WORKSHOP ON
‘PERFORMANCE EVALUATION AND MANAGEMENT OF STATE OWNED ENTERPRISES’

Linkage of Performance outcomes with incentives for SOE managers

Dr. Arup Roy Choudhury
Chairman & Managing Director, NTPC Ltd
Former CMD NBCC, Former Chairman, SCOPE
Linkage of Performance outcomes with incentives for SOE managers

Objective of PSUs

- **India’s Economic Model** - Mixed Economy – CPSE Created- to maximise social welfare and ensure balanced economic development in the country,
- **Objective** – reduce unemployment, disparities between rural and urban, inter-regional and inter-class disparities and technological backwardness.

NTPC Ltd. - Background

- Incorporated in 1975
- Operates in process driven power generation engineering industry
- Highly manpower intensive and team oriented.
- Power plants located across the country.
- Operation entails difficult work conditions and hazardous environment, subjected to risks.
- Suitable compensation is necessitated for requisite motivation

Present guidelines are restrictive and act as a dampener to the motivation of employees and have to be made organization specific for which powers have not been given to the board to take organization specific schemes.
### CPSE's CEOs Remuneration Structure

#### Basic Salary Scales
- **A**: 80000 - 125000
- **B**: 75000 - 90000
- **C**: 65000 - 75000
- **D**: 51300 - 73000

#### Perks
- Limited to 50% of Basic

#### Retirement Benefits
- 30% of (Basic + DA) as Superannuation Benefits

#### Diagram:
- Basic Salary
- Remuneration
- Perks Limited to 50% of Basic
- Retirement Benefits
Linkage of Performance outcomes with incentives for SOE managers

Performance of Maharatna Vis-a-vis Other PSUs

<table>
<thead>
<tr>
<th>Description</th>
<th>Maharatna</th>
<th>Total PSU</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. Of Companies</td>
<td>7</td>
<td>229</td>
<td>3.06</td>
</tr>
<tr>
<td>Profit (2012-13)</td>
<td>61151.51</td>
<td>115298</td>
<td>53.04</td>
</tr>
<tr>
<td>Dividend (2012-13)</td>
<td>30804</td>
<td>56404</td>
<td>54.6</td>
</tr>
</tbody>
</table>

Performance of Maharatna Companies on Year to Year basis

<table>
<thead>
<tr>
<th>Description</th>
<th>2012-13 (in Rs Crore)</th>
<th>2013-14 (in Rs Crore)</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>61151.51</td>
<td>65549.61</td>
<td>7.2 %</td>
</tr>
<tr>
<td>Dividend</td>
<td>30804</td>
<td>41998</td>
<td>36.34 %</td>
</tr>
</tbody>
</table>
### RANKING IN TERMS OF PAT 2013-14

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Company</th>
<th>PAT (Rs. Cr.)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>ONGC</td>
<td>26,653.02</td>
<td>1</td>
</tr>
<tr>
<td>02.</td>
<td>RIL</td>
<td>22,548.00</td>
<td>2</td>
</tr>
<tr>
<td>03.</td>
<td>TCS</td>
<td>19,331.87</td>
<td>3</td>
</tr>
<tr>
<td>04.</td>
<td>COAL INDIA</td>
<td>15,111.64</td>
<td>4</td>
</tr>
<tr>
<td>05.</td>
<td>TATA MOTORS</td>
<td>14,104.18</td>
<td>5</td>
</tr>
<tr>
<td>06.</td>
<td>CAIRN INDIA</td>
<td>12,431.79</td>
<td>6</td>
</tr>
<tr>
<td>07.</td>
<td>NTPC</td>
<td>11,403.40</td>
<td>7</td>
</tr>
<tr>
<td>08.</td>
<td>INFOSYS</td>
<td>10,656.00</td>
<td>8</td>
</tr>
<tr>
<td>09.</td>
<td>SESA STERLITE</td>
<td>10,339.38</td>
<td>9</td>
</tr>
<tr>
<td>10.</td>
<td>ITC</td>
<td>8,990.62</td>
<td>10</td>
</tr>
</tbody>
</table>

3 out of top 10 are CPSEs
### RANKING ON THE BASIS OF MARKET CAPITALIZATION

**AS ON JAN 14, 2015**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>MARKET CAPITALIZATION (Rs. crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>TCS</td>
<td>4,93,237.09</td>
</tr>
<tr>
<td>02.</td>
<td>ONGC</td>
<td>2,94,180.53</td>
</tr>
<tr>
<td>03.</td>
<td>ITC</td>
<td>2,78,560.97</td>
</tr>
<tr>
<td>04.</td>
<td>RIL</td>
<td>2,70,168.74</td>
</tr>
<tr>
<td>05.</td>
<td>INFOSYS</td>
<td>2,44,486.79</td>
</tr>
<tr>
<td>06.</td>
<td>HDFC BANK</td>
<td>2,32,880.96</td>
</tr>
<tr>
<td>07.</td>
<td>COAL INDIA</td>
<td>2,29,631.43</td>
</tr>
<tr>
<td>08.</td>
<td>SBI</td>
<td>2,27,518.15</td>
</tr>
<tr>
<td>09.</td>
<td>HINDUSTAN UNILIVER</td>
<td>1,99,439.12</td>
</tr>
<tr>
<td>10.</td>
<td>ICICI BANK</td>
<td>1,95,263.47</td>
</tr>
<tr>
<td>11.</td>
<td>HDFC</td>
<td>1,76,274.43</td>
</tr>
<tr>
<td>12.</td>
<td>SUN PHARMA</td>
<td>1,69,985.87</td>
</tr>
<tr>
<td>13.</td>
<td>L&amp;T</td>
<td>1,40,966.80</td>
</tr>
<tr>
<td>14.</td>
<td>TATA MOTORS</td>
<td>1,40,186.88</td>
</tr>
<tr>
<td>15.</td>
<td>BHARATI AIRTEL</td>
<td>1,38,449.95</td>
</tr>
<tr>
<td>16.</td>
<td>WIPRO</td>
<td>1,36,370.75</td>
</tr>
<tr>
<td>17.</td>
<td>AXIS BANK</td>
<td>1,18,468.75</td>
</tr>
<tr>
<td>18.</td>
<td>NTPC</td>
<td>1,13,663.73</td>
</tr>
<tr>
<td>19.</td>
<td>HCL</td>
<td>1,10,893.83</td>
</tr>
<tr>
<td>20.</td>
<td>KOTAK MAHINDRA</td>
<td>1,07,405.47</td>
</tr>
</tbody>
</table>

*4 out of top 20 are CPSEs*
### TOP 10 CPSEs RANKING IN TERMS OF PAT 2013-14

<table>
<thead>
<tr>
<th>CPSE Ranking</th>
<th>Company</th>
<th>PAT (Rs. Cr.)</th>
<th>All India Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>ONGC</td>
<td>26,653.02</td>
<td>1</td>
</tr>
<tr>
<td>02.</td>
<td>COAL INDIA</td>
<td>15,111.64</td>
<td>4</td>
</tr>
<tr>
<td>03.</td>
<td>NTPC</td>
<td>11,403.40</td>
<td>7</td>
</tr>
<tr>
<td>04.</td>
<td>IOCL</td>
<td>6,966.58</td>
<td>12</td>
</tr>
<tr>
<td>05.</td>
<td>NMDC</td>
<td>6,414.24</td>
<td>13</td>
</tr>
<tr>
<td>06.</td>
<td>GAIL</td>
<td>4,727.59</td>
<td>15</td>
</tr>
<tr>
<td>07.</td>
<td>PGCIL</td>
<td>4,547.58</td>
<td>16</td>
</tr>
<tr>
<td>08.</td>
<td>BPCL</td>
<td>4,052.98</td>
<td>18</td>
</tr>
<tr>
<td>09.</td>
<td>BHELI</td>
<td>3,502.34</td>
<td>22</td>
</tr>
<tr>
<td>10.</td>
<td>OIL INDIA LTD</td>
<td>2,941.98</td>
<td>23</td>
</tr>
</tbody>
</table>
CPESs RANKING ON THE BASIS OF DIVIDEND PAID TO GoI

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Dividend (Rs. Cr.)</th>
<th>Govt. Shareholding (31.03.2014)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>CIL (Cons.)</td>
<td>18,317</td>
<td>89.65%</td>
</tr>
<tr>
<td>02.</td>
<td>ONGC</td>
<td>8,128</td>
<td>68.94%</td>
</tr>
<tr>
<td>03.</td>
<td>NTPC</td>
<td>4,741</td>
<td>75.00%</td>
</tr>
<tr>
<td>04.</td>
<td>IOC</td>
<td>2,112</td>
<td>68.57%</td>
</tr>
<tr>
<td>05.</td>
<td>PFC**</td>
<td>1,188</td>
<td>72.80%</td>
</tr>
<tr>
<td>06.</td>
<td>Power Grid</td>
<td>1,350</td>
<td>57.90%</td>
</tr>
<tr>
<td>07.</td>
<td>GAIL</td>
<td>1,319</td>
<td>56.11%</td>
</tr>
<tr>
<td>08.</td>
<td>BPCL</td>
<td>1,229</td>
<td>54.93%</td>
</tr>
<tr>
<td>09.</td>
<td>SAIL</td>
<td>834</td>
<td>80.00%</td>
</tr>
<tr>
<td>10.</td>
<td>REC</td>
<td>938</td>
<td>65.64%</td>
</tr>
</tbody>
</table>

All data standalone basis except Coal India Ltd.
## RANKING ON THE BASIS OF DIVIDEND PAID

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
<th>Dividend 2013-14 Rs. crore (Consolidated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Coal India Ltd</td>
<td>18,317.46</td>
</tr>
<tr>
<td>02.</td>
<td>Oil and Natural Gas Corporation Ltd</td>
<td>8,127.72</td>
</tr>
<tr>
<td>03.</td>
<td>Tata Consultancy Services Ltd</td>
<td>6,267.33</td>
</tr>
<tr>
<td>04.</td>
<td>NTPC Ltd</td>
<td>4,791.76</td>
</tr>
<tr>
<td>05.</td>
<td>ITC Ltd</td>
<td>4,771.91</td>
</tr>
<tr>
<td>06.</td>
<td>Infosys Ltd</td>
<td>3,618.00</td>
</tr>
<tr>
<td>07.</td>
<td>NMDC Ltd</td>
<td>3,370.01</td>
</tr>
<tr>
<td>08.</td>
<td>Hindustan Unilever Ltd</td>
<td>2,811.43</td>
</tr>
<tr>
<td>09.</td>
<td>Reliance Industries Ltd</td>
<td>2,793.00</td>
</tr>
<tr>
<td>10.</td>
<td>ICICI Bank Ltd</td>
<td>2,656.28</td>
</tr>
</tbody>
</table>

4 out of top 10 are CPSEs
<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Income tax FY 13-14 (Consolidated ) IN Rs. crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Oil and Natural Gas Corporation Ltd</td>
<td>12,760.39</td>
</tr>
<tr>
<td>02.</td>
<td>Coal India Ltd</td>
<td>7,767.90</td>
</tr>
<tr>
<td>03.</td>
<td>State Bank of India</td>
<td>6,836.07</td>
</tr>
<tr>
<td>04.</td>
<td>Reliance Industries Ltd</td>
<td>6,215.00</td>
</tr>
<tr>
<td>05.</td>
<td>Tata Consultancy Services Ltd</td>
<td>6,069.99</td>
</tr>
<tr>
<td>06.</td>
<td>Bharti Airtel Ltd</td>
<td>4,844.90</td>
</tr>
<tr>
<td>07.</td>
<td>Tata Motors Ltd</td>
<td>4,764.79</td>
</tr>
<tr>
<td>08.</td>
<td>ICICI Bank Ltd</td>
<td>4,604.40</td>
</tr>
<tr>
<td>09.</td>
<td>Infosys Ltd</td>
<td>4,062.00</td>
</tr>
<tr>
<td>10.</td>
<td>ITC Ltd</td>
<td>4,060.93</td>
</tr>
<tr>
<td>11.</td>
<td>NMDC Ltd</td>
<td>3,339.72</td>
</tr>
<tr>
<td>12.</td>
<td>Axis Bank Ltd</td>
<td>3,170.25</td>
</tr>
<tr>
<td>13.</td>
<td>NTPC Ltd</td>
<td>3,082.36</td>
</tr>
<tr>
<td>14.</td>
<td>Tata Steel Ltd</td>
<td>3,058.16</td>
</tr>
<tr>
<td>15.</td>
<td>Indian Oil Corpn Ltd</td>
<td>3,011.27</td>
</tr>
</tbody>
</table>
‘One Size Fits All’ approach needs change

Present allowable variable pay to be 5% of PBT. However, this has a restriction clause of 3% + 2% (i.e. 2% for incremental profit, subject to 10% increase from the last year’s profit). This is a restriction for large organizations with huge denominator, resulting in employees of Maharatna companies getting paid less PRP when compared to other companies who meet this clause because of small denominator.

Board should be empowered to decide on the distribution of 5% of the distributable profit so that organization specific, sector specific, location specific and job-design specific considerations can be addressed.

Disbursement of amount through ‘Bell-Curve’ mechanism is a demotivating factor because of the historic culture adopted in public sector companies. Hence, many of the companies are not able to give zero PRP, since they are considered ‘State’ under Article 12 of the Constitution of India. They need to be broken away from this and made into ‘business entities’.

Most of the large SOEs are operating in competition with the private sector companies and private sector is offering wide range of incentives and performance related ESOP.
NTPC’s approach towards Rewards and Recognition

- Recognizing special efforts of employees in difficult work conditions, by compensating their effort by cross subsidy from other employees.

- Training in global business schools

- Long Service Recognition and Awards

- Sharing with persons performance comparison with MoU and counseling them to improve performance

- Provisions for grievance redressal

- Meet the CMD, Meet the Director (HR), Directors at Door, PUPs, etc.
THANK YOU
Linkage of Performance Outcomes with Incentives - Experience of Indian SOEs

International Workshop
on
‘Performance Evaluation and Management of State Owned Enterprises’
Session: 13:15 to 14:45 hrs, 15th January, 2015

Indian Habitat Centre, New Delhi
Our Credentials

A ‘Maharatna’ company

All time high **13.5 GW commissioned/synchronized** during FY 2013-14

Profit making since 1971-72

A major **Integrated Power Plant Equipment Manufacturer** in the world

17 Manufacturing Units, 1 Subsidiary, 6 JVs, Infrastructure to deal with 150+ project sites

References in over **76 countries**

Consistent **Dividend Paying** company for over thirty years (FY 1976-77 onwards)

47525 committed **manpower** base

Single Source for Multiple Solutions of Infrastructure & Industrial Sectors of Economy

Power, Transmission, Industry, Transportation, Oil & Gas, Renewables ….
MoU – System for Performance Measurement of SOEs

• BHEL signs a MoU with the Department of Heavy Industry (Administrative Ministry) every Financial Year (April – March).

• MoU lists out the expectations of the Govt. from the BHEL in terms of:
  - Static parameters - Financial results &
  - Dynamic parameters that focus on building Organization Capability.
Process of Cascading MoU Targets

• Every year the Company prepares a Balanced Scorecard (BSC) which includes all MoU parameters and initiatives flowing from the Co. Strategic Plan.

• The Company BSC is cascaded to all constituent Divisions of the Company, ensuring the relevant parameters of the MoU are included in their respective BSCs.

• Individual performance plans are prepared based on the BSCs thereby ensuring MoU targets are cascaded to working levels.
CASCADE OF PERFORMANCE MEASURES THRU’ BSC

INPUTS from STRATEGY MAP, MoU & BUDGET

BHEL’s Performance Measures and Targets

<table>
<thead>
<tr>
<th>Financial</th>
<th>Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process</td>
<td>Capability</td>
</tr>
</tbody>
</table>

Unit Performance Measures & Targets

<table>
<thead>
<tr>
<th>Financial</th>
<th>Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process</td>
<td>Capability</td>
</tr>
</tbody>
</table>

Sector Performance Measures & Targets

<table>
<thead>
<tr>
<th>Financial</th>
<th>Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process</td>
<td>Capability</td>
</tr>
</tbody>
</table>

Corporate Department & Function Performance Measures & Targets

<table>
<thead>
<tr>
<th>Financial</th>
<th>Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process</td>
<td>Capability</td>
</tr>
</tbody>
</table>

Departmental Measures & Targets

- **Product Groups**
  - Financial
  - Customer
  - Process
  - Capability

- **Materials**
  - Financial
  - Customer
  - Process
  - Capability

- **Planning**
  - Financial
  - Customer
  - Process
  - Capability

- **Support Services**
  - Financial
  - Customer
  - Process
  - Capability

- **Other Services**
  - Financial
  - Customer
  - Process
  - Capability

Individual & Team Measures

- **Measures**
  - 1.
  - 2.
  - 3.
  - 4.

- **Targets**
  - 1.
  - 2.
  - 3.
  - 4.
Scheme for Performance Related Pay

• BHEL has implemented a PRP scheme which links payment of incentives to Company MoU rating and individual Performance ‘Rating’.

• Individual performance Ratings are assigned based on ‘Bell Curve’ approach.

• This scheme is applicable to Executives & a section of Supervisors.

• Workers are not covered by PRP scheme & are allowed to settle incentives through ‘Collective bargaining’.
MoU Linkage with Individual Incentives

• Individual incentive is dependent on:
  - **BHEL MoU rating**: Higher MoU rating results in a higher quantum of incentive and
  - **Individual Performance Rating**: based on individual performance against targets, many of which are derived from MoU targets.

• For CMD & Directors, performance rating has a direct correlation with Company MoU performance. (weightage of 75% & 50% respectively).
Challenges in Implementing Incentive Systems

Impact on Group Working:

• Organizations like BHEL, require Team work for Operations

• It is difficult to differentiate contribution of Individual members in such teams.

• Thus difficult to implement Bell curve approach, which requires differentiation based on individual performance.

• The Forced Distribution into Bell Curve leads to adverse impact on team work.
Challenges in Implementing Incentive Systems

Different criteria for deciding Incentive payments for Executives & Workers:

• All Executives and a section of Supervisors are governed by the Performance related Pay (PRP) scheme.

• Workers are not governed by the PRP scheme and are allowed to negotiate incentive payments through bargaining process.

• This leads to anomalous situations where workers and executives get incentives based on different criteria.
Challenges in Implementing Incentive Systems

MoU Target Setting process:
• MoU targets are increased every year, irrespective of the overall Economic environment or the situation of the sector specific business environment of the PSE.
• Such targets impact the MoU rating and consequently the Incentive payments of the Executives. (*for reasons beyond control of the company and create IR problems*)

Calculation of PRP Pool:
• Guidelines issued by DPE: income earned through Bank interest to be deducted from PBT while calculating the PRP Pool.
• BHEL operating on self generated earnings without funding support from the Government.
Challenges in Implementing Incentive Systems

Other Issues:
• Planning horizon for MOU
  • Short term & long term (Rolling plans)
  • Strategic Map Approach could be used

• Mid-term reviews
  • Quarterly or Half yearly reviews where dynamic situation in the Economic Environment prevails.

• One-size fits all approach – to be reviewed
  • Organizations are different, then businesses are different, their operating environment is different
  • Criteria need development suting to the PSE.
Thank You
EXAMPLE OF HOW THE PRP IS TO BE CALCULATED

<table>
<thead>
<tr>
<th></th>
<th>Company MOU Rating</th>
<th>Very Good (80%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ii.</td>
<td>Grade of executive</td>
<td>E-5 (50%)</td>
</tr>
<tr>
<td>iii.</td>
<td>Basic Pay (Annual)</td>
<td>Rs. 6,20,000</td>
</tr>
<tr>
<td>iv.</td>
<td>Individual performance rating</td>
<td>Very Good (0.95%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1 PRP factor</th>
<th>2 Basic pay (Rs)</th>
<th>3 MOU factor</th>
<th>4 Grade factor</th>
<th>5 Perf. factor</th>
<th>6 Payout factor</th>
<th>7 PRP (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRP from current profit</td>
<td>0.60</td>
<td>X 620000</td>
<td>X 1.0</td>
<td>X 0.50</td>
<td>X 0.95</td>
<td>X 1.00</td>
<td>176700</td>
</tr>
<tr>
<td>PRP from incremental profit</td>
<td>0.40</td>
<td>X 620000</td>
<td>X 1.0</td>
<td>X 0.50</td>
<td>X 0.95</td>
<td>X 1.00</td>
<td>117800</td>
</tr>
<tr>
<td><strong>Total PRP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>294500</strong></td>
</tr>
</tbody>
</table>

Column-3: MOU Factor (Excellent-100%, Very Good-80%, Good-60%, Fair-40%. Poor-Nil)
Column-4: Grade factor (S0 to E3- 40%, E4 to E5- 50%, E6 to E7- 60%, E8 to E9- 70%, Directors-150 % and CMD- 200%)
Column-5: Performance Factor (A+ : 100%, A : 95%, B+ : 90%, B : 85%, C : 70%)
Post signing MoU

**Corp BSC**

Once the MOU is finalized, through BSC, Corporate Office subdivides the B.E. Targets Department/ Division/Unit -wise and on time frame

**Unit BSC**

Each Department/ Division/Unit further sub-divide to the last level as may be feasible

**e-MAP**

Assign responsibilities for sub-targets (with time frame specified) to executives at various levels individually/ collectively
Linkage Of Performance Outcomes With Incentives

Dr R.K. Tyagi,
Chairman HAL
HAL - Today

“Navratna” Company since 2007

20 Production & 10 R&D Centres

ISO-9001, AS-9100, NADCAP Certifications

31,400 Employees

Turnover: Rs.15,128 Cr (2013–14)

Export to more than 20 Countries

HAL’s performance is rated as “Excellent” since 2001
HAL’s performance is rated as “Excellent” since 2001
Export Business

- Largest exporter in DDP - 38% of Defence Exports
- Exports to over 20 countries
- Helicopters, trainers and combat aircraft – potential exports
- Inline with National Vision of doubling exports

13 ALHs, 24 Cheetah/Chetak/Cheetals and 3 Do-228s have been exported
R & D Initiatives For Self Reliance

- More than 2000 Designers
- Internal R&D Council: COIN and TDC
  - R&D policy firmed up
  - Technology Development Projects (111) identified.
- MoUs for Technology development with IITs
- IPR / Patents
  - Over 1000 patents filed in last two years
  - Awareness campaign for IPR across HAL
- R&D corpus fund with 10% of operating PAT approved
- Design & Development of Aero Engine (25KN)
  - Preliminary Design Review completed with participation of external experts
- Design and Development of 1200 KW turbo shaft engine is proposed
- Development of Composites
  - MoU signed with NAL for technology partnership.
  - Initial technologies identified for FGFA.
- Design & Development Management Board (DDMB)
  Will suggest measures to strengthen design & development in aerospace and promote self-reliance in critical areas of India’s defence preparedness
HAL
Aerospace Ecosystem Development

Western Zone 526
Northern Zone 173
Southern Zone 1619
Eastern Zone 94
Overall Vendor Base 2412
Improving

- Efficiency and Productivity
- Transparency
- Accountability

Instilling Long-Term Continuity

Driving Results through Better Strategy Execution

Alignment of budget and resources optimally
A necessary tool of Performance Management system is an adequate incentive plan.

Linking Performance with Incentives

Measure of performance

Method of compensation
Financial performance reflects the achievement of financial goals

- Sales Turnover
- Gross Margin
- EBITDA/Net Block
- PAT/Net Worth
- EBIT/Average Capital Employed
- PAT per Employee
- Turnover / Net Block
- Current Ratio
- Debt Service Coverage Ratio
- Inventory Turnover
- Debt Turnover Ratio

Nonfinancial measures focus on the drivers and enabler of Growth

- Modernization
- R&D initiatives
- Indigenisation
- Enhancement of outsourcing
- Project Implementation
- Knowledge Management
- Uniform production
- CAPEX
- .................
Challenges of Performance Measurement

- Financial Parameters
  - Repetitions in parameters
  - Lack of scientific mechanism in setting base targets
  - Impact of External Environment cannot be factored in
  - Limited flexibility for revision
  - Governmental/Procedural delays cannot be factored in

- Nonfinancial Parameters
  - Leading Indicators are difficult to measure
  - Increased cost of information
  - Increased cost of reporting
  - Issues of “information overload”
  - Difficulty in prioritizing and assigning weights
Performance Measurement System
PSUs

Result Framework Document

Department of Public Enterprise
- MoU between DPE and PSU
  - Financial
  - Non Financial
  - Target Setting

Public Sector Undertakings
- MoU between Chairman and respective Directors
  - Financial
  - Non Financial
  - Physical Production
  - Performance Monitoring
  - Performance Evaluation

Business Unit/Complex
- Mutually Agreed Schedules between various business Units
  - Financial
  - Non Financial
  - Physical Production
  - Performance Monitoring
  - Performance Evaluation

Performance Management System
- Physical targets
- Uniform production
- CAPEX
- Modernization
- R&D initiatives
- Indigenisation
- Enhancement of outsourcing
- Project Implementation
- Knowledge Management
Linking Performance with Rewards
Incentive and Rewards Systems

Executives/Officers
- Financial Rewards
  - Performance Related Pay
- Non-Financial Rewards
  - Suggestion Awards
  - Inter Divisional Awards
  - SODET Technology Awards
  - Certificates and Shields

Workmen/Employees
- Financial Rewards
  - Quarterly Performance Pay
  - Monthly Performance Pay
  - Annual Performance Pay
- Non-Financial Rewards
  - Suggestion Awards
  - Shram Awards
  - Inter Divisional Awards
  - Certificates and Shields

Non Financial Incentives also increase belongingness with organization
HAL Initiatives: HAL Connect, MSM, HAL Oath, HAL Anthem, CH Speaks, HR Weekly, R&D Connect
1. Flexibility to include Conditional targets or mid-term review of targets should be incorporated at the MoU stage to adequately cater for un-anticipated circumstances.

2. MoUs may be a two way commitment to ensure necessary assurances from administrative ministries regarding decisions, actions and facilitation on their part.

3. CPSEs may be given greater autonomy in setting their Performance Related Payment schemes and include a significant variable component in overall compensation.

4. Reforms of labour laws to reign in the Labour unions from controlling the incentives scheme, especially in the Manufacturing Intensive industries with long cycle times.

5. Benchmarking of Performance with regard to qualitative Business processes should be institutionalized rather than focusing solely on Quantitative output.
THANK YOU
Remuneration Management and Linkage of Performance Outcomes with Incentives

Bureau of Enterprise Remuneration, SASAC, China

Jan 15, 2015
Remuneration Structure

- Annual basic salary
- Annual performance salary
- Tenure incentive
- Mid-and-long term incentive
1. Basic Salary

1) Basic salary is the annual basic income of the principals of the enterprises.

2) The basic salary of chairman or president of SOEs is twice the average wage of employees last year.

3) The basic salary of vice president of SOEs is usually 0.6-0.9 times of the president, so as to widen differences in personal income.
2. Performance Salary

Performance salary = basic salary × performance assessment coefficient × correction coefficient

Performance assessment coefficient is calculated according to the annual assessment results, with the maximum amount 2.

Here is how the performance assessment coefficient calculated:

1) Assessment results rank A → coefficient 1.7-2
2) Assessment results rank B → coefficient 1.3-1.7
3) Assessment results rank C → coefficient 1.0-1.3
4) Assessment results rank D → coefficient 0-1.0
5) Assessment results rank E → coefficient 0
Correction coefficient of performance salary is calculated according to the function, scale of operation and internationalization of SOEs, with maximum 1.5.

Scale of operation is decided by the total assets, sales revenue, net assets, total profit and number of staff and workers.

▲ Performance assessment system for vice presidents of SOEs is established in China, and their annual salary is closely linked to their annual assessment.
▲ Principals of SOEs who got rank E in the annual assessment could not get any performance salary.

▲ Performance salary is a one-time bonus.
3. Tenure Incentives

1) The tenure incentives is linked to the tenure assessment results of principals of SOEs.

2) One tenure is 3 years.

3) The tenure incentives is also one-time bonus, with maximum 30% of the annual salary.
▲ Tenure performance assessment system for vice presidents of SOEs is established in China, and tenure incentives is closely linked to their tenure assessment result.

▲ Principals of SOEs who got rank E in the tenure assessment could not get any tenure incentives.

▲ There will be no tenure incentives if the principals do not complete the tenure for personal reasons.
Thank you!
Presentation on

Linkages of Performance Outcomes with Incentives

By:
Nishi Vasudeva
C&MD, HPCL

New Delhi
January 15, 2015
Memorandum of Understanding (MoU)

MoU is a Mutually Negotiated agreement

- Setting MoU Targets
- Performance Evaluation

GOI exercises control as the Majority Share holder

- Autonomy to CPSEs

Parliament

Government of India

Administrative Ministry

DPE : Department of Public Enterprise

MoU

CPSE Board

C&MD

Management
### MoU: SMART Parameters

#### Financial: 50%

<table>
<thead>
<tr>
<th>Mandatory</th>
<th>Non-financial: 50%</th>
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<tbody>
<tr>
<td><strong>Profit</strong></td>
<td><strong>Dynamic</strong></td>
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<tr>
<td>Growth / Size / Activity</td>
<td>Project Implementation</td>
</tr>
<tr>
<td>Profitability</td>
<td>Sales / Volume Growth</td>
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<tr>
<td>Cost &amp; Output efficiency</td>
<td>R&amp;D</td>
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#### Non-financial: 50%

<table>
<thead>
<tr>
<th>Optional</th>
<th>Enterprise related</th>
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<tr>
<td><strong>Productivity</strong></td>
<td>Technology &amp; Innovation</td>
</tr>
<tr>
<td>Liquidity / Leverage</td>
<td>Productivity &amp; Internal Process</td>
</tr>
<tr>
<td>Efficiency of Asset Use</td>
<td>Sector / Enterprise specific</td>
</tr>
</tbody>
</table>

**SMART:** Specific, Measurable, Achievable, Realistic, Time-bound
Aligning MoU Objectives to Performance measures

CPSE Vision, Mission & Objectives

- Finalized as part of MoU at the Beginning of Year
- New Strategic Areas identified for growth & profitability

Function / SBU Level

- Director level MoA with SBUs – Annual Plan

Field Level

- Annual Operating Plan (AOP)
- L1 to L4 Score cards
MoU Parameters in the 4 Balanced Scorecard Perspectives

**Financial**
- Gross Margin & Sales
- Profitability
- Cost & Output efficiency
- Efficiency of Asset deployed

**Customer**
- Increase Brand Value
- Improve Customer satisfaction
- Increase productivity of Network
- Improve Service Delivery / Market Share

**Internal Process**
- Project Management
- Productivity Enhancement
- R&D and Innovation
- Safety & Corporate Governance

**Learning & Growth**
- Capability Building
- Competency Development
- High performance culture
- Talent Management
Integrating MoU with Service and Capabilities

- **Vision**: What we want to be
- **Mission**: Why We exist
- **Objectives**: What we need to do

**Balanced Scorecard**: Implementation and Focus

**Employee Scorecard**: What I need to do

**Outcomes**:
- Satisfied Shareholders
- Satisfied Customers
- Effective processes
- Motivated workforce
**Vision, Mission & Objectives of MoU**

### Financial Perspective

*If we succeed how will we look to our shareholders?*

- Profitability
- Growth
- Shareholder Value

### Customer Perspective

*To achieve our vision, how must we look to our customers?*

- Price
- Service
- Quality

### Process Perspective

*To satisfy our customers, what management processes must we excel at?*

- Cycle Time
- Productivity
- Cost

### Learning Perspective

*To achieve our vision, how must our organisation learn and improve?*

- Market Innovation
- Learning
- Intellectual Assets

1. **Targets are defined using 4 perspectives**

2. **Cause and effect is a key element**

3. **Measures are developed to Monitor Performance**
Executing MOU: Leveraging Balanced Scorecard

Translating and Linking MoU
- Communication
- Linking rewards to performance measures

Balanced Scorecard
- Aligning SBU Targets to MoU
- Establishing milestones

Developing KPI (Key performance Indices)
- Development of relevant KPI
- Cascading of KPI

Monitoring & Review
- Periodic monitoring and Review meets
Incentivizing Performance outcomes

MoU
- Parameters
- Composite Score

Key Performance Indicators (KPI)

Monetary Incentives
- PRP Based on MoU Performance

Non-Monetary Incentives
- MoU Excellence Awards

CPSE
- PRP Based on MoU Performance

Employee
- PRP linked to Employee performance against MoU based KPIs

- Recognition through Employee Awards
  - HP Icon
  - Outstanding Achiever
  - HP Gaurav
Thank you
PERFORMANCE MANAGEMENT IN AGRI-BUSINESS

Prof. M. Panduranga Vithal
Indian Institute of Plantation Management
Bangalore
### SYNERGIZE

#### STRATEGIES

**Objectives**

- Long Term
- Medium Term
- Short Term

#### PERFORMANCE

**TERM**

<table>
<thead>
<tr>
<th>Term</th>
<th>Industry Association</th>
<th>Corporate Office</th>
<th>Estate Manager</th>
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<th>Workers</th>
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<tr>
<td>Long</td>
<td></td>
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<tr>
<td>Performance Criteria</td>
<td>Units of Measurement</td>
<td>Weightage</td>
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<td></td>
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<td>Ex-1</td>
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**Conventional Performance Measures**

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**Dynamic Performance Measures**

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Total: 100
For
Tea Estate - A
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<th>Criteria</th>
<th>Units</th>
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<tr>
<td>Workers out-turn</td>
<td>Kgs / manday s</td>
<td>2.5</td>
<td>&gt;30</td>
<td>30</td>
<td>25</td>
<td>&lt; 25</td>
<td>&lt; 20</td>
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<tr>
<td>Factory throughput</td>
<td>kgs / hrs</td>
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<td>(Confidential)</td>
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<td>Recovery</td>
<td>%</td>
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<td>&gt; 25</td>
<td>25</td>
<td>23</td>
<td>&lt; 23</td>
<td>20</td>
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<tr>
<td>Power Ratio</td>
<td>kwh/ kg</td>
<td>2.5</td>
<td>&lt; 1</td>
<td>1</td>
<td>1.19</td>
<td>&gt; 1.3</td>
<td>&gt; 1.5</td>
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<tr>
<td>Fuel Ratio</td>
<td>us/made tea (qtl.)</td>
<td>2.5</td>
<td>&lt;13</td>
<td>13</td>
<td>14.04</td>
<td>&gt;14.5</td>
<td>&gt;16</td>
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<tr>
<td>Tea Waste</td>
<td>%</td>
<td>2.5</td>
<td>0</td>
<td>&lt; 0.5%</td>
<td>0.5%</td>
<td>&gt; 0.5%</td>
<td>&gt; 0.6%</td>
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<td>Transport</td>
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<td>300</td>
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<td>Deployment on Plucking</td>
<td>%</td>
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<td>&gt; 60</td>
<td>50-60</td>
<td>45</td>
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Source: MPV/EPA

Estate-B
For Tea Estate - B
LEARNING VALUES

- PERFORMANCE WHEN MEASURED PROVIDES A CONVINCING BASE FOR SCOPE FOR IMPROVEMENT (all parties)
- ORGANISATIONS & PEOPLE MAY KNOW THE LIMITATIONS AS CRITICAL LEARNING VALUES
- DIRECTION & SCOPE IMPROVEMENT IS CLEAR
- SUCCESS IS WAITING TO BE OURS!!!
Thank You...