Exhibit 22

Revised Cash Incentive Scheme to Ticket Checking Staff

The scheme was revised with effect from 1.07.2004 for ticket checking staff to be automatically entitled to cash incentive on achieving the minimum fixed amount on monthly basis are as under:

1. The cash incentive will be granted with respect of earnings on account of penalty cases only.
2. Earnings from penalty cases would include the fare, penalty and unbooked luggage and shall not include the other segments of earnings like availing higher class, etc.
3. The minimum criteria for qualifying for incentive scheme will be Rs 30000 on account of penalty earnings and a minimum of 100 penalty cases. Out of these 100 cases, a minimum of 50 cases should be ticketless travel.
4. For Rajdhani/Shatabdi/Jan Shatabdi Express trains, no weightage of earnings will be given to other than the ticket checking staff manning these trains
5. The minimum criteria for qualifying for incentive scheme for the ticket checking staff manning Rajdhani/ Shatabdi/Jan Shatabdi Express trains will be Rs 50000 irrespective of the number of cases
6. The amount of incentive will be 5% of the earnings from penalty cases.

[MOR (2004-a)]

Exhibit 23

Accident Free Awards for Safety Staff

| Qualifying length of service for award | Amount in cash (Basic pay without any allowances) |
|----------------------------------------------------------|----------------------------------------------------------|
| <i>For Drivers/Motorman</i> | |
| Upto 7 years Service | 20 days |
| Upto 15 years Service | 40 days |
| Upto 23 years Service | 60 days |
| Above 23 years Service | 90 days |
| <i>For ASM's/SMs/Pointsman/Cabinman/Switchman</i> | |
| Upto 7 years Service | 15 days |
| Upto 15 years Service | 30 days |
| Upto 23 years Service | 45 days |
| Above 23 years Service | 60 days |
| Penalty | Percent reduction in award amount |
| One Minor | 30% |
| Two Minor | 70% |
| Three or More Minor | No award |
| Major | No award |

[MOR (1998)]

Exhibit 24

Group/Cash Awards in Production Units/Workshops

| | Activities/Occasion | Upper Limit of the Award |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) | Foundation stone laying ceremony/commissioning of big projects by the Hon'ble President, Vice President, Prime Minister and Deputy Prime Minister | Upto Rs 5 lakhs depending upon timely completion, magnitude and complexity of the project etc as also the efforts involved in organising the function. |
| (b) | Events organised by RPF with large participation | Upto Rs 5 lakhs |
| (c) | Other major projects commissioned by Hon'ble MR/Union Cabinet Ministers/Chief Ministers of States | Upto Rs 3 lakhs |
| (d) | Other events of historic importance eg centenary celebrations etc, major innovations by workshops/PU | Upto Rs 12 lakhs |
| (e) | Other passenger amenity works such as ROBs, station buildings and allied works costing more than Rs 5 crores. | Upto Rs 1 lakh |
| (f) | Major sports events and events organised by scouts and guides | Upto Rs 1 lakh |
| (g) | All other events | Less than Rs 50,000/- |

[MOR (2004-b)]

Exhibit 25

International Experience in PRI Practices/Incentive Schemes/Variable Pay Programs of Railways and Transit Organizations

| Organization's name | Name of the program/eligible employees | Performance indicators | Date of implementation | Incentive amount available for distribution | Resulting incentive payments | Method of incentive payment/Remarks |
|-----------------------------------------------|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Canadian National Railways, Canada | For all non union employees | Decrease in Operating Ratio (OR) | Implemented in 1995 | | <ol style="list-style-type: none"> 1. Cash bonuses - on the achievement of key financial targets specifically to OR 2. Performance options - two thirds of options (under management stock option) can be exercised by the managers after the company has achieved an OR within 0.5% of the target set in the option plan for that year. | In 1996, the OR was 85.6, and in 2002 the OR was 69.4. |
| BNSF Railway, USA | All salaried employees and 22% of its union workers | Velocity (average speed) improvements | Implemented in 2003 | | 30% of incentive is directly tied to improvement in velocity | |
| Kowloon-Canton Railway Corporation, Hong Kong | Members of management committee | Achieve good performance in the following four strategic areas: <ol style="list-style-type: none"> 1. Finance 2. Customer 3. Operations 4. Capital Projects | Started on a trial basis for six months from July 2004. Also, carried out for the whole of 2005. | Each month of the calendar year, deductions are made from the remunerations of the members to create a variable pay pool for making payments at the end of the year : <ol style="list-style-type: none"> 1. 20% from CEO and each of the directors 2. 15% from all participating general managers | <ol style="list-style-type: none"> 1. If performance targets are met – full contributions are returned 2. <100% - lose part or all of their contributions 3. >100% - extra amount added to the variable pay pool created | Variable payment to each member depends upon: <ol style="list-style-type: none"> 1. Individual performance-measured by checking whether the individual key objectives drawn at the start of the year are achieved 2. Collective performance-measured by checking the achievement of the goals set for the four strategic areas. |

| Organization's name | Name of the program/eligible employees | Performance indicators | Date of implementation | Incentive amount available for distribution | Resulting incentive payments | Method of incentive payment/Remarks |
|-----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Chinese Railways, China | Workers | 1. Financial return of the business unit 2. Performance of individuals | Mid 1990s | The total wage bill within each business unit was fixed. Increased numbers of workers (in order to meet production targets) will not warrant an increased wage bill at business level. | Wage increases for workers within each unit depend on the reduction in labour with the productivity maintained. | The reward system included both individual and collective bonus elements Workers become more committed to and more involved with their business |
| | Senior Managers | Performance Targets | | Each senior manager had to hand in to the company a 'risk mortgage' of 10,000 yuan (£750) a year. | If they failed to meet the performance target for two consecutive years, then they would lose their money and face management restructuring. | |
| | Workers competing for posts | Competence to work (checked through tests) | | | Those who top are given lucrative posts whereas those who come last would be laid off and further training would be given to increase their competence. | |
| European Railways | A prominent feature of rail transport in the 1990s in Europe was sectoral and company restructuring. In countries where substantial restructuring processes (primarily done by reduction in employment) did not take place or were far less "painful", negotiations usually focused on topics such as wage levels and PRI, as well as the transformation of employee status. In Greece, Hellenic Railways Organisation (OSE) management tried to introduce a link between pay and performance in the 1999 bargaining round, but an agreement could not be reached. | | | | | |
| Capital Metro Transit Authority, Austin, Texas, USA | Gainsharing Program All employees except for general manager, temporary employees and interns | 1. Accidents per 1,00,000 miles 2. Customer satisfaction 3. On time performance | Introduced in 1991 | Budget savings = Adopted Operating Budget – Actual Expenditures 25% of budget savings are distributed | The range of the individual paychecks (given quarterly) to the employees in the following years was: 1991 – \$30 to \$82 1992 - \$1.3 to \$415 1993 - \$ 4.75 to \$610 In 1992, the total pay out was \$355, 900 | On achievement of the performance and budget criteria, employees receive the 25% budget savings in proportion to their salary |

| Organization's name | Name of the program/eligible employees | Performance indicators | Date of implementation | Incentive amount available for distribution | Resulting incentive payments | Method of incentive payment/Remarks |
|----------------------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Toronto Transit Commission, Ontario, Canada | Employee Suggestion Program All employees except for officers | Suggestions given by employees resulting in 1. Solving of a problem 2. Money savings 3. Improved customer service 4. Improved operations 5. Increased efficiency or productivity 6. Increased convenience to passengers | Introduced in 1992 | Depending upon the nature of the outcome: 1. Tangible - it can be measured in monetary savings 2. Intangible –it cannot be measured, such increase in customer satisfaction, more effective communication 3. Merit – it results in increased employee awareness on various issues | In 1992 (\$ 37, 400) Tangible 63 Intangible 23 Merit <u>46</u> Total 132 In 1993 (for nine months -\$21, 800) Tangible 12 Intangible 31 Merit <u>29</u> Total 72 | 1. Tangible- 10 % of the first year's net savings minus implementation costs amortized over the first two years 2. Intangible- based on a rating guide. 3. Merit- fixed award of \$50 is given for it. |
| Niagara Frontier Transit Metro System Inc. Buffalo, New York, USA | Safe Driver Awards Drivers | 1. Number of accidents 2. Operating costs | Practiced for more than 20 years | | After specific years of accident free driving: 1. 10 yrs – a watch 2. 20 yrs - \$200 bond 3. 25 yrs – extra week's vacation 4. 30 yrs – a mantel clock, \$50 restaurant certificate, name in 'Hall of Fame' | |
| Kansas City Area Transportation Authority , Kansas City, Missouri, USA | Employee of the Month | 1. Attendance 2. Quantity and quality of work 3. Ability to work with others as assessed by peers and supervisors | Practiced for more than 5 years | | 1. Free lunch, 2. Off with pay 3. Parking space for a month 4. \$100 bond 5. \$50 cash | |
| Montgomery Country Division of Transportation Services, Rockville, Maryland, USA | Best of the Best Bus operators Transit coordinators | Individual's performance evaluation and extraordinary service to the organization | | | Recognition at the annual transportation week appreciation breakfast | |

| Organization's name | Name of the program/eligible employees | Performance indicators | Date of implementation | Incentive amount available for distribution | Resulting incentive payments | Method of incentive payment/Remarks |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| Ann Arbor Transportation Authority, Ann Arbor, Michigan, USA | Service Crew Incentive Program Employees engaged in the following functions: Fueling, Cleaning, Farebox Probing and Data Entry | <ol style="list-style-type: none"> 1. Proper fueling 2. Cleanliness rating between 8 to 9.5 3. Farebox probing over 98.5% 4. Correctly entering data at completion rate exceeding 98.5% | Practiced for more than 5 years | | <ol style="list-style-type: none"> 1. For proper fueling: bonus of \$0.10 per hour 2. For cleanliness \$0.15 to \$0.25 per hour 3. For farebox probing over 98.5%: \$0.05 per hour 4. For correctly entering data: \$ 0.10 per hour | |

[Hartman, Kurtz and Moser (1994), Amernic and Craig (2006), Gallagher J (2006), LCPT (2006), Cooke F L (2000), EIRO (2000)]

Exhibit 26

Working Conditions

PRI initiatives have to go hand in hand with the setting up of proper working conditions where productive work is possible. Some aspects of this are listed below.

Safety related

In some of the work places that were visited, although safety norms were displayed and there on paper, there were quite a few violations at the ground level. Helmets were not worn and proper footwear not used. In some of the old workshops, the conditions were ill-lit, slippery and hazardous.

Health related

In more than one meeting with staff, health factors were quoted as one of the concerns. These had to do with poor sanitation (e.g. in the running maintenance depots), toxic conditions (e.g. in the battery recharging units in POH workshops) and insufficient medical facilities in remote locations (for station staff, track men, gate men and others). There was a demand for compensation to do with working under unsafe conditions. This is not a positive attitude towards productive work and these issues need to be addressed at a level above any PRI or compensation related negotiation.

Ergonomics

Despite some efforts at modernization of workshops and maintenance facilities, many aspects still remain unsuited to proper working conditions, given the expectations of throughput and productivity. For example, a passenger rake which requires pit line examination should have a pit of sufficient height, proper drainage for washing and lighting for proper examination of the undercarriage, especially at night. There seems to be a freeze on retrofit of facilities in the hope that new facilities will make them redundant. But the operational benefits of modern and safe conditions even for a limited duration are probably well justified and need to be planned.

Salary equity

One of the most glaring examples of productivity barriers is the basic pay itself being different for the same post depending on who is occupying it. This happens in Group B and Group A officers who are eligible to hold the same post. This is a serious constraint to morale, merit based mobility and a good working culture.

Career progression

PRI refers to monetary rewards during the course of a review period (e.g. a year), in recognition of performance vis-a-vis a target that is approved. An equally important aspect of performance reward is to have career progression possibilities based on performance. While there are certain barriers to progression (such as clearing of exams), there are few opportunities for accelerated progression or multi-functional deployment across departments.

Recognition of increased qualification

At various levels, IR has a number of qualified personnel. While the entry qualifications are quite low in many jobs, it is possible to reward higher qualifications by pay and other means.

Exhibit 27

Implications of PRI Proposed for Officers (Groups A & B)

| Year | Total Wages for Groups A & B (Rs crore) (a) | PRI Amount: 15% of (a) (Rs crore) (b) | Surplus* (Rs crore) (c) | PRI Amount/ Net Revenue (%) (b)/(c) |
|-------------|------------------------------------------------------------------|--------------------------------------------------------|------------------------------------------|------------------------------------------------------|
| 2005-06 | 479 | 72 | 6193 | 1.16 |

[MOR (2007-a), MOR (2007-d)]

*After appropriations to Pension Fund, DRF and Dividends

Exhibit 28

Implications of PLB for Staff (Groups C & D)

| Year | Total Wages for Groups C & D (Rs crore) (a) | PLB Amount (Rs crore) (b) | PLB Amount/ Total Wages for Groups C & D (%) (b)/(a) | PLB (No of Days) (c) | Surplus* (Rs crore) (d) | PLB Amount/ Net Revenue (after Dividend) (%) (b)/(d) |
|-------------|------------------------------------------------------------------|--------------------------------------------|---------------------------------------------------------------------------|---------------------------------------|------------------------------------------|-----------------------------------------------------------------------|
| 2001-02 | 12592 | 655 | 5.20 | 59 | 1000 | 65.54 |
| 2002-03 | 13118 | 671 | 5.12 | 59 | 1115 | 60.21 |
| 2003-04 | 13366 | 651 | 4.87 | 59 | 1091 | 59.64 |
| 2004-05 | 14732 | 653 | 4.44 | 59 | 2074 | 31.51 |
| 2005-06 | 15679 | 635 | 4.05 | 65 | 6193 | 10.26 |

[MOR (various years-b)]

*After appropriations to Pension Fund, DRF and Dividends

Annexure 1

Railway Officers Working Groups' Views on PRI Questions

Working Group I: What types of jobs and units can PRI be applied to?

The group proposed an activity based model for PRI. The important activities carried out can be identified and classified as activities where:

- PRI can be directly applied
- PRI can be applied with some modification
- PRI can not be applied in the present scenario.

For each activity, a cross departmental team can be drawn up and on successful completion of the activity all the employees forming the part of team can be rewarded.

For IR, they felt that departments can be categorized as technical and non-technical in nature and major activities can be identified for each of them.

For PRI at a unit level, they proposed that a division, zone, workshop or a production unit can be identified and further divided into sub units on the basis of the activities and processes carried out by these units.

Working Group II: What is the expected success of PRI at officers and staff level?

They were of the view that IR is a multifaceted complex organization where compartmentalized setup is followed with high inter-dependency & conflicting individual objectives. There exists an inadequate decentralization & multi-tier decision making resulting in inflexible structure with rigid procedures.

The group identified various difficulties in PRI:

| Target Setting | Evaluation | Linking Performance to Pay |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">▪ Mapping activities with value creation▪ Quantifying measurement indices▪ Recognition of uncontrollable factors | <ul style="list-style-type: none">▪ Absence of matrix oriented performance appraisal▪ High reliance on value judgment▪ Quantification and weightage of uncontrollables | <ul style="list-style-type: none">▪ Impracticability of applying a uniform variable component across diverse job categories▪ Resentment amongst staff over differentials leading to disputes and affecting industrial relations |

The group concluded that individual/group based (depending on functionalities) PRI schemes can be implemented up to supervisors' level but in a phased manner. Their recommendations for various levels are given in the following table:

| For | Applicability of PRI | Performance Indicators Suggested | Remarks |
|-----------------------------------------------------|-----------------------------------------------|------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RB | Low | They can be based on performance of railway officers. | |
| General Manager/DRM | High | They can be linked to incremental annual growth. | They act as CEOs for their zone/division |
| Principal Head of Department | Medium | Annual performance of the department against the targets fixed by RB can be used. | |
| Head of Departments and other Head Quarter Officers | Low | Performance against set targets can be measured. | They play functional role & mostly monitoring in nature |
| Divisional Officers | High | High inter dependence in a division so PRI can be based on team centric parameters | Division can be considered as a basic business unit of IR |
| Supervisors | High | Highly quantifiable measures can be developed easily on the basis of their work | Their responsiveness and initiative is crucial to the value creation process. They are mature enough to understand the PRI concept |
| Ministerial/Group C/Group D staff | No PRI. Existing PLB scheme can be continued. | | They are assigned work on day to day basis. There is a wide variation in the tangible contributions which are directly immeasurable. They cannot understand the wage differentials due to PRI by taking a holistic view of job content/profile hence this will result in high unrest. |

Working Group III: What can be the performance measures across the entire cadre of officers and staff of Mechanical Engineering Department (as an example department)?

The group proposed that salary should consist of two parts:

- 85% - Fixed
- 15% - Variable (PRI)
 - 7.5% - individual performance based and
 - 7.5% - strategic business unit's (SBU) performance based (to which the individual belongs to)

They focused on four important key performance indicators (KPI):

- Quality
- Cost
- Time
- Quantity

The actual achievement on KPIs is measured against the set targets at individual and SBU level. The total rating received on the four KPIs for individual and SBU performance is multiplied by

weightages pre-decided for the individual and the SBU to determine the individual performance pay score.

For example, the individual component for a Khalasi working in the Mechanical Engineering Department would be decided by the rating given by the supervisor on the four KPIs. The SBU component will depend on the performance of whole unit (which can be a division, zone etc), on the KPIs, in which the Khalasi is working.

[PRI Workshop at RSC, Vadodara, (April 18, 2007)]

Annexure 2
Experience of Organisations with PRI

| Organization's name | Name/Eligible/Implementation | Amount available for distribution | Process of measurement of performance | Amount allocated | Remarks |
|---------------------------------------|------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Shipping Corporation of India | All regular shore employees Implemented from 2003-04 | 5% of distributable profit (DP). Minimum profit after tax (PAT) should be 300 crores. PAT is adjusted for reserves and dividend to arrive at DP | | Incentive amount (100%) given to the employees has three components: 1. 20% will be made available to all shore employees irrespective of their performance. 2. 40% given on the basis of attendance of the employee 3. 40% paid on the basis of the rating acquired in ACR. (Of this amount, 50% is payable with a minimum ACR rating of 7 and increases upto 100% for an ACR rating of 8.5. | A forced distribution is followed by the company in determining the number of employees who are classified as good, average or bad performers. |
| Maruti Udyog Ltd | Supervisors and above Productivity performance and reward system (PPRS) for technicians | | | Variable Pay consists of three parts: 1. Business performance ▪ Ratio of profit before tax/net sales 2. Collective performance ▪ Direct labour productivity ▪ Spares & accessories turnover ratio ▪ Quality improvement 3. Individual Performance ▪ Attendance ▪ Proper leave planning | The variable pay as a percentage of total pay is different at all management levels: ▪ Junior - 10% ▪ Middle 1 - 15% ▪ Middle 2 - 20% ▪ Senior - 25% Payment is made two times: 1. In the middle of the year (during Diwali) 2. At the end of the year, the balance payment due to the individual according to his appraisal |
| Indian Petrochemicals Corporation Ltd | Non – supervisory staff | | An index is communicated to the union and performance linked incentive is paid if it is achieved. | A composite index is worked out on the basis of the following 4 indices: ▪ Capacity utilization ▪ Raw material utilization ▪ Energy utilization ▪ Manpower utilization It also has a linkage to the attendance of employees. | |

| Organization's name | Name/Eligible/Implementation | Amount available for distribution | Process of measurement of performance | Amount allocated | Remarks |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Supervisory employees and above | | Key responsibility areas (KRAs) are decided mutually by supervisors and employees at the start of the year | It is paid on the achievement of KRAs set at individual as well as department levels. | The staff above the non supervisory staff is divided into seven job categories but is broadly classified into three levels: <ul style="list-style-type: none"> ▪ Executive ▪ Manager ▪ Leader |
| Infrastructure Leasing and Financial Services Ltd | All permanent employees | It is a percentage of the net profits of the company for a financial year | The pay is determined on the basis of two variables which are allocated different weightages: <ol style="list-style-type: none"> 1. Level: represents the hierarchy. 2. Performance: <ul style="list-style-type: none"> ▪ Individual- measured on a 4 point rating scale ▪ Group- as viewed by the head of department | First allocations are made for directors and members of board committees. Balance is distributed among other employees in two components: <ul style="list-style-type: none"> ▪ Group- 40% Here, 70% is reserved for front office groups and 30% for support units <ul style="list-style-type: none"> ▪ Individual-60% | EWT (Employee Welfare Trust) holds 5% of shares of each group company of IL&FS. These shares are issued to employees and senior management members based on their performance. |
| Larsen & Toubro Ltd | 3P Model <ul style="list-style-type: none"> ▪ Person ▪ Potential ▪ Performance | Taking into consideration the business performance on the basis of the following: <ul style="list-style-type: none"> ▪ Economic value added ▪ Profit before dividend and income tax ▪ Sales ▪ Talent available ▪ Strategic goals the corpus for distribution is decided | Measurement includes the following principles: <ul style="list-style-type: none"> ▪ Absolute rating ▪ Relative rating ▪ Forced distribution | Individuals are awarded on the basis of the potential they hold. | The linkage between performance and pay is absent. |
| Gujarat Energy Training and Research Institute | | Normal increment would be equal to the dearness allowance of the last year. Merit increment will be a percentage of the revised pay (basic pay+ dearness allowance) | Key performance areas (KPA) are identified by employees and confirmed by their supervisors in a goal sheet. At the end of the year, the employee does a self appraisal followed by appraisal from appraiser and then by a reviewing officer. | For each level of performance the merit increment would vary. For poor performance it will be zero but for outstanding performance it would be three times that for normal performance. | |

| Organization's name | Name/Eligible/ Implementation | Amount available for distribution | Process of measurement of performance | Amount allocated | Remarks |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| | | | Finally, the employee is given a rating after completing the appraisal process. | | |
| Indian Oil Corporation Ltd | Performance Linked Incentive Individual reward (for marketing division) Productivity Incentive Scheme (for officers only) | | KRAs and KPIs are set at individual/group level | On the basis of corporate performance and MOU rating Non cash incentives given to the people working in marketing division on achieving the targets set Based on the performance of: 1. Individual- 20% 2. Group (division/ unit/large team)- 80% | |
| Adani Group | General Bonus | 3 months salary of an employee | | 1. Group (50%) -1.5 month's salary Based on annual group earnings before income tax achieved 2. Individual (50%)- 1.5 month's salary Based on achieving the targets set at the individual level | |
| RPG Enterprises | Salary Increments Performance Bonus | It is based on the company's performance in achieving the target laid down for profit before tax. Pool available for distribution is a percentage of total basic + allowances. The percentage varies depending on the company's achievement of laid target. If | KRAs set for management teams and individuals. Based on the performance on KRAs, rating is given on a four point rating scale. | Based on the ratings received the salary increments and bonus is paid. Those employees who are in the below 10% are counselled to perform better but if again they fall in bottom 10% then they are removed from the job. | The percentage of variable pay at different levels is as follows: Middle – 10-15% Senior – 15-20% CEO – 20-25% |

| Organization's name | Name/Eligible/Implementation | Amount available for distribution | Process of measurement of performance | Amount allocated | Remarks |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | it is greater than 110% then 20% pool available and if less than 0% then no pool available. | | | |
| Apollo Tyres Ltd | Pace | | Performance measurement is based on three factors: <ul style="list-style-type: none"> ▪ Individual KRA achievement ▪ Annual competency rating ▪ Corporate performance rating | The payout ratio is worked out on the basis of weightages of individual rating (given on basis of Individual KRA achievement and competency rating) and corporate rating. For each level of management the weightages for individual and corporate rating would differ. At the higher levels the corporate rating will hold more weightage. | The percentage of variable pay at executive level is 7% and keeps increasing as one goes up in the management hierarchy. At the highest level i.e. of Chief is 30%. |
| BARCO Ltd | Commission Bonus | | It is based on the goals laid down. They are both tangible and intangible in nature and pertain to individual and company performance. | It is paid according to the volume of sales achieved. | Not more than 30% of the salary is variable at any management level. |
| Thomas Cook | Performance based variable bonus All employees except for union category employees, who are given productivity bonus negotiated with the unions | The amount available is based on return on equity achieved and the degree to which the goal expectations are achieved. | The payout is dependent on the performance of <ul style="list-style-type: none"> ▪ Company ▪ Business ▪ Individual | | |
| Singapore Government | Applies to all in all grades. Bonus Merit Increments Promotions | The dollar pool available to distribute is left to the discretion of the ministries. | The performance is judged on the following eight performance parameters: <ul style="list-style-type: none"> ▪ Output ▪ Quality of work ▪ Organizational ability ▪ Reaction under stress ▪ Sense of responsibility | | The total salaries paid to the employees are in tandem with the overall performance of the economy. This is called the flexible pay system which was introduced in 1986. |

| Organization's name | Name/Eligible/Implementation | Amount available for distribution | Process of measurement of performance | Amount allocated | Remarks |
|---------------------|------------------------------|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|---------|
| | | | <ul style="list-style-type: none"> ▪ Service quality ▪ Teamwork ▪ Knowledge and application. <p>For Division I Officers the following three parameters have been added:</p> <ul style="list-style-type: none"> ▪ Team performance ▪ Organizational contributions ▪ Concurrent appointments | | |

[PRI Workshop at IIMA, (May 01, 2007)]

Glossary

| | |
|-------|-----------------------------------------------------------------------------|
| ACR | Annual Confidential Report |
| AIRF | All India Railwaymen's Federation |
| DCW | Diesel Component Works |
| DP | Distributable Profit |
| DRM | Divisional Railway Manager |
| FROA | Federation of Railway Officers' Association |
| GIS | Group Incentive Scheme |
| GOI | Government of India |
| ICF | Integral Coach Factory |
| IIMA | Indian Institute of Management, Ahmedabad |
| IIS | Individual Incentive Scheme |
| IR | Indian Railways |
| IRPOF | Indian Railways Promotee Officers' Federation |
| KPA | Key Performance Areas |
| KPI | Key Performance Indicators |
| KRA | Key Responsibility Areas |
| MOR | Ministry of Railways |
| MR | Minister of Railways |
| NFIR | National Federation of Indian Railwaymen |
| OR | Operating Ratio |
| OWE | Ordinary Working Expenses |
| PAT | Profit After Tax |
| PLB | Productivity Linked Bonus |
| PRI | Performance Related Incentives |
| RAC | Running Allowance Committee |
| RB | Railway Board |
| RCF | Rail Coach Factory |
| RDSO | Research, Design, Standards Organization |
| rites | Organization under MOR (earlier called Rail India Techno-Economic Services) |
| RPF | Railway Protection Force |
| RPSF | Railway Protection Special Force |
| RSC | Railway Staff College |
| RWF | Rail Wheel Factory |
| SBU | Strategic Business Unit |
| SCPC | Sixth Central Pay Commission |
| TOR | Terms of Reference |

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