Chapter 6.0 - Recapitulation

6.1 Final Recommendations

1. Performance Related Pay is desirable.

   Every organization will agree with the desirability of the philosophy of PRP – *differential performance must be differentially rewarded*. It will be highly motivating for people as it means that their hard work and performance is being recognized and rewarded by the organization and will be a tool for differentiating between good performers and not-so-good ones. An added advantage of PRP will be that it will provide some incentive to people who feel stagnated at certain positions when they do not have any promotions to look forward to, or when people know that they will be stuck to a certain position for a very long time. PRP will also motivate a lot of fence-sitters who will be motivated to stretch their capabilities and exert themselves in order to achieve PRP. It will at least give people an incentive which will be directly related to performance, and thus within their control.

2. It is feasible to implement PRP in most organizations but some organizations say NO to PRP.

   The ‘feasibility’ question was the most crucial one to answer. Most of the organizations at the first instance feel uncomfortable with this question; though later they are able to evolve methods through which PRP can be implemented. They believe that although PRP is highly desirable, the metrics of implementation are very difficult. They expressed concern that PRP should be implemented in a way that the measures are completely transparent, honest and perceptibly bias-free. PRP should be based on objective assessment criterion so that subjectivity and bias can be
minimized. It should also not make employees more dependent on their superior(s).

Not all organizations are equally enthusiastic about PRP. The biggest concern is "how do we know whether people are achieving what they are supposed to achieve? What is the expected output and how do we measure it?"

In essence, most of the organizations have said **YES** to PRP

3. **PRP should be implemented at all the levels in the organization.**

   In organizations where lower level employees are covered under some other incentive scheme, PRP can be applied only to senior officers who are currently uncovered under any performance related incentive scheme. In fact, PRP implementation is also an opportunity for organizations to re-engineer their processes and look at their systems afresh. If the organization deems fit, it can redesign its incentive scheme to include all the levels under PRP and discontinue the old incentive scheme. This will make the incentive scheme integrative and ensure goal congruence between all the levels of functionaries in the organization. It will also ensure that the incentive structures of lower level employees and higher level employees are not in contradiction to each other.

4. **PRP should be implemented at the group level.**

   Organizations must implement PRP at the group level because performance is always the result and responsibility of a team of people working towards the achievement of specific activities within an organization. Group level PRP is also desirable because many times individual performance assessment is very difficult to discern. Implementing PRP at the group level will also ensure that the team-spirit is strengthened, cohesion is enhanced and there are no heartburns and
interpersonal problems between the team members who are required to work and live together on a daily basis. Group level implementation also makes monitoring more realistic and the assessment more (perceptibly) bias-free.

5. **Time-Job audit must be carried out before implementing PRP.**

Time-job audits enable us to identify what activities are being performed by employees at different levels and in different locations and what is the amount of time that is being spent of each activity. It is a tool for analyzing jobs and the first step towards redefining the existing archaic job descriptions and responsibilities in a way that is most amenable to implementing PRP.

6. **SPI’s must be created for every level in every organization.**

Strategic Performance Indicators will emerge from the time-job audit as these are the detailed measures at the sub-activity level which must be created for every job in the organization so as to assess individual/group performance against it. It will be like a yardstick for the measurement of performance. It is the most critical part in implementing PRP as the success of PRP will largely depend on the diligence expended in the creation of SPI’s and the mechanism of recording performance against these SPI’s. These SPI’s must be realistic, tangible and specifically measurable as far as possible. In cases where they are not specifically measurable the output will be observable which can be taken as a proxy for the achievement of performance.

Customer feedback where possible must be an integral part of performance measurement for all the organizations and a significant weightage must be given to it.
A related concept to SPI’s is the creation of benchmarks and standards of performance against which people will be judged for grant of PRP. SPI’s must work as a list of activities which will be matched with a corresponding and complementary set of expectations for each of those activities and these can be discussed and mutually agreed between the superiors and the group whose performance will be assessed. Once goals are mutually set and people know what SPI’s they will be measured against, they are more motivated to achieve them. It greatly enhances objectivity as both parties know what is expected of them and how it will be measured at the end of the period of assessment. Groups that are being assessed will be to a great extent in control of their performance matrix and can make necessary amends if deviations are observed. It also reduces subjectivity and bias in performance assessment as the evaluation criteria is clearly spelt out and is observable.

7. **Periodicity of assessment for implementing PRP must vary with organizations and with levels of hierarchy within organizations.**

Employees in different organizations will have different performance assessment cycles. Employees at different levels of hierarchy within the same organization will also be assessed at different periods of interval. For example, it doesn’t make sense or add value if we measure the performance of top level managers every week/month as they deal with strategic issues that take time to take shape and give results. At the same time, the performance of a lower level employee like a worker can even be measured on a weekly or a fortnightly basis and in case of deviations; corrective actions can be taken immediately.

PRP should be based on regular performance assessment so that the evaluation is not based on some recent positive/negative incident that
dominates the mind of the superior while writing the annual performance assessment. PRP should also be based on visible results, as far as possible. For example, a monthly performance assessment system can be created by the employee/group itself which will record its performance against SPI’s and a copy of that can be submitted to the organization and a copy can be retained on self. The recorded performance can then be vetted by the organization. In this manner, at the end of the year all the records will be present and a simple decision can be taken on the award of PRP. It will also reduce subjectivity, concerns about favoritism and nepotism, and will make mid-course correction(s) possible.

8. **Performance should be measured by a Board/Panel.**

A PRP assessment board/panel must be created within every organization for the purposes of performance measurement and reward of PRP. It can comprise of very senior level people with external representation to ensure objectivity and fairness in performance assessment. The Board can be presented with only an assessment sheet without any names and references of the unit on it, so that PRP award can be made on objective criterion and performance assessment, and is transparent and free from bias. Assessment from the top level managers could be done by different stakeholders or peers or a board that is largely located outside the organization but is still related. A 360 degree performance assessment with related weightages for different assessors is also possible for top level managers.

9. **A pilot project is needed before implementing PRP**

Each organization must identify a distinct unit for implementing a pilot project on PRP. It is absolutely essential as it will develop a good level of familiarity of the organization with the concept and dynamics of PRP.
implementation. It is important as PRP is a new concept and no one is trained in implementing it. It is also a disruptive concept and may face initial resistance as people have an inherent inertia and are closed to forced change. When a pilot is implemented, inertia dies down and it gives people time and space to adapt to the change and institutionalize it within. In fact, some people will emerge as champions for the cause who will then be able to propagate the idea within the organization, which makes it easier to implement. Successful implementation of PRP at the pilot level will also persuade other employees to throw their weight behind the idea as it is in their best interest. The pilot will also give each organization an opportunity to implement it in a unit, observe the problems, review it after some time, get feedback and improve the system. This implementation and feedback cycle can be repeated iteratively till the organization feels confident of extending PRP implementation organization-wide.

10. **Each organization must form a team committed to PRP implementation.**

A team of committed and experienced individuals from different levels of hierarchy and representative of the whole organization must be created to ensure PRP implementation. This team must be given proper training, fixed tenure and the freedom to experiment with the different aspects of PRP implementation like creation of SPI’s, panel, periodicity etc.

11. **ACR’s must not be kept confidential.**

The Annual Confidential Reports must become non-confidential and the assessor must openly discuss and share performance appraisal with the assessee. This is important as in this open-model performance assessment will be based on clear cut results observed (or the lack of it) and the perceived subjectivity and arbitrariness in assessment will be
minimized. This is critical because there is a general perception that ACR writing is not fair and many times based on factors unrelated to the on-the-job performance. The confidentiality clause enables assessors to base their decisions on blurred logic or to play the game of favouritism and nepotism and still get away with it. Once the assessor is obliged to share the assessment with the assessee such instances will go down, which will be highly motivating for employees and enhance organizational productivity. However, if a senior officer wants to move something which is confidential, let’s say about the character or integrity of the officer to be assessed (which will not be a problem in most of the cases), he can always move a separate file for this purpose.

12. **Open Feedback must be given to improve performance.**

   Individuals must be provided with detailed feedback after each performance assessment. His strengths and weaknesses must be pointed out by the assessing authority, assessment explained to him in detail, and he must be given opportunities for career planning and advancement. Career development of subordinate officers must be the responsibility of senior officers and young officers must be identified, mentored and trained for taking up specialized jobs within the organization. Feedback will help officers better relate with each other and integrate organizational objectives with individual goals.

13. **Create Management Information System (MIS) to implement PRP.**

   Creation of a proper and detailed MIS is a very critical requirement for effectively implementing PRP. In fact, the effectiveness of PRP in achieving its desired goals will (apart from the creation of SPI’s) greatly depend on the MIS system as MIS is the tool for recording and communicating performance throughout the organization, which will
become the basis for granting PRP. Proper formats and Performa’s should be created to exactly record performance achievement at regular intervals. Ideally, the MIS system should be computerized so that the cataloguing, updating and retrieving can be done easily. It will also serve the purpose of mid-course review (and correction, if needed) by the top management to ensure that performance is tightly aligned with organizational goals and review can be done regularly. A proper MIS will also generate reports for decision making by senior management. A regular MIS creation (say every month or quarter) will also reduce subjectivity in performance assessment and even the employees will know how well (or badly) they are performing and whether they will become eligible for PRP.

14. **PRP to be successful must get top management support.**

The top management must throw its weight behind PRP if PRP has to be successful in different organizations. Top management support must be visible in terms of creation of a competent team to implement PRP, monitoring their progress regularly, making optimum resources available to them, giving them freedom to make mistakes, ensuring organizational support, and providing any other incidental support that they may require.

15. **PRP requires delegation of authority**

An organization needs to delegate authority to lower levels in the organization so that they have the power to set their goals (in line with organizational goals) keeping in mind the local requirements of service delivery and constraints of operation and implementation, and the power to measure and record performance which can lead to the grant of PRP for groups that meet/exceed expectations. Delegation must also give authority to the local level to arrange for resources commensurate to the goals to be achieved. It will also be very motivating for the employees who
will feel empowered and trusted, and at the same time will be held accountable for achievement of results.

16 **PRP requires transparency in systems and processes.**

The process of goal setting and performance assessment by the superiors for their juniors must be totally transparent and must also be perceived to be so. Transparency is very important because if there is a bias in setting goals and targets or in assessment of service delivery by different groups then the whole purpose of PRP is defeated. For example, if employees feel that the superiors assign easier tasks to the teams of their choice and more difficult tasks to the other teams; they will become dissatisfied and will reject the idea of PRP.

Similarly, if assessment is unfair and not transparent, it will be a disservice to the organization and its employees if PRP is given to a group because it is favoured by the superiors rather than because it is a better performing group. Transparency is even more critical in the PRP setting because we are not only attaching recognition to performance, but also a variable component of pay, which increases the sensitivity of the employees. Transparency in goal setting and assessment will ensure that employees don’t feel discriminated against, are committed to achieving their goals and will improve accountability to the stakeholders.

17 **Performance for granting PRP must be done by multiple assessors.**

This is especially relevant for the top management as it might be very difficult to implement it for the lower levels in the organization. Multiple assessors for top management will ensure consistency and fairness in performance assessment and increase the reliability of the process.
18 **PRP requires proper benchmarking for later evaluation of performance.**

Organizations must strive to establish benchmarks for performance evaluation in line with their metrics of service delivery. These benchmarks can be derived from national and international best practices (if available and comparable to Indian circumstances – say possible for manufacturing but comparatively difficult for policing) and/or the existing good performance standards from within the organization can be taken as the benchmark for the first year of PRP implementation. These benchmarks (from within the organization) can be designed to be an upward moving scale (over time) against which performance will be assessed. This will ensure continuous improvement in the performance standards of service delivery for individual organization. These benchmarks must be discussed with employees and mutually agreed upon so that the system is fair and transparent and everybody is aware of the standard against which his performance will be adjudged.

19 **The Base Model must be adopted for PRP implementation**

This model proposes 20-30% of the people in an organization must be given 20-30% of their basic salary as PRP, which must be implemented at the group level. In this way, it restricts the percentage of people eligible for PRP. The model is like a template which can be used by organizations to develop their own models. This model is very flexible and incorporates a set of questions that can be taken up by organizations to be answered, which will systematically lead them to the development of a model that is unique and most suited for implementation in their own organization as it will take care of their structures, processes, systems, strengths, resources, constraints and exigencies.
Choice of PRP rests with each organization.

PRP can be implemented in organizations in several stages. In the first stage, each organization must be given the choice of whether to implement PRP at the moment or not. This means that organizations will have to decide whether they want to start working towards PRP now which will entitle 20-30% of their manpower to earn 20-30% more incentive per annum, or to remain static and thus outside the purview of PRP. They must also necessarily be given the freedom to develop their own Strategic Performance Indicators and to decide how they will implement PRP in their organization. This is very critical as any attempt to formulate a single model for all will be counterproductive and impossible to implement, because each organization is unique.

The second stage of implementation will come when most of the willing organizations have completed a pilot project and extended PRP organization-wide. It will be an opportunity to demonstrate the utility and benefits of PRP to organizations which are still outside the fold of PRP and to convince them to adapt PRP.

Finally, the third stage could be a review of the PRP idea and impact assessment at the overall organizational level and if found that the impact has been positive and desirable, then every organization could be brought into the fold of PRP.

The three stage development and introduction of PRP in the organization will give sufficient time to everyone to assess the benefits of PRP for their organization and to learn from the experiences of other organizations in order to design their own PRP systems. Over time, it will also ensure that variability in pay is implemented in the organization will motivate employees to stretch their capabilities and improve organizational
performance. This will ensure more incentive (and the accompanying recognition) for employees and a better service to the customers.

6.2 Conceptual Model for PRP Implementation

PRP implementation calls for a range of decisions to be taken by the concerned department/organization. For example: whether to opt for the $1 + X$ model or the $1 - X$ model of PRP. Implementation warrants that the organization makes available the enabling reforms – conditions of Delegation, Transparency, Multiple Assessors, Benchmarking, Mutually agreeable planning and performance feedback between the assessors and assessee etc. Detailed SPI’s must be created for all levels and a proper MIS and PMS system must be developed. Advanced reforms will be needed over time to enhance the efficiency and effectives of the PRP system in achieving desired organizational goals. It will also be critical to ensure that the grant of PRP to certain groups is widely perceived to be just and fair and not biased. To ensure this, internal selection must be supplemented by some assessment panel/board, which may co-opt external members as it will ensure minimization of bias and more importantly will be perceived as being fair (perception of fairness is equally important, if not more). A feedback mechanism must be put in place that will gather feedback to iteratively improve the PRP system. To this extent, the PRP system in every organization will be organic. The dynamic of PRP will then lead to improved performance, enhanced productivity of employees and an effective and responsive organization.

The conceptual model for PRP implementation is graphically represented as under:
7.3 Conclusion

PRP is desirable and its implementation will improve employee motivation, make employees feel organized and rewarded for their efforts and achievements, help organizations retain and attract fresh talent, and increase overall organizational performance, PRP is not unrelated to the traditional system of performance measurement to the extent that it also
focuses on results and competencies, with due regard for general and social skills. To that extent it is complementing the existing performance appraisal system. PRP should be made attractive enough in order to be motivating for employees to expend extra effort for achievement of organizational goals. In fact, if PRP is large enough, over time merit increments can be totally replaced with PRP, given in the form of annual bonuses.

However, PRP implementation is complex and difficult because there can be problems of design, implementation and performance assessment. Initially, PRP might have to handle problems of budgetary provisions, infrastructure required for performance management (transparency, trust, delegation etc), and training of managers who are totally new to the concept of PRP. These problems must be anticipated and resolved.

We will need a range of models with a matching array of criterion for PRP implementation to account for organizational differences. No single model will fit all organizations. PRP systems will increasingly rely on dialogue and mutually agreed goals with line management than on strictly quantifiable measures of performance. PRP should focus on identifying superior performance (and rewarding it) instead of creating categories of performers.

Overall, PRP is expected to produce positive changes in the organizational culture, working conditions, provide an impetus to collaborative goal setting, ensure goal congruence at all levels, promote innovation and risk-taking by employees and increase accountability. Above all, PRP should be viewed as an opportunity, and utilized as a lever, for introducing (the much needed and awaited) wider management change in the organization.