

Performance Related Pay in Central Public Sector Enterprises in India

Punam Singh & R K Mishra

The latest second pay revision for central public sector enterprises (CPSE), accepted in 2008 in India, calls for implementation of the concept of performance related pay (PRP) based on a transparent and robust performance management system (PMS) for executives. This paper studies the implementation of performance related pay in CPSEs and the perception of employees towards performance related pay. The paper is based on both primary data collected through questionnaire and also on secondary data. The paper highlights the pre-requisites of PRP implementation in CPSEs in India, the need for a transparent and robust PMS and the various challenges in the implementation process.

Punam Singh (E-mail: punamsingh@ipeindia.org) is Asst Professor, Institute of Public Enterprise, Hyderabad. **R K Mishra** (E-mail: rkmishra@ipeindia.org) is Director & Sr. Professor in the same Institute.

Introduction

The public sector enterprises in India have always been considered as 'model employers'. The brightest of candidates dreamt of working for a public sector enterprise. However, with the opening of economy, the situation has taken a u – turn, the public sector enterprises are in a war for talent with its private counterparts. It is not only losing its talent pool to the private sector but fresh talents are more attracted to join private sector or MNCs where there is tremendous career progression along with attractive pay packages. With increase in opportunities, CPSEs are also finding it difficult to retain talented employees. As a result, public sector is under severe pressure in terms of attracting and retaining talent.

Pay has been considered an important reward to motivate the behavior of employees from the very inception of management science (Taylor, 1911). The linkage between perceptions, pay and performance has been studied and established (Adams, 1963; Vroom, 1964; Lawler, 1971). Compensation serves to attract, retain and motivate high-potential employees. Meanwhile, the fulfillment

of above goals is subject to constraints such as the maintenance of equity, cost control and legal requirements (e.g. wage and salary legislation).

“Compensation refers to all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship” (Milkovich & Newman, 2005). The phrase “financial returns” refers to an individual’s base salary, as well as short- and long-term incentives. “Tangible services and benefits” are such things as insurance, paid vacation and sick days, pension plans, and employee discounts. (Milkovich & Newman, 2005) have used the term compensation and pay interchangeably in their book on compensation management and hence the term pay and compensation is used interchangeably in literature.

Periodic performance reviews play a vital role and provide the basis for performance related pay.

Linking pay with performance which is commonly referred as performance related pay has been followed worldwide in all sectors for attracting, motivating and retaining talent. Performance related pay links the compensation of the employees to their performance and their contribution to the organizational goals. Therefore, periodic performance reviews play a vital role and provide the basis for performance related pay. It is because of this reason that the CPSEs have to first develop a transparent and robust Performance Management System before the

implementation of PRP in their respective organizations.

CPSEs in India, so far have been following a system wherein the entire compensation was guaranteed, irrespective of the performance of the company or the individual. The second pay revision for CPSEs was accepted by the cabinet on 26th Nov, 2008 to be implemented with retrospect from 1st Jan, 2007. The pay revision had recommended for the implementation of PRP for the first time in the history of public sector enterprises. Since PRP of an individual is based on performance against Key Result Areas (KRAs), all CPSEs should develop a robust and transparent Performance Management System.

Challenges before CPSEs

Intense Competition for Business & Talent: It is widely acknowledged that the public sector enterprises today are required to function in an intensely competitive environment dictated by market forces unleashed especially in the post liberalization phase of the country. The competition faced by the CPSEs from Indian private sector companies and the Multi-National Corporations (MNCs) operating in and outside the country, extends to both business and talent. In sharp contrast to the formative years of the public sector, barring very few exceptions, no Indian CPSE enjoys a product / service monopoly status or a captive consumption facility from its parent ministry / department. In such a situation, the CPSEs have to be as innovative, as ef-

efficient and as nimble footed the private sector companies and MNCs to successfully compete and win in the market place. Talent – both technical and managerial – becomes the fundamental requirement for such success. The vast differentials in the remuneration, even at the entry level in some cases and at the middle and senior levels in all cases, have made attraction and retention of talent extremely difficult in CPSEs in the last 10 – 15 years. Engineering and management graduates from IITs and IIMs do not look at CPSEs as a career option today. Same is almost the case with respect to regional engineering colleges and even government engineering colleges. In the 60s & early 70s, CPSEs were the preferred destination for most of the bright and young engineering talent of the country. Probably it is this residual talent, at the helm of the affairs of the Indian CPSEs today, that is contributing to the admirable success of the performing public sector companies of the nation.

Attraction & Retention of Talent : While the junior cadres of management in CPSEs were the targeted community for talent poaching in the earlier years, it is the middle management and senior management personnel who are being lured away in increased numbers now because of the tremendous remuneration gaps between CPSEs and private sector companies & MNCs. The operations of CPSEs are getting very adversely affected in view of this exodus of the experienced and valued cadre of executives of the CPSEs.

It is a fact that the remuneration levels of the entry level executives in CPSEs in some cases are comparable, and sometimes better, to the corresponding emoluments in the private sector. Even such CPSEs are finding it near impossible to attract bright talent. The reasons are twofold: In the earlier times, CPSEs, in a large measure, have been the training platforms for top class Engineering and Management Graduates. In the last one and half to two decades, there are several avenues open to these groups in the private sector companies and MNCs. Secondly and more importantly, the growth opportunities available to the talented ones in the private sector companies and MNCs are far more attractive and rapid compared to the CPSEs.

Therefore, solutions to the problems of ‘Attraction’ and ‘Retention’ are increasingly becoming difficult. As things stand, attracting talent is far more difficult compared to retaining talent. For some time to come, till CPSEs become equally attractive destinations to the talented engineering and management graduates, as they were in the sixties and seventies, intensive and specialized in-house induction and training programs appear to be the only solution. In respect of retention of talent some concrete steps have to be taken to preserve the aggregate knowledge and experience within the preserves of CPSEs to cope with the ever-increasing challenges in the market place.

Uniformity & Differentiation: Barring some exceptions, in the last few years ‘Uniformity’ has been the guiding principle

in respect of remuneration of the executives of CPSEs - with close linkages to the remuneration packages of the Central Government officers. While this linkage had some basis and rationale in the formative periods of CPSEs, the time has certainly come for snapping this linkage and move towards industry standards in respective of the remuneration packages.

As opposed to the 'Uniformity' principle practiced in the CPSEs, 'Differentiation' is the guiding factor for remuneration in the private sector companies and the MNCs. This 'Differentiation' takes place based on several factors like:

- Industrial sector to which the organization belongs
- Functions to be carried out by the executive
- Location of the organization
- Performance level of the executive
- Paying capacity of the organization

PRP Studies –Evidence from across the World

PRP refers to the variable part of pay, awarded on an individual or on a team or group basis depending on performance. Variable pay is distributed in forms such as bonuses, incentives, on-the-spot bonuses, profit sharing, and Various other Pay-for-Performance schemes. They essentially are based on a principle that suggests an individual's pay should vary based upon performance (of the individual, group, or organization).

Greater the value placed on reward, the greater the motivation to work will be.

A number of propositions in support of merit pay may be drawn from theories put forward by experts such as Vroom (1964) and Skinner (1969). Public administration research on PRP usually relies on what is often called expectancy (Vroom, 1964; Porter & Lawler III, 1968) and reinforcement theory (Skinner 1969). Vroom's expectancy theory, briefly, indicates that the greater the belief that effort will lead to reward and the greater the value placed on that reward, the greater the motivation to work will be. Skinner's proposition is that behavior that is rewarded (in his terms, reinforced) will become more frequent. Reinforcement theory stresses the effect of cultivating a behavioral norm of high work effort through reinforcing behavior with positive rewards.

The first review of the effects of merit pay reforms emanating from the Civil Service Reform Act (CSRA) was Perry's (1986) assessment of contingent pay for public managers. The scope of his review was limited to research on individual contingent pay systems that added performance increments to base pay. Based on research prior to 1985, Perry could not identify any study that found positive effects. Although the evidence was limited, he concluded that merit pay in the public sector was plagued by invalid contracts, information asymmetries where the supervisor lacked accurate information about the subordinate

performance, and diminished capacity to coordinate interdependence.

A National Research Council (NRC) panel, convened under contract to the U.S. Office of Management, subsequently reviewed both public and private sector research on pay for performance (Milkovich & Wigdor, 1991). Composed of members from academia, business, and government, the NRC directly acknowledged the gap between the promise and reality of pay for performance in the federal government. The NRC panel found that political attacks devaluing public service might have created a climate in which it was difficult to achieve the consensus and trust important for successful pay for performance. Perry, Mesch & Paarlberg (2006), analyzed 17 review articles, including three meta-analyses and nine research syntheses on financial incentives, developed several generalizations about financial incentives that are relevant to the present study. The study concluded that individual financial incentives are ineffective in traditional public sector settings and joined prior reviews of pay-for-performance systems in concluding that the effectiveness of financial incentives is dependent on organizational conditions.

Effectiveness of financial incentives is dependent on organizational conditions.

Marsden (2004), OECD (2005b) & Marsden (2009) have studied the link between PRP and performance and also the secondary benefit of PRP implementation. Apart from the direct link between

performance and individual rewards, advocates in the field of public administration highlight secondary effects associated with performance pay: it helps to recruit and retain highly -skilled and/or motivated staff who presumably would do better under such an arrangement; increases the awareness for organizational goals by defining explicit performance standards; weakens the power of public sector unions; makes managers more responsible; signals core organizational goals to outside actors; increases the link between individual and organizational job goals; reduces the overall wage bill by moving away from automatic pay increases; and leads to an increase in overall job satisfaction through the individual recognition of employee efforts.

In the US, while PRP is of limited use in the core public administration, it is at the center of efforts to improve teacher accountability over the past decade.

PRP in the form of bonuses or merit increases to basic pay has been used more frequently in the OECD in recent years. According to one estimate, approximately two-thirds of OECD countries have introduced PRP in some form or the other (OECD, 2005). The United Kingdom, Switzerland and the Czech Republic apply PRP more extensively than countries such as New Zealand, Austria and the Netherlands. In Finland, for example, the proportion of basic salary that PRP can represent can amount to over 40% of the total. In the US, while PRP is of limited use in the core public administration, it is

at the center of efforts to improve teacher accountability over the past decade. As per the OECD report (2005), introduction PRP scheme dates to the year of 1964 in Canada and 1978 in US. It was introduced in France (2004), Hungary (2002) and Switzerland (2000). The report also mentions that OECD countries have revised their PRP scheme and implementation to make it more effective. US implemented a revised scheme in (1984) and again revisited it in 1994 and 2004. Denmark which introduced the scheme in 1987 also revised/ revisited the scheme from (1997-2002).

The 2nd pay revision Committee (2008) for CPSEs in India recommended that Variable Pay or Performance Related Pay (PRP) be made an integral part of the compensation package and should progressively become major a component of the executive compensation. The PRP should be directly linked to the profits of the CPSE/unit and performance of the executives. The percentage ceiling of PRP, progressively increasing from junior level to senior level executives, expressed as percentage of pay (http://dpe.nic.in/sites/upload_files/dpe/files/Chapter_6_Recommendations_Final.pdf)

Cardona (2007) has reviewed incentive programs in the US, particularly the Performance Management and Recognition System, he also studied the UK's Inland Revenue Service performance scheme and similar attempts in Australia. Several common issues in the implementation of performance pay have been discussed such as employees have hardly

ever scored less than satisfactory in their evaluations, bonus systems were designed so that only very few employees actually received any payments and the majority of staff found the system de-motivating and inciting jealousies. Straberg (2010) highlighted the problem of perceived unfairness following the introduction of performance pay in an OECD country, although he notes that there was no empirical linkage between pay justice perceptions and workplace behaviors. Managers equally found little positive changes resulting from the introduction of performance pay (Hasnain et al 2012). Performance-related pay (PRP), has been introduced in many countries as a possible tool for improving the productivity and accountability of the public sector. Over the past fifteen years, a majority of OECD countries have implemented PRP in the central administration (core civil service), in specialized entities such as revenue administration, and for key service delivery staff such as teachers and medical personnel. Middle income countries, and to some extent low income countries, perhaps drawing on the OECD example, have also experimented with PRP in an attempt to inject performance-orientation in otherwise dysfunctional bureaucracies.

There was no empirical linkage between pay justice perceptions and workplace behaviors.

Reasons for Implementation in India

What gets measured gets managed and what gets managed is done? Abid-

ing by this principle, the mantra for establishing a performance oriented culture is to implement a PRP system based on a transparent and robust performance management system. As per IIMA report on introduction of performance measurement and performance incentives in government organizations, there are 8 broad reasons for implementation of performance measurement and performance incentives. These are:

1. Enhance employee productivity/performance: Performance measurement and incentives will be linked to achievement of targets and not length of service. This will motivate employees to work towards their targets, thus enhancing their productivity/performance. This can be one of the earliest achievements.
2. Better internal business processes: One of the key effects of implementing performance related incentives (PRI) will be that inefficient or redundant business processes will have to be reviewed to improve organizational, group and/or individual performance.
3. Improved public/stakeholder service delivery: PRI will have an overall strong positive impact on service delivery to public/stake holders. Most of the outputs/outcomes in government departments/ organizations deal with service delivery to citizens or other stake holders and PRI will sharpen the focus on outputs/ outcomes. Citizen/Stakeholder orientation of employees will be furthered
- if performance targets/ measures are suitably directed.
4. Develop result/business orientation: Targets and measures related to result/business orientation will help in developing employees focus in this direction. Result orientation focuses on efficient and effective governance and business orientation focuses on promoting market value of products/services.
5. Strengthen team spirit: Group rewards help in fostering teamwork. They also assist in clarifying organizational/group objectives and engage employees with the organization's goal.
6. Perception of procedural justice: PRI has a two-way link with perceived procedural justice. On the one hand, proper goal setting, regular feedback and transparent assessment of performance will lead to perception of procedural justice. On the other hand, perceived procedural justice is very critical for long term success of PRI.
7. Attract talent: Steep rise in salary and job conditions like autonomy are making private sector jobs seem much more attractive to the younger generation. If the government wants to attract good talent in future then PRI with delegation and transparency holds the key.
8. Accountability: Metrics developed to measure employees' work output, competencies and stakeholder orientation will bring the much-needed shift in their focus from political

bosses to ordinary citizens. Transparent system will be a deterrent to corruption among employees.

Implementation Issues

The accepted recommendations of the 2nd Pay Revision Committee, formed to revise the pay of the executives and non-unionized supervisors in India have posed some challenges to the CPSEs since the concept of CTC is new to CPSEs and this has to drive them to attract talent from educational campuses. Due to lack of precedence and in the absence of suitable guidelines and standards on how to monetize individual perks and allowances, there is a possibility that different PSEs adopt different valuations and thereby arrive at difference CTC numbers, as observed by the Ernst and Young Associates (2008).

The variable component is what is referred to as Performance Related Pay and will be linked to individual, group, business-unit and company performance.

The 2nd Pay Commission review committee for the CPSEs has recommended variable pay along with the fixed pay as an integral component of compensation structure in CPSEs in India. The committee proposed to change the current pattern of compensation and bring in the component of variable pay as part of the total compensation. The variable component is relatively low for lower level executives and progressively increases to as high as to 200% of the ba-

sic pay at the level of the CEOs. The variable component is what is referred to as Performance Related Pay and will be linked to individual, group, business-unit and company performance.

PRP in the case of CPSEs will be based on the physical and financial performance and will come out of the profits of the CPSE. 60 % of the PRP will be given with the ceiling of 3% of profit before tax (PBT) and 40% of the PRP will come from 10% of the incremental profit. The total PRP however will be limited to 5% of the year's PBT, which will be for both executives and non-unionized supervisors.

The most important pre-requisite is the signing of the MOU with the ministry under which the CPSE belongs. The MOU rating will form the basis of PRP with all the Key Results Areas (KRA) identified in the MOU. CPSEs which do not sign a MOU with the ministry will not be eligible for PRP. Enterprises achieving excellent MOU rating will be eligible for 100% PRP. Similarly enterprises achieving very good, good, and fair ratings are eligible for 80%, 60% and 40% respectively. Enterprise achieving poor rating will not be eligible for PRP irrespective of the profitability of the CPSE.

The next important pre-requisite seeks the CPSEs adopt "Bell Curve Approach" in grading executives so that not more than 10% to 15% executives are graded as "outstanding / excellent". Similarly, 10 % of the executives should also be graded as "Below Par".

All the enterprises are also required to constitute a remuneration committee headed by an Independent Director.

All the enterprises are also required to constitute a remuneration committee headed by an Independent Director. Enterprise without Independent Directors on their board will not be eligible for PRP. Remuneration committee will decide the annual bonus/ variable pay pool policy for the executives and non-unionized supervisors, within the prescribed limits. In view of the above pre-requisite of implementing of a robust and transparent performance management system to pay PRP is compulsory.

The Indian PRP Experience

Variable pay for government employees has been recommended and accepted for the first time through the Sixth pay revision for government employees proposing for the introduction of performance linked pay scheme. Maheshwari & Singh(2010) have studied the organizational readiness for PRP. In case of CPSEs, the 2nd pay revision for executives and non unionized supervisors of CPSEs accepted by the cabinet on 26th December, 2008 has recommended and accepted for PRP and eventually grading of employee using a bell curve approach.

A Few CPSEs such as National Thermal Power Corporation (NTPC), Indian Oil Corporation (IOCL), The Shipping Corporation of India Limited (SCIL) and Bharat Heavy Electricals Limited

(BHEL) have already been using the concept of performance linked pay scheme for many of their projects before the 2nd pay revision. Project Construction Incentive Scheme of National Thermal Power Corporation (NTPC) for Barh (3x660 MW) Plant has been successfully implementing performance related incentive schemes for some time. The incentive plan decided for the Barh project was group based in order to foster team spirit and create a cohesive environment essential for producing quick results. The NTPC experience shows that productivity rise is the highest when all direct and indirect employees are integrated in an incentive scheme which leads to collective collaboration. A set of targets was mutually agreed upon for the grant of incentives on the Barh project which comprised major milestones that NTPC wanted to achieve in a given time-frame. Project incentives (PI) were also coupled with generation incentives to incentivize the start of generation and achieve efficiencies in generation.

The entitlement was as per categories of employees. The overall limit to PI was capped at 25% of the annual basic pay. However, additional performance related incentives were given in the form of extra incentive payment, if the project was completed ahead of the planned schedule. Thus, if the project was completed one month before schedule, PI cap was raised to 26.25% of the basic pay, and to 27.50% of the basic pay if the project was completed two months ahead of schedule.

Indian Oil Corporation operates two schemes i.e. the Productivity Incentive

Scheme (PIS) and Performance Linked Incentive (PLI). Bharat Heavy Electricals Limited has introduced the Plant Performance Payment Scheme (PPPS) and Performance Linked Incentive Scheme. The BHEL PPPS was introduced during 1973-74 to rationalize and replace the diverse production incentive schemes prevalent in the various units. The Shipping Corporation of India Limited had a scheme that covered all shore based employees of SCI and is administered on the basis of organization's performance and individual measure. The scheme covers all shore based employees of SCI and is administered on the basis of organization's performance and individual measure.

There is a great need for systematic evaluation of PRP schemes, and of incentive pay systems more widely. Our current understanding is based on a rather small number of studies that have sought to measure the effects of PRP systematically. We know even less about the articulation between organizational performance objectives and those of individual employees, and to what extent the systems of integrated targets can improve or reshape performance.

Research Gaps & Objectives

From the literature, it is obvious that the use of PRP as an integral part of the compensation is growing across the

The use of PRP as an integral part of the compensation is growing across the world.

world. There is a small but growing empirical research on the implementation of PRP in public sector across the globe and especially in OECD countries. There are a number of studies on PRP implantation and impact in public sector in OECD countries (World Bank, 1999; OECD, 2005; Kiragu & Mukandala, 2003; Cardona, 2007; Hasnain et al, 2012; Strasberg, 2010). There is lack of empirical research in this area in the Indian context. Among the very few exhaustive works is an IIM report (2008) on performance pay in public sector. There is lack of empirical research on performance related pay implementation and impact in CPSEs in India. The objectives of this paper are to study as to how is PRP perceived by the executives of CPSEs in India and identify implementation difficulties.

Methodology of the Study

In order to study the perception of executives of CPSEs in India, a survey was conducted in select CPSEs in India namely, NMDC Ltd., Power Grid Corporation of India Ltd, NTPC (National Thermal Power Corporation), ECIL (Electronic Corporation of India Limited), Rastriya Ispat Nigam Limited (RINL) and BDL (Bharat Dynamics Limited). The study covered all cadres of officers (lower, middle and senior level). Although no sector specific limits have been identified for the study as many as 155 executives were surveyed to know about their perception towards PRP based on a structured questionnaire. The response rate was 60%.The Convenience sampling technique was

used and the data was collected during the period of July 2012 to December 2012. Basic descriptive statistics have been used to represent the data col-

lected. There were 12 statements that were posed to the executives of CPSEs below board level and the responses are summarized in Table 1.

Table 1 Perception of Executives Regarding PRP in Select CPSEs in India (%)

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
Performance is adequately rewarded in my organization	7.2	15.8	25	40.1	11.8
My organization has a transparent Performance Management System(PMS)	7.3	14	29.3	40.7	8.7
My organization has a robust PMS	9.4	61.1	34.9	33.6	6
The PMS is developmental in nature	3.4	14.2	29.1	48.6	4.7
KPAs (Key Performance Areas) / KRAs (key result areas) are set by mutual consent of me and my reporting officer	4.9	12.6	25.9	43.4	13.3
Performance measures are reasonable	4.7	13.4	23.5	50.3	8.1
Performance measures are objective	3.4	11	28.8	49.3	7.5
KRAs/KPAs are challenging	3.4	10.3	36.3	38.4	11.6
Grading System differentiates performers to non- performers	5.4	12.1	33.6	39.6	9.4
Introduction of PRP has motivated me to perform better	5.3	15.2	28.5	38.4	12.6
I am Satisfied with the PMS of the organization	8	15.3	25.3	44	7.3
I am satisfied the way PRP is implemented in my organization	9.3	15.2	25.2	41.1	9.3

A large percentage of employees are satisfied with the way PMS and PRP is implemented in their organizations.

It is clearly evident that a good percentage of executives agreed to have a transparent and robust PMS along with an agreement on KRA/KPAS being set mutually and also KRAs/KPAs being challenging and objective. Good percentage agreed that their performance is rewarded and the grading systems in their organizations differentiate performers from non-performers. A large percentage

of employees are satisfied with the way PMS and PRP is implemented in their organizations.

Satisfaction towards PMS has been an objective, transparent and robust indicator. However, organizations cannot successfully implement PRP practices in their organizations, and it is the most important prerequisite.

The other important evidence from the data which calls for some serious action from the management is regarding the need for more information towards the newly implemented PMS and

PRP systems. That a considerable percentage of executives have expressed a neutral response should be a cause of concern to their organizations. These organizations need to communicate as well as educate the advantage and benefits of the new system as well as take initiatives towards institutionalization of these newly implemented systems by the employees.

Challenges of Implementation

Efficacy of a program also depends on the quality of implementation.

implement performance related pay program. Such programs require managers to mutually set KPAs/KRAs, rate employees and deliver critical feedback. Organizations often fail to assess what new skills will be needed and to provide appropriate training prior to implementing performance related pay. Thus reviewing officers need sufficient training and sensitization before implementation of such program.

Reviewing officers need sufficient training and sensitization before implementation of such program.

1. *Communicating the PRP practices:* PRP design is only part of the problem because the efficacy of a program also depends on the quality of implementation, and managers often underestimate the challenges associated with execution. One continuing challenge has to do with communication about how the program works and what is required to achieve rewards. From the present study, it is clearly found that a significant 28.7 percentage of the respondents have neutral opinion, one of the reasons could be lack of information. Organizations need to invest more time to communicate and help employees understand the reasons for it and how it was designed to work.
2. *Training of reviewing officer:* Another problem that often receives insufficient attention is the match between current managerial skills and the skills necessary to effectively
3. *Issues of transparency and fairness:* It is widely believed that the performance of public sector can be improved by differentiating between high performers and low performers. Differentially rewarding employees according to performance becomes a powerful tool to enhance public sector performance. The above assertions have been validated empirically by different studies conducted by independent researchers and institutions like the World Bank and OECD and also cited in literature. There are also number of instances where performance measurement systems have failed to provide desired results and have been reduced to another mechanical, form filling activity. India's own case of ACRs (Annual Confidential Reports) has been one of the clear examples, which has eventually failed to distinguish between performers and non-performers.

PRP practices are implemented with the idea of differentiating talent with the objective of rewarding performance. In a system which follows a bell curve approach, the very basis of differentiating should be based on a system which is transparent and fair. Hence it has to be based on a transparent and robust PMS.

Conclusion & Scope for Future Study

PRP should be designed taking into consideration the management philosophy towards attraction and retention of talent as the very culture of the organization. Implementation of PRP in public sector is a great challenge. But the task of implementation can be made effective if performance-related pay is based on a well designed, holistic, transparent and robust performance management system. PRP system should be implemented with the involvement of employees at all levels, bringing in a system of mutual goal setting and how they can be achieved, incorporating periodic follow-ups throughout the year and ensuring consistent ratings across the organizations. Performance-related pay impacts in terms of improved performance and in the form of bringing in desired change in employee behavior will result only if managers can develop a spirit of fairness in linking performance measures and pay and also developing confidence in the system that performance will lead to desired outcome.

PRP system should be implemented with the involvement of employees at all levels.

There is a tremendous scope for future research in terms of studying the impact of PRP on executives. A framework can be developed to measure the impact of PRP in organizations to understand whether it is fulfilling the very objectives for which PRP is implemented in organizations.

References

- Adams J S (1963), "Toward an Understanding of Inequity", *Journal of Abnormal and Social Psychology*, 67:422-36.
- Cardona, F. (2007), Performance-Related Pay in the Public Service in OECD and EU Member States, OECD SIGMA, Paris.
- IIM Ahmedabad, Synthesis Report on Formulating the Concept, Principles, and Parameters for Performance-Related Incentives (PRI) in Government
- Kiragu, K. & R. Mukandala (2003), Public Sector Pay Reform - Tactics Sequencing and Politics in Developing Countries: Lessons from Sub-Saharan Africa Price-water House Coopers & University of Dar es Salaam, Dar es Salaam, Tanzania.
- Lawler, E. (1971), Pay and Organizational Effectiveness: A Psychological Perspective, McGraw-Hill, New York.
- Maheshwari, Mridul. & Singh, Manjari. (2010), "Organizational Readiness for Performance-Related Pay: Focus on Government of India Employees", *Vikalpa*, 35(1).
- Milkovich, George T. & Alexandra K. Wigdor. (1991), Pay for Performance: Evaluating Performance Appraisal and Merit Pay, Washington, DC: National Academy Press.
- Marsden, David. (2004), "The Role of Performance-Related Pay in Re-negotiating the "Effort Bargain": The Case of the British Public Service", *Industrial and Labor Relations Review*, 57(3): 350-70.

- Marsden, David, & Ray, Richardson. (1994), "Performing for Pay? The Effects of "Merit Pay" on Motivation in a Public Service", *British Journal of Industrial Relations* 32(2): 243-61.
- Marsden, David W.& Ray, Richardson.(1992). "Motivation and Performance-Related Pay in the Public Sector: A Case Study of the Inland Revenue." Discussion Paper No. 75, Centre for Economic Performance, London School of Economics.
- Milkovich, George. & Newman, Jerry (2005), compensation, McGraw Hills.
- OECD (2005), 'Performance Related Pay Policies Across 12 OECD countries: Brief Overview'end_of_the_skype_highlighting
- OECD (2005), Performance-Related Pay Policies for Government Employees, OECD, Paris,
- Perry, Engbers & Jun (2009), "Back to the Future? Performance-Related Pay, Empirical Research, and the Perils of Persistence", *Public Administration Review*, 69:389-405.
- Paarlberg, Laxcn.urie E.& James L. Perry. (2007). "Values Management: Aligning Employee 6780-12sdk'/Values and Organization Goals". *American Review of Public Administration*, 37(4): 387-408.
- Perry, James L. (1986), "Merit Pay in the Public Sector: The Case for a Failure of Theory", *Review of Public Personnel Administration* 7(1): 57-69.
- Straberg, T. (2010). Employee Perspectives on Individualized Pay: Attitudes and Fairness Perceptions, Department of Psychology. Stockholm, University of Stockholm. PhD.
- Second Pay Revision Committee, (2008), The Second Pay Revision Committee Report for the Executives of Central Public Sector Enterprises (CPSEs) accessed at <http://dpe.nic.in/newpayrevision/PayRivision.htm> on 28th Nov, 2010
- Taylor, FW (1911). Principles of Scientific Management ,York: Harper & Row.
- Vro om (1964), Work and Motivation. New York: Wiley.
- World Bank (1999). Civil Service Reform: A Review of World Bank Assistance: Report No. 19211. OECD, World Bank, Washington DC.
- Zahid, Hasnain, Nick Manning, Jan Henryk Pierskalla (2012) Performance-Related Pay in the Public Sector. Policy Research Working Paper 6043