

INTRODUCTION OF MoU SYSTEM IN SLPEs

GOVT. OF ASSAM
DEPARTMENT OF PUBLIC ENTERPRISES
DISPUR : GUWAHATI -6

OFFICE MEMORANDUM

Dated Dispur the 19th January 2005

No. PE. 110/2004/29 : The overall poor performance of the public sector in the State has been engaging the attention of the Government for some time past. Barring a few which are performing well & a very few having improving trends in performance, most of the State Level Public Enterprises (SLPEs) are operating either with severe financial crisis or remaining inoperative. One of the causes of the overall dismal performance of the public sector worldwide has been identified to be lack of authority & accountability. The lack of an appropriate instrument to evaluate performance of the public sector with complex social & financial objectives has therefore led to the concept of Memorandum of Understanding (MoU), followed by evaluation of MoU performance. Autonomy & accountability must go together in the management of the public sector and this is the crux of the MoU policy. The MoU system attempts to bring changes in the quality of management of the public sector. The concept of MoU is based on the principle of management by results & objectives, rather than by controls and procedures and has been used worldwide in the management of public sector enterprises. The introduction of the MoU system in the Central Government Public Sector Enterprises during the year 1987-88 has bore results and an encouraging trend has been noticed. The Governor of Assam is therefore pleased to introduce the MoU system in the SLPEs in the following manner:

- (i) In the first phase, the MoU system shall be introduced in the SLPEs performing well & those improving, from the year 2005-06.
- (ii) The Department of Public Enterprises shall issue a detailed guideline to these SLPEs and the concerned administrative departments within January 2005.
- (iii) The MoU shall be a freely negotiated document between the Government, the owner and the public enterprise and shall highlight obligations of both the parties and enterprise specific.
- (iv) The selected SLPEs will have to submit preliminary draft MoU to the Department of Public Enterprises with copy to the administrative department, within 15th February 2005.
- (v) The Department of Public Enterprises, after preliminary examination of the draft MoU shall place the same before the Task Force to be constituted for the purpose.
- (vi) The Task Force shall finalise the draft MoU within 10th March 2005 and then place the same before the High Level Committee to be constituted for the purpose.
- (vii) The High Level Committee shall approve the draft MoU within 20th March 2005
- (viii) After the approval of the High Level Committee, MoU shall be executed between the Chief Executives of the SLPEs and the Addl. Chief Secretary/Principal Secretary/Commissioner & Secretary/Secretary of the administrative department concerned within 31st March 2005.
- (ix) The Chief Executives of the SLPEs shall submit preliminary self-evaluation reports of the SLPEs to the Department of Public Enterprises within 15th April 2006.
- (x) The Department of Public Enterprises, after necessary examination shall place the self-evaluation reports of the SLPEs before the Task Force within 30th April 2006 for assessment.
- (xi) The Task Force shall place the assessment reports before the High Level Committee for review, acceptance & allotment of grades.

Sd/- R.N.Sharma IAS
Secretary to the Govt. of Assam
Public Enterprises Department

- Copy to:
1. P.P.S. to the Chief Minister, Assam, for kind information of Chief Minister
 2. P.S to the Minister,
HT & S/ Cultural Affairs/ Hill Areas/ AH & Veterinary/ Mines & Minerals/ WPT&BC/
Irrigation/ Soil Conservation/ Urban Development (Housing)/ Transport/ Industries &
Information Technology/ Public Enterprises/ Urban Development/ Education &
Fishery Departments, Dispur
 3. P.S. to Minister of State (Independent)
Power/ Agriculture/ Minority Welfare Development/ Cooperation/ Tourism
Departments, Dispur
 4. P.S. to Minister of State
P&D/ Finance/ Home/ Public Works Departments, Dispur
 5. P.S to the Chairman, Administrative Reforms Commission, Dispur for the information of
the Chairman
 6. Chairman, Committee on State Public Sector Enterprises, Dispur
 7. S.O to Chief Secretary, Assam, Dispur
 8. Addl. Chief Secretary, Industries / Information Technology / Transport Departments,
Dispur
 9. The Principal Secretary, P&D/ WPT&BC / Power / Mines & Minerals / Agriculture/
Urban Development Departments, Dispur
 10. The Commissioner & Secretary, Education/ Cultural Affairs/ Tourism/ Hill Areas / AH
& Veterinary /Finance /Home /Soil Conservation/ HT& S/ Fisheries/ Minority Welfare
Development/ AR & Training / Cooperation Departments, Dispur
 11. Financial Commissioner, Assam, Dispur
 12. The Commissioner & Special Secretary, Public Works Department, Dispur
 13. The Secretary, Irrigation Department , Chandmari : Guwahati 781003
 14. The Accountant General (Assam), Maidamgaon, Beltola, Guwahati 781 029
 15. The Chairman/ Chairman & Managing Director/ Managing Director/ Chief Executive/
Commissioner
 -
 -
 -
 -
 16. The Secretary/Joint Secretary (I)/ Joint Secretary (II)/Deputy Secretary/ Under
Secretary/FA/Director/Adviser (P)/Deputy Adviser (F)/ Jr. Economist/ SO/ MO (M)/
Superintendent, Public Enterprises Department,Dispur
 17. The Superintendent, Assam Govt. Press, Bamunimaidam, Guwahati 781021
for publication in the next issue of the Assam Gazettee.
 18. Website www.dpeassam.nic.in

By order etc.

Sd/- R.N.Sharma IAS
Secretary to the Govt. of Assam
Public Enterprises Department

GOVT. OF ASSAM
DEPARTMENT OF PUBLIC ENTERPRISES
DISPUR:GUWAHATI -6

ORDERS BY THE GOVERNOR

NOTIFICATION

Dated Dispur the 19th January 2005

No. PE. 110/2004/30 : With a view to ensuring the proper application of the concept of Memorandum of Understanding (MoU) for streamlining the functioning of the State Level Public Enterprises (SLPEs) and in pursuance of Government OM No. PE.110/2004/29 ated 19-01-2005, the Governor of Assam is pleased to constitute a High Level Committee (H.L.C) with the following members:

- | | | |
|---|-------|------------------|
| 1. The Chief Secretary, Assam | | Chairperson |
| 2. The Additional Chief Secretary/
Principal Secretary/Commissioner
& Secretary, Planning &
Development Department | | Member |
| 3. The Additional Chief Secretary/
Principal Secretary/Commissioner
& Secretary, Finance Department | | Member |
| 4. The Commissioner & Secretary/
Secretary, Public Enterprises Department | | Member Secretary |

The Committee shall:

- (i) On receipt of the draft MoUs of the concerned SLPEs from the Task Force, approve the same for execution between the Chief Executives of the SLPEs and the Additional Chief Secretary/ Principal Secretary/Commissioner & Secretary/ Secretary of the concerned administrative Departments.
- (ii) On receipt of the assessment reports prepared by the Task Force on the basis of the self-evaluation reports of the SLPEs, take necessary action in the matter of review, acceptance and grading.

The Committee shall meet at such place and time as may be decided and shall follow such procedures/rules for the transaction of business as the Chairperson of the Committee may prescribe. The Committee shall meet at least twice a year.

This will come into force with immediate effect.

Sd/- R.N.Sharma IAS
Secretary to the Govt. of Assam
Public Enterprises Department

Memo No. No. PE. 110/2004/30 -A

Dated Dispur the 19th January 2005

Copy to: 1. P.P.S. to the Chief Minister, Assam, for kind information of Chief Minister

2. P.S to the Minister,
HT & S/ Cultural Affairs/ Hill Areas/ AH & Veterinary/ Mines & Minerals/ WPT&BC/
Irrigation/ Soil Conservation/ Urban Development (Housing)/ Transport/ Industries &
Information Technology/ Public Enterprises/ Urban Development/ Education &
Fisheries Departments, Dispur

3. P.S. to Minister of State (Independent)
Power/ Agriculture/ Minority Welfare Development/ Cooperation & Tourism
Departments, Dispur
4. P.S. to Minister of State
P&D/ Finance/ Home/ Public Works Departments, Dispur
5. P.S. to the Chairman, Administrative Reforms Commission, Dispur for the information of
the Chairman
6. The Chairman, Committee on State Public Sector Enterprises, Dispur
7. S.O to Chief Secretary, Assam, Dispur
8. Addl. Chief Secretary, Industries / Information Technology / Transport Departments,
Dispur
9. The Principal Secretary, P&D/ WPT&BC / Power / Mines & Minerals / Agriculture/
Urban Development Departments, Dispur
10. The Commissioner & Secretary, Education/ Cultural Affairs/ Tourism/ Hill Areas / AH
& Veterinary /Finance /Home /Soil Conservation/ HT& S/ Fisheries/ Minority Welfare
Development/ AR & Training & Cooperation Departments, Dispur
11. Financial Commissioner, Assam, Dispur
12. The Commissioner & Special Secretary, Public Works Department, Dispur
13. The Secretary, Irrigation Department , Chandmari : Guwahati 781003
14. The Accountant General (Assam), Maidamgaon, Beltola, Guwahati 781 029
15. The Chairman/ Chairman & Managing Director/ Managing Director/ Chief Executive/
Commissioner
16. Members Concerned.....
17. The Secretary/Joint Secretary (I)/ Joint Secretary (II)/Deputy Secretary/ Under
Secretary/FA/Director/Adviser (P)/Deputy Adviser (F)/ Jr. Economist/ SO/ MO (M)
& Superintendent, Public Enterprises Department,Dispur
18. The Superintendent, Assam Govt. Press, Bamunimaidam, Guwahati 781021
for publication in the next issue of the Assam Gazettee.
19. Website www.dpeassam.nic.in

By order etc.

Sd/- R.N.Sharma IAS
Secretary to the Govt. of Assam
Public Enterprises Department

GOVT. OF ASSAM
DEPARTMENT OF PUBLIC ENTERPRISES
DISPUR:GUWAHATI -6

ORDERS BY THE GOVERNOR

NOTIFICATION

Dated Dispur the 19th Januaruy 2005

No. PE. 110/2004/31 : With a view to ensuring the proper application of the concept of Memorandum of Understanding (MoU) for streamlining the functioning of the State Level Public Enterprises (SLPEs) and in pursuance of Government OM No. PE.110/2004/29 dated 19-01-2005, the Governor of Assam is pleased to constitute a Task Force with the following members:

- | | | | |
|----|--|-------|------------------|
| 1. | The Commissioner & Secretary,
Department of Public Enterprises | | Chairperson |
| 2. | The Commissioner & Secretary
of the administrative Deptt. concerned | | Member |
| 3. | The Chief Executive of the concerned
SLPE | | Member |
| 4. | The Adviser (Production)
Department of Public Enterprises | | Member Secretary |

The Committee shall:

- (iii) On receipt of the draft MoUs of the concerned SLPEs from the Department of Public Enterprises, finalise the same for placing before the High Level Committee for approval
- (iv) On the receipt of the self-evaluation reports of the SLPEs from the Department of Public Enterprises, prepare assessment reports and place the same before the High Level Committee for acceptance and grading.

The Committee shall meet at such place and time as may be decided and shall follow such procedures/rules for the transaction of business as the Chairperson of the Committee may prescribe. The Committee shall meet at least twice a year.

This will come into force with immediate effect.

Sd/- R.N.Sharma IAS
Secretary to the Govt. of Assam
Public Enterprises Department

Memo No. No. PE. 110/2004/31 -A

Dated Dispur the 19th January 2005

- Copy to: 1. P.P.S. to the Chief Minister, Assam, for kind information of Chief Minister
2. P.S to the Minister,
HT & S/ Cultural Affairs/ Hill Areas/ AH & Veterinary/ Mines & Minerals/ WPT&BC/
Irrigation/ Soil Conservation/ Urban Development (Housing)/ Transport/ Industries &
Information Technology/ Public Enterprises/ Urban Development/ Education &
Fisheries Departments, Dispur
3. P.S. to Minister of State (Independent)
Power/ Agriculture/ Minority Welfare Development/ Cooperation & Tourism
Departments, Dispur

4. P.S. to Minister of State
P&D/ Finance/ Home & Public Works Departments, Dispur
5. P.S to the Chairman, Administrative Reforms Commission, Dispur for the information of the Chairman
6. Chairman, Committee on State Public Sector Enterprises, Dispur
7. S.O to Chief Secretary, Assam, Dispur
8. Addl. Chief Secretary, Industries / Information Technology & Transport Departments, Dispur
9. The Principal Secretary, P&D/ WPT&BC / Power / Mines & Minerals / Agriculture & Urban Development Departments, Dispur
10. The Commissioner & Secretary, Education/ Cultural Affairs/ Tourism/ Hill Areas / AH & Veterinary /Finance /Home /Soil Conservation/ HT& S/ Fisheries/ Minority Welfare Development/ AR & Training & Cooperation Departments, Dispur
11. Financial Commissioner, Assam, Dispur
12. The Commissioner & Special Secretary, Public Works Department, Dispur
13. The Secretary, Irrigation Department , Chandmari : Guwahati 781003
14. The Accountant General (Assam), Maidamgaon, Beltola, Guwahati 781 029
15. The Chairman/ Chairman & Managing Director/ Managing Director/ Chief Executive/ Commissioner
16. Members Concerned.....
17. The Secretary/Joint Secretary (I)/ Joint Secretary (II)/Deputy Secretary/ Under Secretary/FA/Director/Adviser (P)/Deputy Adviser (F)/ Jr. Economist/ SO/ MO (M) & Superintendent, Public Enterprises Department,Dispur
18. The Superintendent, Assam Govt. Press, Bamunimaidam, Guwahati 781021
for publication in the next issue of the Assam Gazettee.
19. Website www.dpeassam.nic.in

By order etc.

Sd/- R.N.Sharma IAS
Secretary to the Govt. of Assam
Public Enterprises Department



CONCEPT
of
Memorandum of Understanding (MoU)

between

State Level Public Enterprises

&

Administrative Departments of Govt. of Assam



with

GUIDELINES

GOVT. OF ASSAM
DEPARTMENT OF PUBLIC ENTERPRISES

JANUARY 2005

WHAT IS MEMORANDUM OF UNDERSTANDING (MoU) ?

Generally it is held that nowhere in the world, the public sector enterprises have been able to fulfill their obligations towards the society and could play the roles expected of them in the economic growth of the countries. The MoU system attempts to bring changes in the quality of management of the public sector. The concept of MoU is based on the principle of management by results & objectives, rather than by controls and procedures and has been used worldwide in the management of public sector enterprises. The concept was evolved as a remedy to the perceived inefficiencies in the public sector. The MoU is supposed to be a freely negotiated document between the Government, the owner and the public enterprise and highlights obligations of both the parties and enterprise specific. In India, the system was introduced in 1987-88 and so far, more than 100 numbers of Central Public Sector Undertakings, out of nearly 240, have executed MOUs. The results are encouraging.

WHY SIGN MoU ?

In comparison to the private sector, in public enterprises, the managers generally do not strain themselves too much in earning profits. The system of rewards & punishments in the public sector is usually independent of the profit earning efforts of the managers and therefore, they prefer risk free decisions. For example, they would prefer to earn interests from fixed deposits rather than in investing the surplus fund in the enterprises, in order to gain more. They are more concerned with the accounting rules & audit procedures, as they may be taken to task for non-adherence to set rules & procedures. The public enterprises having the roles of meeting some social obligations too, have to implement Government policies, for which the Governments set rules, regulations & procedures and assess the performance on the degree of adherence to the set rules & regulations. The corrective step would have been to delegate more powers, but without making accountable, the delegations might get misused. Therefore, autonomy & accountability must go together and this is the crux of the MoU policy.

It is generally believed that the private sector is more efficient. However, the volume of profits determines investment decisions in private sector; social benefits; if any are incidental. On the other hand, investment decisions in creating public sector were based primarily on social cost benefit considerations. But, for evaluating performance of the public sector, the instrument for measuring performance of the private sector i.e. financial profit, was borrowed. Monitoring of performance of public sector through periodical reports in elaborate formats was thought to be an appropriate instrument, but with the passage of time, the number of such reports increased manifold and the Government ended-up controlling more & more of day-to-day functioning of the enterprises, as if some sub-ordinate departmental establishments. The managers found that decisions of managing the enterprises were taken by other people and felt that they should not be made accountable for results, and thus the 'Not me' syndrome crept-in. The lack of an appropriate instrument to evaluate performance of the public sector with complex social & financial objectives therefore led to the concept of MoU, followed by evaluation of MoU performance.

WHAT THE GOVERNMENT OF INDIA HAS EXPERIENCED ?

The Govt. of India finds that the MoU system has:

- Encouraged greater financial performance
- Established result oriented accountability
- Enabled linking of performance to incentives
- Resulted achievement of targets in 80% of the MoU signing Public Sector Undertaking (PSU)s
- Improved overall performance of PSUs
- Improved operational autonomy
- Helped facing competition
- Established greater inter-ministerial co-ordination
- Increased comprehensiveness of long & short term objectives
- Established greater clarity of objectives
- Eliminated / minimized contradictions in objectives
- Eliminated multiple reports & assessments
- Made it possible to evaluate objective performance
- Made Govt. role & contributions clear
- Established greater internal disciplines
- Improved Human Resource Development (HRD), Research & Development (R &D), and Marketing etc.
- Privatized the system of functioning
- Made implementation of social responsibilities meaningful
- Acted as diagnostic tool for reforms eg. Disinvestments, Professionalization
- Made evaluation transparent

WHAT IS THE STRUCTURE OF MOU ?

The MoU incorporates (i) performance information system (ii) performance evaluation system & (iii) performance incentive system and comprises of:

- MISSION OF THE ENTERPRISES
- OBJECTIVE OF THE ENTERPRISE
- COMMITMENTS OF THE ENTERPRISE
- DELEGATION OF POWER
- ASSISTANCE FROM THE GOVERNMENT
- FREQUENCY OF MONITORING & INFORMATION FLOW

MISSION : It is a succinct statement of the organization, the reasons for its existence and business in which the enterprise is engaged.

OBJECTIVES : The objectives incorporated in the MoU

- Are as approved by the Board of Directors/Members, related to the mission, in conformity with the Corporate Plan and listed in the order of priority.
- It covers both quantitative & qualitative Commercial & Non-commercial and static & dynamic aspects of operations.
- All objectives get reflected in the performance matrix, as far as practicable.

COMMITMENTS : This involves the followings:

- o Criteria selection
- o Criteria weight selection
- o Criteria value selection

Criteria selection : According to MoU philosophy, only those criteria are included in the MoU, which are fair to the manager, as well as fair to the State and have been negotiated freely. 'Fair' to the managers implies the criteria which considers the aspects of managerial performance i.e. which are under the control of the managers. Performance criteria are therefore selected carefully and not arbitrarily. These are not fixed parameters and may vary from one enterprise to the other, depending on priorities. Further, criteria selections are such that the parameters chosen measure the performance of the manager and not of the enterprise.

Criteria weight selection: Not all the tasks of successful running of the enterprise are of equal importance. In the interest of clarity of purpose, relative priorities are allocated to the tasks and weights assigned accordingly.

Criteria value selection: In MoU system there is 5 point scale, where 1 represents 'Excellent', 2 represents 'Very good', 3 represents 'Good', 4 represents 'Fair' & 5 represents 'Poor'. On the basis of achievements, parameter-wise grading on the aforesaid scale is made and Composite score is worked-out. The concept of Composite score is the very key concept in the MoU exercise.

DELEGATION OF POWER :

The delegation of power asked for are relevant and related to agreed performance targets.

ASSISTANCE FROM THE GOVERNMENT :

The assistance asked from the Govt. are relevant and related to the agreed performance targets. The obligations should have a direct bearing and affect the performance of the enterprise and their effect on the performance should be quantified. In this connection, it is worth mentioning that as the administrative departments are not the final authorities in the Government and require concurrence of the Public Investment Board; Public Enterprises Selection Board, Planning & Development, Finance Departments etc., the administrative departments may find it difficult to provide the committed assistance timely. But the MoU being between the Enterprise and the Government as a whole, all commitments are honored. As such, all concerned are involved in finalizing the MoU, before it's signing.

FREQUENCY OF MONITORING & INFORMATION FLOW :

The modality of information flow and the frequency of monitoring are clearly mentioned in the MoU, including in the final annual evaluation. The information flow of the enterprise are precise, clear and simple.

HOW MoU PERFORMANCE IS EVALUATED ?

At the end of the year, the achievements of the enterprise are compared with the criteria values and the composite score is determined, which is the key component in the MoU exercise. The scales of composite scores fixed are:

1.0 – 1.5	:	Excellent
1.51- 2.5	:	Very good
2.51- 3.5	:	Good
3.51- 4.5	:	Fair
4.51- 5.0	:	Poor

Example : Say an enterprise has signed an MoU with following commitments.

Criteria	Units	Weight (%)	Criteria value					
			1	2	3	4	5	
			Excellent	Very Good	Good	Fair	Poor	
1	<u>Physical target:</u> Production	TPA	30	400	350	330	315	300
2	<u>Financial target:</u> Profit before tax	Rs. in Lakh	50	90	75	70	65	60
3	<u>Dynamic efficiency</u> Accident per man hour	Nos./ Man hour.	20	0	2	2.5	3	3.5

Supposed that at the end of the year, the enterprise achieved production of 340 Tonnes, with profit before tax at Rs. 82.5 Lakh and the accident rate was only 2.

Evaluation of Composite score

Criteria	Units	Weight (%)	Achievements	Raw-Score	Composite score	
a	b	c	d	e	$f=c \times e$	
1	<u>Physical target:</u> Production	TPA	30	340	2.5	0.750
2	<u>Financial target:</u> Profit before tax	Rs. in Lakh	50	82.5	1.5	0.750
3	<u>Dynamic efficiency</u> Accident per man hour	Nos./ Man hour.	20	2	2.0	0.400
TOTAL		100			1.900	

On the basis of composite score scales therefore; the Enterprise has earned the grade of 'Very Good'.

APPLICATION OF THE CONCEPT OF 'MoU'

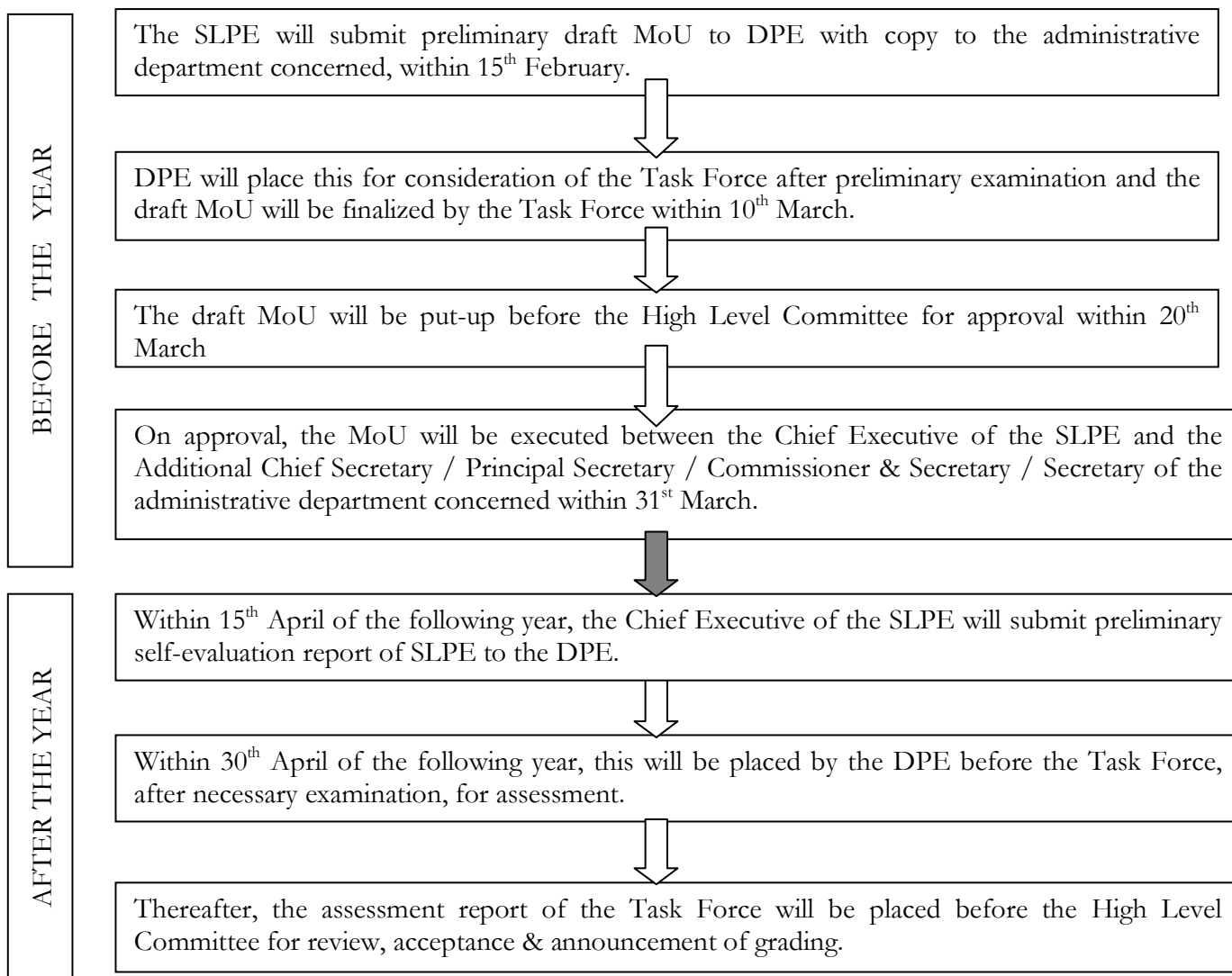
IN

STATE LEVEL PUBLIC ENTERPRISES OF ASSAM

A Task Force is constituted with Commissioner & Secretary, Department of Public Enterprises as the Chairman and Commissioner & Secretary of the administrative department concerned and Chief Executive of the concerned SLPEs as Members and Adviser (P), Department of Public Enterprises as the Member Secretary.

A High Level Committee (HLC) is constituted with the Chief Secretary as the Chairman, Commissioner & Secretary, Department of Public Enterprises as the Member Secretary and Additional Chief Secretary/Principal Secretary/ Commissioners & Secretary of the Planning & Development and Finance departments as Members. The Commissioners & Secretaries of the administrative departments concerned will not be Members of the High Level Committee.

THE PROCESS



MODEL MoU WITH GUIDELINE

[Subject to alterations in terms of guidelines to be issued from year to year]

COVER PAGE

<p style="text-align: center;">MEMORANDUM OF UNDERSTANDING</p> <p style="text-align: center;">BETWEEN</p> <p style="text-align: center;">M/S.....(SLPE)</p> <p style="text-align: center;">&</p> <p style="text-align: center;">.....Department (Administrative department)</p> <p style="text-align: center;">FOR THE FINANCIAL YEAR 20....-0....</p>
--

PREAMBLE : *[One paragraph in brief on creation of the SLPE, capital structure, human resource, performance history including current status, status on finalization of accounts, initiations for improvement/ revival etc.]*

T-I

1. **MISSION** *[It should be a succinct statement of the Enterprise, the reasons for its existence and business in which the enterprise is engaged.]*

2. **OBJECTIVE** *[The objectives of the Enterprise to be stated in brief – one line for each objective. The objectives incorporated in the MoU*

- *Should be approved by the Board of Directors/Members; related to the mission, in conformity with the Corporate Plan and listed in the order of priority.*
- *Should cover both quantitative & qualitative Commercial & Non-commercial and static & dynamic aspects of operations.*
- *Outcome of objectives those measure end results, rather than process objectives those measure the means only, without repetitions & contradictions should only be included. Efforts should be made that all objectives get reflected in the performance matrix].*

- *aaaaaaa*
- *bbbbbbb*
- *ccccccc*
- *ddddddd*
- *eeeeeee*

3. **COMMITMENTS** : [*This involves the followings:*

- *Criteria selection*
- *Criteria weight selection*
- *Criteria value selection*

Criteria selection : *According to MoU philosophy, only those criteria should be included in the MoU, which are fair to the manager, as well as fair to the State and have been negotiated freely. 'Fair' to the managers implies the criteria which considers the aspects of managerial performance i.e. which are under the control of the managers. For example, capacity utilization could be a criterion, since as harder one works, the higher it would be. But, in the enthusiasm of increasing capacity utilization, the regular repair & maintenance may be ignored. This will not be fair to the State, as plants & equipments will wear-out faster. Therefore, performance criteria need to be selected carefully and not arbitrarily. These cannot be fixed parameters and may vary from one enterprise to the other, depending on priorities. Further, criteria selection should be such that the parameters chosen measure the performance of the manager and not of the enterprise.*

- Guidelines* :
- *Only key performance criteria with reference to the priority objectives and enterprise's business operations should form part of the MoU*
 - *Focus should be placed on strategic issues while selecting the performance criteria.*
 - *Repetitive inclusion of physical criteria whose outcome is reflected in the financial criteria should be avoided*
 - *Such relevant performance criteria which measure the enterprises with respect to 'Project implementation', 'HRD', 'R&D', 'Safety', 'Environment', 'Customer satisfaction', 'Quality improvement / ISO Certification', 'Preparing /Updating Corporate Plan', 'Productivity', 'Technology up-gradation', 'Modernization', 'Manpower rationalization', 'Employee skill up-gradation', 'Project implementation' etc. wherever relevant should get reflected in the MoU.*
 - *The selected key performance criteria should cover all the aspects of enterprise's performance (Viz. qualitative, quantitative, commercial, non-commercial, static & dynamic indicators). The method of evaluation should be laid-down in the MoU.*
 - *Social obligations, which may be statutory or voluntary, in the interest of good industrial or neighborhood relations, should not be included in the MoU, unless cast by the Government.*
 - *The criteria should be categorized into (i) Physical targets – parameters on physical performance (ii) Financial targets – parameters on financial performance & (iii) Dynamic Efficiency – such activities where costs are incurred in the present period and benefits accrue in the future **

**Measuring the dynamic efficiency criteria in the MoU has never been an easy task. The tenure of Chief Executives in the public sector is typically short. From their point of view, it makes little sense to bother about the future and this necessitates inclusion of such explicit parameters, which measure long-term concerns of the enterprises. Parameters such as on preventive maintenance, strategy of marketing, customer satisfaction, implementation of projects, preparation of Corporate Plan, Human resource development, Research & Development are some of the Dynamic criteria.*

Criteria weight selection : *Not all the tasks of successful running of the enterprise are of equal importance. In the interest of clarity of purpose, it is necessary to allocate relative priorities and assign weights to the tasks accordingly.*

- Guidelines** :-
- *The performance criteria should be assigned appropriate weights corresponding with their stated priorities in the objectives.*
 - *It should be ensured that they also reflect the perceived relative importance of the various criteria in the judgment of the enterprise/ Government.*
 - *The weight for physical criteria should be kept as low as possible. Instead, efficiency & dynamic criteria should get higher weights. Criteria weight of 50% for common parameters, 30% for dynamic parameters, 10% for Sector specific & 10% for SLPE specific & efficiency parameters are suggested.*
 - *The weight to profitability parameters should take into consideration as to whether the enterprise faces free market competition or a sole operator or Government is the sole customer etc. This weight should be distributed into (i) Gross margin (ii) Gross profit / capital employed (iii) Net profit / Net-worth.*
 - *The enterprises especially set-up for implementing certain Government policy directives will have no pre-determined financial parameters.*
 - *Adherence to prescribed MoU schedule on submission of draft MoU, submission of composite score & signing of MoU will not carry any weight, but their non-compliance would carry penalty of 1 mark each at the time of evaluation.*

Criteria value selection : *In MoU system there is 5 point scale, where 1 represents 'Excellent', 2 represents 'Very good', 3 represents 'Good', 4 represents 'Fair' & 5 represents 'Poor'. On the basis of achievements, parameter-wise grading on the aforesaid scale is made and Composite score is worked-out. The concept of Composite score is a very key concept in the MoU exercise.*

- Guidelines** :-
- *The targets set should be realistic & growth oriented. Setting of soft targets would make a mockery of the evaluation and on the other hand, excessively hard targets, which are virtually un-achievable, would de-motivate the managers.*
 - *It should be ensured that the MoU targets flow from the corporate vision/ Plans formulated by the enterprise and there is linkage between them. In case of any variations, reasons should be specified.*
 - *Budget estimates with respect to each of the performance indicator is the basic target and should be placed in the 'Very good' column i.e. column 2. The budget estimates for the year should indicate an improvement over the budget estimates of the previous year; otherwise it should be placed in column 3 or 4, along with reasons explained as to why it could not be better.*
 - *The difference in targets between 'Very good' & 'Good'; 'Good' & 'Fair', and 'Fair' & 'Poor' columns should be uniform, generally around 5% and that between 'Excellent' & 'Very good' should be significantly higher, around 15%.*
 - *All the performance targets should be firm & un-conditional usually, and based on reasonable assumptions in regard to the conditions in which the enterprises are likely to operate, having regard to the past experience; and conditions / stipulations, if any will be accepted only in exceptional cases. Force majeure circumstances, unforeseen developments of exceptional and significant nature, natural calamities etc. only should be accepted for adjustments, that too of limited number.*
 - *Comparable data for the earlier 5 years with projections for following 5 years and details regarding the financial parameters should be submitted with the draft MoU as Annexure.*

Criteria	Units	Weight (%)	Criteria value					
			1	2	3	4	5	
			Excellent	Very Good	Good	Fair	Poor	
1	<u>Physical targets:</u> • mmmm • nnnnnn • oooooo							
2	<u>Financial targets:</u> • pppppp • qqqqqq • rrrrrrr							
3	<u>Dynamic efficiency</u> • ssssssss • tttttttt • uuuuuuu							
TOTAL		100						

4. DELEGATION OF POWER :

[The delegation of power asked for should be relevant and related to agreed performance targets.]

5. ASSISTANCE FROM THE GOVERNMENT :

[The assistance asked from the Govt. should be relevant and related to the agreed performance targets. The obligations should have a direct bearing and affect the performance of the enterprise and their effect on the performance should be quantified. In this connection, it is worth mentioning that as the administrative departments are not the final authorities in the Government and require concurrence of the Public Investment Board; Public Enterprises Selection Board, Planning & Development, Finance Departments etc., the administrative departments may find it difficult to provide the committed assistance timely. But the MoU being between the Enterprise and the Government as a whole, all commitments should be honored. As such, all concerned are involved in finalizing the MoU, before it's signing]

6. FREQUENCY OF MONITORING & INFORMATION FLOW :

[The modality of information flow and the frequency of monitoring should be clearly mentioned in the MoU, including the final annual evaluation. The information flow of the enterprise should be precise, clear and simple]

=====XXXXXXXX=====