C.P.U. No. 924

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THIRTY FIRST REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(2008-2009)

(FOURTEENTH LOK SABHA)

HINDUSTAN PETROLEUM CORPORATION LIMITED – UNPRODUCTIVE PAYMENT OF INCENTIVE

MINISTRY OF PETROLEUM AND NATURAL GAS

Presented to Lok Sabha on 16-12-2008

Laid in Rajya Sabha on 16-12-2008

LOK SABHA SECRETARIAT

NEW DELHI

December 2008 / Agrahayana 1930 (S)

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* Ceased to be Member of the Committee consequent on his retirement from Rajya Sabha w.e.f. 25.11.2008

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to present the Report on their behalf, present this Thirty First Report on “Hindustan Petroleum Corporation Limited – Unproductive payment of incentive” – unproductive payment of Rs. 76.26 crore.

2. The subject was selected for examination by the Committee on Public Undertakings (2008-2009). The Committee’s examination of the subject was based on Paragraph 14.4.1 of the Report on Union Government (Commercial) of the C&AG of India No. 11 CA of 2008.

3. The Committee took oral evidence of representatives of the HPCL on 2nd June, 2008. Thereafter, the Committee obtained the replies of the Ministry of Petroleum & Natural Gas to a list of questions.

4. The Committee on Public Undertakings (2008-09) considered and adopted the Report at their sitting held on 2nd December, 2008. The Committee feel obliged to the Members of the Committee on Public Undertakings (2008-09). They would also like to place on record their deep sense of appreciation for the valuable assistance rendered to them by officials of Lok Sabha Secretariat attached to the Committee.

5. The Committee wish to express their thanks to the Ministry of Petroleum and Natural Gas and Hindustan Petroleum Corporation Limited for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Hindustan Petroleum Corporation Limited who gave evidence and placed their considered views before the Committee.

6. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in Part-II of the Report.

New Delhi
2 December, 2008
11 Agrahayana, 1930 (S)

RUPCHAND PAL
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS

PART A

A. Overview

1. Para No. 14.4.1 of Comptroller & Auditor General's Report (Commercial) No. CA 11 of 2008 contained an observation highlighting payment of unproductive incentives to employees of Hindustan Petroleum Corporation Limited. As per the audit observation, inapt implementation of a new incentive scheme on the basis of performance already attained by employees and paid for under an existing incentive scheme led to avoidable payment of unproductive incentive of Rs. 76.26 Crore.

2. The main contentions made in the audit observation are: -

(i) Productive Incentive (PI) Scheme for payment of incentive on attainment of specific milestones as per applicable parameters was introduced in 1983, subject to ceilings for two categories of employees of HPCL viz., (a) employees eligible for profit sharing bonus and (b) employees not eligible for such bonus.

(ii) Performance Linked Incentive (PLI), another incentive scheme was introduced again in 1991 for employees not eligible for profit sharing bonus.

(iii) The company introduced a third incentive scheme, namely, Performance Related Incentive (PRI) scheme in April 2006 retrospectively from the financial year 2004-05. This scheme was justified on the basis of DEP guideline increasing the limit for payment of performance linked incentives to 50% of basic pay and five percent of distributable profit of a PSE, effective from 1 January 1997, and the fact that payments made under the two existing schemes are well below such limit.

(iv) The Parameters for the PRI scheme were performance of Strategic Business Units (SBUs) at the first level and team performance for all employees at the second level. But the payment of incentive for the year 2004-2005 and 2005-06 under the scheme were made by the Company, adopting parameters for the PI scheme. Further, on finding that the limit of 50% had not been reached in the years 2002-2003 and 2003-04 also, the Company in October, 2006 decided to further extend the retrospective implementation to cover those two years as well as. As a consequence, incentive payments of Rs. 19.55 crore, Rs.23.91 crore, Rs. 16.30 crore and Rs. 16.50 crore for the years 2002-03, 2003-04, 2004-05 and 2005-06 respectively were made under the new PRI scheme, amounting to a total payout of Rs. 76.26 crore.

(v) Audit had in March 2007 observed that payment of incentive under PRI scheme, having a distinct set of parameters, by adopting parameters applicable to the existing PI scheme was irregular, amounting to releasing of double payment for the same performance by the employees and exceeding the ceiling prescribed under the PI scheme.

(vi) Further, retrospective implementation of incentive scheme cannot be expected to motivate the employees for better performance than what had already been achieved and rewarded, thus resulting in payment of unproductive incentive.

(vii) The Management of the company in their reply stated the introduction of the PRI scheme had its genesis in the Justice Mohan Committee Report and that while the distribution of PRI effective from the year 2006-07 among various SBUs would be carried out in line with their respective performance against targets, for the period prior to April 2006, it could only be linked with parameters set in the then existing scheme, i.e., Productive Incentive. It further stated that the Board approved (October 2006) implementation of PRI for 2002-03 and 2003-04, as PI was restricted to 15 percent as per DPE guidelines.

(viii) The Ministry endorsed the reply of the Management (August 2007), justifying the payment of new incentive with retrospective effect stating that the petroleum sector was liberalized effective from 2002-03 and oil PSUs have to aggressively compete in the market to retain their market share and to sustain growth.

(ix) Audit found the reply untenable. Justice Mohan Committee stressed the necessity to ensure that incentives be related more to performance and profits of the companies than it was at present, further observing that performance related payments in PSUs existed only in form and not in substance. By rewarding the employees under PRI for parameters achieved and already awarded under PI amounts to rewarding in form and not in substance. Further, retrospective extension of the scheme from 2002-03 on the ground of liberalization and competition for market share was not justified as there was virtually no competition in the retail and LPG segments that constituted 70% of the company's total turnover and in view of the existence of subsidy scheme.

(x) According to the Audit, the manner in which PRI scheme had been implemented was not in the best financial and professional interest of the company and appeared to be aimed at exhausting the distributable amount of profits made available by the new DPE guideline, resulting in unproductive payment of Rs. 76.26 crore.

B. Incentive Schemes in HPCL

3. The Committee asked to furnish the salient features of the three incentives Schemes in vogue in the company, HPCL in their reply wrote:

"Currently, there are following three schemes in vogue in HPCL, out of which Productivity Incentive & Performance Linked Incentive schemes are based on the guidelines given by the Ministry and was introduced way back since 1982-83. Performance Related Incentive has been introduced effective 2004-05 and was made applicable for the previous two years i.e. 2002-03 and 2003-04.

a) Productivity Incentive Scheme

This scheme was introduced in the year 1983. This scheme is based on the guidelines given by the Ministry of Energy, Department of Petroleum, Government of India. Productivity is determined based on the various components of Marketing and Refinery activities and marks are being allotted for each component to arrive at the total score for the respective activity. Considering the total marks, the incentive percentage is fixed for the respective financial year.

b) Performance Linked Incentive

This payment is in lieu of bonus. The salary is calculated @ Rs.2500/- per month. The total amount payable under the scheme is calculated at a max. of 20% and the maximum payable is Rs.6000/- per year , which is same for all employees .The various parameters are fixed for achieving rating for performance of the Corporation. The rating for the purpose of calculation of PLI is being determined by the MOU score arrived at by adding the weighted criterion value representing performance achieved in a financial year compared to objectives in respect of each value allotted ingredient.

c) Performance Related Incentive

In addition to the Productivity Incentive and Performance Linked Incentive that have been in vogue for quite some time in the oil industry and in line with action taken by other industry members, the Board of HPCL has also approved Performance Related Incentive (PRI) scheme related to distributable profit as recommended by Justice Mohan Committee initially effective from the financial year 2004-05, which was subsequently extended for the years 2002-03 and 2003-04. There have been repeated demands from the Officers' Associations in the industry for development of Incentive Schemes, which will ensure profit sharing as envisaged in the Justice Mohan Committee Report. Officers' Associations have been demanding for profit sharing effective 1.1.1997 based on Justice Mohan Committee recommendations. As a result of this, an industry consensus was arrived at with consultation with the Ministry of Petroleum & Natural Gas for development of suitable incentive schemes in the concerned oil companies which was made effective from 2004-05.

As per the scheme effective 2006-07 performances of the major SBUs in the Corporation is judged against targets set at the beginning of the year. In line with such parameters/measured performance, PRI is paid to all employees based upon individual salary grades. "

4. During evidence, representatives of HPCL further elaborated on the distinguishing features of the three incentive schemes as reproduced below.

"Sir, there are three types of incentives currently in vogue. One is productivity incentive. The scheme has been in vogue since 1983. it was introduced by the Government. There are specific parameters for marketing and refineries. The maximum productivity incentive payable is 15 per cent of the salary. The second incentive scheme, which is in vogue, is called performance linked incentive. It was also introduced by the Government. It is in lieu of bonus. The actual amount payable comes to Rs. 6,000 only for every employee. The other incentive that was introduced is the performance related incentive. It is borne out of the Justice Mohan Committee Report at the time of the last pay revision in 1997.

Based upon it, the DPE issued a circular in 1999. There was a clarification in 2000. it talks about two things. First of all, it says that the total perquisites, which include the incentives, should not exceed 50 per cent of the basic. If it exceeds, the same has to be within five per cent of distributable profit. The performance related incentive was introduced, and the scheme envisages fixing of the targets at the beginning of the year for each team, that is, each strategic business unit, and then looking at the end of the year the performance related to targets and based upon that, the schemes have been introduced.

First of all I want to say that we have been following this particular thing, namely, targets vis-à-vis performance, since 2006-07. This was also introduced for the year 2005-06 and for the previous years, 2002-03, 2003-04 and 2004-05. This incentive was paid. In the absence of the targets specifically fixed, which we could do from 2006-07, the criteria for productivity incentive, which is a Government approved criteria, has been taken for the purpose of payment of the performance related incentive for the years 2002-03 to 2005-06. That is how it was done."

C. *Rationale for introduction of PRI Scheme*

5. Explaining the need behind the introduction of the PRI scheme, the company in their post-evidence reply stated;

> "With regard to need for introduction of PRI scheme, since the salary and benefits in private sector are high compared to their counterparts in public sector oil companies, there were more resignations from officers from 2005 onwards. Under these circumstances, a need was felt to introduce a new rewarding scheme to motivate employees and retain them in the organization. APM was removed in the year 2002. The Oil Sector Officers Association (OSOA) was demanding for an incentive scheme to reward the officers in a changed scenario to motivate them and retain them. Accordingly, downstream oil companies have introduced incentive scheme for employees for their excellent performance in line with DPE guidelines."

6. The Committee desired to know whether the scheme was made available to all employees and whether the principle of equity and social justice had been adhered to in distributing the payout. The company in their post evidence reply stated as follows;

> "As per Justice Mohan Committee recommendations, PRI should be paid only to the management employees. However, in order to recognize the contribution made by non-management employees and also for a peaceful industry climate in the organization, it was decided to share the PRI with non-management employees, even though there were certain objections from the officers' association. Accordingly, discussions were held with Unions for quantum of payment of PRI to them. The comparable level between the highest non-management and the entry-level officer trainees (Management Cadre), the difference is not much. As done in the case of management employees, the non-management employees were also paid PRI based on the salary grades and unions are generally happy about the payment of PRI made to non-management employees. The salaries and benefits paid for non-management employees in HPCL and other oil sector companies are comparatively better and higher than the counterparts in private sector whereas the salaries and benefits for officers in HPCL and other oil sector companies are far lesser than their counterparts in private sector."

7. Explaining the rationale for the introduction of the PRI scheme during evidence, the CMD of HPCL stated;

> "The first problem that we are facing is very well-known. This is the problem which is caused by the under recoveries in the selling of petroleum products – four major projects, petrol, diesel, kerosene and LPG – on which we are losing something like Rs. 115 crore per day approximately….The second problem that we are currently facing for the last three to four years has been the large-scale resignations of our experienced people in the Company. This

is also, to some extent, related. During the current year, at least, it is related to the profitability of the Company as well. During the exit interview, we have been talking to them as to why they have been resigning. One of the major reasons of the people resigning from the company is actually because of the comparatively lower salary vis-à-vis the other opportunities, which they get in the Middle-East countries and also in other parts…. Sir, this was the main issue. The problem of exodus from the company is because of the higher salary elsewhere. During the exit interview we had asked them: "Is there any other issue, which is affecting? Why are they leaving?" They said: "No. Just because they are being offered high remuneration, they are leaving." They actually thanked us for the kind of training that is given by the company and things like that. We have been representing this matter to our Ministry for a very long time. This matter gets discussed in the Board of the company as well as, as to how we can stop this exodus. So, we were always looking at the opportunities of pay, any kind of remuneration or incentives to our experienced colleagues. This is where the whole issue starts."

8. On the ministry's endorsement of HPCL's reply to the C&AG that introduction of the new incentive scheme was necessitated by the need to combat aggressive competition posed by the new entrants in the business in the post APM regime, the Committee desired to know how the ministry justified the scheme given the fact that HPCL is mainly in marketing business where no private player entered in a big way. The ministry in their reply stated;

"The incentive given was based not only on performance of Marketing segment but the performance of other SBUs including Refineries. Further, since the salary and benefits in Private Sector are high compared to their counterparts in Public Sector Oil Companies and as there were more resignations from officers, a need was felt to introduce a new rewarding scheme to motivate employees and retain them in the organization. Accordingly, down stream oil companies introduced incentive scheme for employees for their excellent performance in line with DPE guidelines."

9. The Committee also desired to know the attrition figures in HPCL since the introduction of the new incentive scheme. In their post-evidence reply, the stated;

"….470 officers have resigned in last four years i.e., 2004-05, 2005-06, 2006-07 and 2007-08."

10. On whether the ministry has any mechanism to monitor the various incentive schemes framed and implemented by the oil PSUs, the ministry replied;

"Board of concerned oil companies is the final authority for approving such schemes within the framework of DPE guidelines. All these schemes are more or less similar in all Public Sector Oil Marketing Companies."

D. Retrospective Implementation of Incentive Scheme

11. To a question as to how management can justify retrospective payment of incentive, that too, over and above an existing incentive scheme for rewarding performance which had already been achieved and rewarded, the company replied stating;

> "As per DPE guidelines, the Productivity Incentive is restricted up to a maximum of 15% of a salary. Based on continuous representation of Oil Sector Officers Association members to industry to share the profits, the oil industry members including HPCL obtained Board approval for extension of the PRI Scheme for the years 2002-03, & 2003-04 as an additional incentive for achieving the new targets emerging out of the new challenges. It may be mentioned that due to employment opportunities available in India and abroad, many officers were resigning and leaving oil sector industry and there was no other way to motivate officers and retain them in the organization and also due to wide disparity in the wages between PSU offices and corresponding private sector, it was felt by industry members that there should be a scheme to motivate officers to perform better and retain them in the organization. As per DPE guideline OM No.2 (49)/98-DPE (WC) dated 25.6.1999, clause no 12 states that payment of perquisite and allowances may be made up to a maximum of 50% of the basic pay and payments over and over the ceiling of 50% should be entirely in the nature of performance related payments which should not exceed 5% of the distributable profits in an enterprise. As stated in reply to our question no. 1, PRI includes the criteria of performance level, which has been adopted from the year 2006-07. As regards 2002-03 to 2005-06 the parameters adopted for PI has been taken as a transitory measure and distribution of PRI for this period has been based upon the parameters applicable for PI since we cannot lay parameters for the past period."

12. Explaining the extension of the scheme for the previous years during evidence before the Committee, a representative of the company stated;

> "Basically, the reason for extension of this scheme for the previous years has been that it was felt that the productivity incentive and performance linked incentive that were paid is not motivation enough for the officers"

13. On whether basing the retrospective payment of PRI scheme based on parameters of PI scheme, payments under which have already been made would not amount to double payment, the company replied thus;

> "The scheme of PRI was born out of profit sharing concept introduced by Industry Members and adopted by DPE which is entirely different in nature from the PI/PLI schemes. With the business expansion and globalization in the recent years, the new parameters /targets focusing on customer satisfaction have been emerged and a need has arisen to introduce new

incentives to employees for better individual/ SBU wise performance to compete with the new entrants in the business.

In order to motivate the employees for focused performance towards growth and profitability of the Corporation, it was essential to introduce the concept of profit sharing Thus the new scheme does not tantamount to releasing the double payment of same performance but should be treated as an additional incentive for the employees performance."

14. On whether there is a requirement for governmental approval of such incentive schemes, and if so, give details and whether the PLI and PRI schemes were approved by the Government, the company stated in their reply;

"The PI/PLI schemes were introduced based on Ministry of Petroleum & Chemicals, Dept. of Petroleum & Natural Gas guidelines received in 1991. The PRI payments are based on the guidelines specified under Para 12 of DPE OM NO.2 (49)/98DPE(WC) dated 25th June 1999 and the same has been approved by the Board."

15. On why the new PRI scheme was implemented retrospectively in the absence of any specific parameters for adjudging the employees' additional contribution towards productivity under the new scheme and on the basis of the already achieved parameters of an existing scheme, the management replied;

"With the decontrol of retail trade which forms the major portion of petroleum market, effective 2002-03, the entire petroleum marketing was liberalized and it paved the way for entry of private players in a big way. PSU oil companies have to aggressively compete in the market effective 2002-03 to retain their market share, develop the retail outlets and sustain growth. This involved considerable efforts by the employees since 2002-03 as compared to previous years of APM regime and employees' efforts put in during this period needed to be recognized by a suitable additional incentive. The current incentive schemes (PI / PLI) which were based on the Ministry guidelines, were not enough to reward employees for their excellent performance / achievements in the various activities with regard to expansion of Corporation's business. Management therefore took a conscious decision to give an incentive in appreciation of the high performance achieved considering that the challenging targets fixed for these years was very high and the incentive paid was very low compared to the achievements made against the targets. In order to boost the employees' enthusiasm for future achievements, an industry consensus was arrived in consultation with MOP&NG for development of suitable incentive schemes with effect from the year 2006-07 and the same to be made applicable to the previous years i.e. 2002-03 to 2005-06."

16. The Committee addressed the above query to the ministry of Petroleum and Natural Gas as well. The ministry in its reply stated;

"In April 2006, Board of Hindustan Petroleum Corporation Limited (HPCL) had approved a new incentive scheme titled Performance Related Incentive (PRI) Scheme for all employees. In addition to the existing schemes of Performance Incentive (PI) and Performance Linked Incentive (PLI), effective from the year 2004-05.

2. With the dismantling of Administered Pricing Mechanism (APM) effective from 1.4.2002, the marker of petroleum products was opened for private companies also. This opening up also brought severe competition. PSU oil companies had to aggressively compete to retain their market share, and develop their retail outlets for sustainable growth. This involved considerable efforts by the employees since 2002-03 as compared to previous years of APM regime and employee's efforts put in during this period needed to be recognized by a suitable additional incentive.

3. The present reward was, therefore, given to employees for their continuing excellent performance/achievements in regard to expansion of Corporation's business. The Board, therefore, took a conscious decision to give an incentive in appreciation of the high performance achieved.

4. In order to boost the employees enthusiasm for future achievements, an industry consensus was arrived at for development of suitable incentive schemes. In a meeting of downstream oil companies, it was decided to introduce a scheme in addition to the existing benefits available to employees under the then existing PI/PLI.

5. Keeping in view the above facts, the introduction of Performance Related Incentive Scheme retrospectively was considered appropriate, since the achievements were excellent against the high targets fixed for these years."

17. On how the management would justify rewarding past performance, which stood achieved and already rewarded, to be in the interest of the Company, the reply of the company stated;

"As already stated supra there is a wide disparity among the salary and benefits paid to PSU oil sector officers and their counterparts in private sectors, which led to attrition of considerable number of employees of the organization. There is no other way they could be compensated, since the wage revision period would expire only in December 2006. As there was consistent representation from the officers association for introduction of new incentive scheme which will motivate employees to improve their performance, leading to profitability of the Corporation, a new PRI Scheme had to be introduced with different parameters from PI /PLI. Basis above in line with the industry members Board has approved PRI scheme which was implemented effective 2004-05 and the new parameters were implemented effective 2006-07."

18. Asked as to why the ministry did not intervene against the retrospective implementation of the PRI scheme based on parameters of an existing scheme against which the performance of the employees had already been measured and rewarded, the ministry in their written reply stated;

> "Since 2006-07, the PRI scheme is being implemented amongst various Strategic Business Units (SBUs) according to their respective performances against set targets. Regarding the period prior to April 2006 viz. the years 2004-05 and 2005-06, the PRI scheme could only be linked with the parameters set against the then existing scheme viz. Productivity Incentive Payments were made to concerned employees after taking Board approval. Post APM, new challenges faced by oil sector organisations were extremely compex and tough. In order to motivate employees and retain the talent, the Incentive Scheme was extended to earlier years by the Board of HPCL, which is the final approving authority in this regard."

E. Delay in introduction of PRI and evolving parameters of the scheme

19. In view of the fact that DPE guidelines issued in 1999 have provided for evolving a new incentive scheme with revised limits of 50% of basic and up to 5% of distributable profit towards payment of incentives to employees, the Committee desired to know why the management delayed introducing the PRI scheme till April 2006. In reply, the representative of the company during evidence before the Committee stated;

> "Sir, the Justice Mohan Committee report's period was effective from 1.1.1997 onwards. But, actually, by the time the report was in and it was sent to us as an oil company, it was past 1999 almost and it was in the year 2000. From 2000 onwards we started looking at various possibilities for developing a different set of parameters for doing this. These parameters are normally done in discussion; we have a management association as well plus we discuss with the other oil companies as well, so that whatever we do in the industry, there is some kind of parity—though not exactly the same. So, by the time we actually came to do something, two years had gone by because there was no proper agreement on this. But then there was tremendous demand for payment of this as well. So, we decided that since there is a Government formula available by which we are already giving one set of incentive, we said to start with, we would do that. On the basis of that we started doing that based on the PI which is already there, the productivity incentive which is already there. So, we started out the first year like that.
>
> Next year, we started modifying it based on our experience and every year it has been changed. In fact, for the year 2006-2007 it came into a three-stage formula by which the profit of the company, of course the five per cent distributable profit is taken into account, the profit of the SBU, strategic business unit, also started taking into account. For the year 2007-2008, the Board desired to add another parameter which is the individual performance

rating also. So, we were evolving over a period of time. But, I do agree, when we started the first time, it was based on the parameters, which were originally given by the Government. Because that was a Government-given parameter, we thought it was the safest thing to start with and it is continuously evolving."

20. On the issue of delay in evolving parameters for PRI scheme and the consequent resort the company took to utilizing parameters of the PI scheme, the company in their post-evidence reply submitted thus;

"With regard to the parameters of Performance Related Incentive Scheme, due to the reasons stated above, the Board approval was sought by Management for introduction of Performance Related Incentive in March 2006. Therefore Productivity Incentive parameters were taken as base for Performance Related Incentive up to 2005-06. However, effective 2006-07, specific parameters are fixed for making PRI payment. At the beginning of the year the target has been fixed strategic business unit wise and the payments are made based on the target received at the end of the year. Similarly, for the year 2007-08, the targets are fixed SBU wise."

21. While replying to the Committee's query regarding measures taken to avoid retrospective payment of incentives in future, the company merely stated that all future incentive schemes would be introduced after approval by the board and they have not given any commitment that incentive schemes would be implemented prospectively on the basis of pre-evolved and pre-declared parameters. Asked what corrective steps the ministry would contemplate to avoid unproductive payments of incentives retrospectively, the ministry in their reply stated;

"As per the minutes of the Board Meeting for introduction of subject incentive scheme, it is clearly stated that in future such payments will be made based on the actual performance against the targets set at the beginning of the financial year for each SBUs in the subject years. Accordingly, effective 2006-07, PRI payment is made based on the actual performance achieved against the target set at the beginning of the year by the various SBUs.

2. Downstream Oil Sector Companies have introduced/modified the existing scheme and paid more or less similar amounts to their employees based on the PI parameters for the past periods. Therefore, it was the decision of the HPCL Board to reward the employees with suitable incentives for their efforts during post APM period and in order to retain the talent."

PART B

Observations and Recommendations

Recommendation

Delay in formulation and implementation of PRI scheme

The Committee note that HPCL in 2006 introduced an incentive scheme, namely, the Performance Related Incentive (PRI) scheme. This new scheme was in addition to the two already existing schemes viz., the Productivity Incentive (PI) scheme and the Performance Linked Incentive (PLI) scheme. This scheme in question was justified on the basis of DPE guideline increasing the limit for payment of performance linked incentives to 50% of basic pay and five percent of distributable profit and subject to the condition that payments made under the two existing schemes are well below such limit. The Committee further note that the PRI was made effective retrospectively from the year 2004-05 and later extended to include the years 2002-03 and 2003-04. As a consequence, incentive payments of Rs. 19.55 crore, Rs. 23.91 crore, Rs. 16.30 crore and Rs. 16.50 crore for the years 2002-03, 2003-04, 2004-05 and 2005-06 respectively were made under the new PRI scheme, amounting to a total payout of Rs. 76.26 crore. In this regard, the Committee note that since the parameters for determining the payment under PRI scheme would have been evolved only after the scheme was introduced in 2006, the Board of HPCL decided to use the parameters of the PI scheme for payment of incentives under PRI for the years 2002-03 to 2005-06.

As per the Audit objection, the payment of incentives retrospectively for the years 2002-03 to 2005-06 using the performance parameters of PI scheme, instead of PRI Scheme was irregular since the objectives of the two schemes were entirely different and tantamounts to releasing of double payment for the same performance thereby resulting in unproductive payment of incentive. Further, implementation of scheme retrospectively cannot be expected to motivate employees for the performance already achieved and rewarded.

The Company, however, has tried to justify their act by stating that the PRI scheme was introduced primarily to utilize the provisions of the revised guidelines to address the inadequacy of the two existing schemes to fairly reward the performance of employees in meeting the stiff targets set for them especially since 2002-03 in view of the dismantling of the Administered Price Mechanism (APM) in Oil sector and the emerging competition from the private players. Besides, the scheme was also aimed at containing the high attrition rate evident since 2005 due to a wide disparity among the salary and benefits paid to employees of public sector oil companies and their counterparts in private sector.

The Committee are not convinced with the justification furnished by the Company on the Audit objections in respect of the PRI Scheme. The Committee feel that the PRI Scheme should have been operationalised soon after the revised guidelines for the payment of perquisites and allowances were issued by DPE in 1999. In the opinion of the Committee, the management, despite having the necessary autonomy to pre-empt the

undesirable occurrence of high attrition among its experienced employees, had failed to initiate timely action to compensate them at comparable levels through a proactive introduction of permissible incentives. The Committee recommend that the company should in future take proactive steps to motivate and retain its workforce rather than engage itself in repair work often involving questionable methods such as the utilization of performance parameters of one scheme to pay incentives under another scheme.

As regards giving of retrospective effect to the implementation of the PRI scheme, the Committee note that both HPCL management and the Ministry concurred in justifying the decision based on the need to reward the appreciable performance rendered by the employees since the end of the APM regime in 2002-03 and the inadequacy of the existing limits of incentives to adequately reward such performance. While appreciating the argument, the Committee reiterate that in view of the fact that DPE guidelines have provided for the implementation of such a scheme as early as 1999, the justification put forth by the management and the ministry are at best an attempt to cover up inefficiency in timely introduction of the scheme. Further, the Committee are in concurrence with audit's observation that payment of incentives under PRI scheme based on performance parameters of the PI scheme, which stood attained and rewarded technically amounts to unproductive payment, for incentive schemes are by nature meant to motivate future performance based on defined parameters and should not be utilized to exhaust unutilized funds in gestures of retrospective benevolence. The Committee therefore recommend that the company must take timely action to effect such schemes

as per guidelines issued from time to time so as to ensure that recurrence of such kind of anomaly and undesirable situations do not arise.

New Delhi **RUPCHAND PAL**
2 December, 2008 **CHAIRMAN**
11 Agrahayana 1930 **COMMITTEE ON PUBLIC UNDERTAKINGS**

ANNEXURE -I

14.4.1 - UNPRODUCTIVE PAYMENT OF INCENTIVE

Inapt implementation of a new incentive scheme on the basis of performance already attained by the employees and paid for under an existing incentive scheme led to avoidable payment of unproductive incentive of Rs.76.26 crore.

The Government of India introduced productive incentive (PI) scheme for payment of incentive to the employees of Hindustan Petroleum Corporation Limited (Company) in 1983. The amount of incentive payable on attainment of specific milestones as per applicable parameters of the scheme was subject to ceilings for two categories of the employees *viz.*, (i) employees eligible for profit sharing bonus and (ii) employees not eligible for such bonus. The Company introduced another incentive scheme *viz.*, Performance Linked Incentive (PLI) scheme in January 1991 for the employees who were not eligible for profit sharing bonus. With effect from 1 January 1997, the Department of Public Enterprises (DPE) increased the limit for payment of performance linked incentives to 50 *per cent* of the basic pay and five *per cent* of the distributable profit of the PSE.

In April 2006, the Company decided to introduce a third incentive scheme *viz.*, Performance Related Incentive (PRI) scheme from the financial year 2004-05, retrospectively. The PRI scheme was justified on the grounds that the amount of incentive payable to the employees under the existing two incentive schemes was well within the ceilings prescribed by the DPE and a new and third (PRI) scheme could be introduced within the existing ceilings.

The new scheme envisaged distribution of PRI on the basis of performance of Strategic Business Unit (SBU) at first level. Incentives for team performance for all the employees was envisaged at second level. For payment of incentive for the years 2004-05 and 2005- 06 under the PRI scheme, the Company adopted the parameters that were applicable for the PI scheme and disbursed Rs.16.30 crore and Rs.16.50 crore for 2004-05 and 2005-06, respectively to the employees. On finding that the said limit of 50 *per cent* had not been exceeded in the year 2002-03 and 2003-04 also, the Company decided in October 2006 to implement the PRI scheme further back in time from 2002-03 onwards. Again, the parameters applicable to the PI scheme for those years were applied and incentive of Rs.19.55 crore and Rs.23.91 crore for the year 2002-03 and 2003-04 respectively was paid under the new PRI scheme. Thus, an aggregate amount of Rs.76.26 crore was paid as incentive under the newly implemented PRI scheme. Incentive for the year 2006-07 was yet (July 2007) to be paid.

Audit observed (March 2007) that:

(i) Payment of incentive under PRI scheme by adopting the parameters applicable to the existing PI scheme was irregular since the objectives of introducing the PI and PRI schemes were different. Whereas the PI scheme was based on achievement of productivity by the employees individually, the PRI scheme envisaged payment of incentive on the basis of performance achieved by various SBUs against five clearly measurable criteria, to be approved by a Committee of Functional Directors (CFD) as a part of the first level performance. The second level performance applicable to all the employees envisaged adjudging performance of "intact teams" under major SBUs. Criteria specific to the objective of PRI scheme were not fixed by the CFD at any stage and, therefore, adoption of parameters and milestones of an existing incentive scheme for payment of incentive under the new scheme tantamount to releasing of double payment for the same performance by the employees and exceeding the ceiling prescribed under the PI scheme.

(ii) Implementation of the scheme retrospectively cannot be expected to motivate the employees for better performance than what had already been achieved and rewarded. Thus, implementation of the scheme retrospectively resulted in payment of unproductive incentive.

The Management stated (March 2007) that the introduction of the PRI scheme had its genesis in the Justice Mohan Committee Report. While distribution of PRI effective from the year 2006-07 among various SBUs would be carried out in line with their respective performance against targets, for the period prior to April 2006 *viz.*, 2004-05 and 2005-06, it could only be linked with parameters set against the then existing scheme *i.e.,* Productive Incentive. The new incentive scheme envisaged judging the performance of all major SBUs against targets set and the quantum of PRI was in line with DPE guidelines. It further stated that the Board approved (October 2006) implementation of PRI for 2002-03 and 2003-04 as PI was restricted to 15 *per cent* as per DPE guidelines. The Ministry while endorsing (August 2007) the reply of the Management justified payment of new incentive with retrospective effect stating that the Petroleum Sector was liberalised effective 2002-03 and oil PSUs have to aggressively compete in the market to retain their market share and to sustain growth.

The reply was not tenable. Justice Mohan Committee stressed on the necessity to ensure that the total package was related more to performance and profits of the companies than it was at present. Further, the Committee observed that performance related payments in public sector undertakings existed only in form and not in substance. By rewarding the employees by payment of PRI which already stood rewarded by way of PI, the Company rewarded productivity linked performance in form and not in substance. Thus, payment of PRI on the same parameters of PI without achieving any additional benefits, that too retrospectively, was not justified. Extension of PRI scheme for 2002-03 and 2003-04 on the ground that PI was restricted to 15 *per cent* as per DPE guidelines only proved that the Company circumvented the guidelines and also Justice Mohan Committee's recommendations. Retrospective extension of the scheme from 2002-03 on the ground of liberalisation and increase in market share was not justified as there was virtually no competition in the retail and LPG segments that constituted 70 *per cent* of the Company's total turnover and in view of existence of subsidy scheme.

Thus, the manner of implementation of the PRI scheme was not in the best financial and professional interest of the Company and appeared to be aimed at distributing the amount of profits available within the overall ceiling prescribed by the DPE. The decision of Management resulted in excess payment of Rs.76.26 crore.

ANNEXURE-II

MINUTES OF THE 2nd SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 2nd JUNE, 2008

The Committee sat from 1130 hours to 1300 hours.

PRESENT

Chairman

Shri Rupchand Pal

Members, Lok Sabha

2 Shri Ramesh Bais
3 Shri Gurudas Dasgupta
4 Smt. Sangeeta Kumari Singh Deo
5 Dr. Vallabhbhai Kathiria
6 Shri Harikewal Prasad
7 Shri Kashiram Rana
8 Shri K.V. Thangkabalu
9 Shri Ram Kripal Yadav
10 Shri Mohan Rawale

Members, Rajya Sabha

11 Shri R.K. Dhawan
12 Shri Sharad Anantrao Joshi
13 Shri Arjun Kumar Sengupta

Secretariat

1	Shri S.K. Sharma	Additional Secretary
2	Shri J.P. Sharma	Joint Secretary
4	Shri N.S. Hooda	Deputy Secretary
5	Shri Ajay Kumar	Deputy Secretary-II

Office of the Comptroller & Auditor General of India

1.	Shri E.R. Solomon	Director General (Commercial)
2.	Shri K.P. Sasidhar	Principal Director (Commercial)

Representatives of Hindustan Petroleum Corporation Limited

1.	Shri Arun Balakrishnan	Chairman & Managing Director
2.	Shri S. Roy Choudhary	Director (Marketing)
3.	Shri M.A. Tankiwala	Director (Refineries)

4. Shri V. Vizia Saradhi Director (Human Resources)
5. Shri B. Mukherjee Director (Finance)

2. At the outset, the Chairman welcomed the Members of the Committee and the representatives of the Comptroller & Auditor General of India. Thereafter, the Committee were briefed by the Officials of C&AG of India on two Audit Paras on which the Committee were to take oral evidence. First audit para no. 14.4.1 of C&AG Report No. CA 11 of 2008 (Commercial) related to unproductive payment of incentive in HPCL and second audit para no. 14.7.1 of the same audit report related to loss occurring to ONGC due to sale of crude oil containing Basic Sediments & Water (BSW) content above the contracted norm to IOCL. The clarifications sought by the Members were also resolved by the Officials of C&AG.

3. The Committee then took oral evidence of the representatives of Hindustan Petroleum Corporation Limited (HPCL) in connection with examination of Para 14.4.1 of C&AG Report No. CA 11 of 2008 (Commercial) relating to 'unproductive payment of incentive' in HPCL.

4. At the outset, the Chairman welcomed the representatives of HPCL and drew their attention to direction 58 of the Directions by the Speaker relating to evidence before the Parliamentary Committee. Then, the representatives of HPCL made a brief presentation on the subject before the Committee. Thereafter, Members raised queries on various issues pertaining to the subject. Clarifications on some of those issues were made by the representatives of HPCL. Information on some of the points raised by the Committee not readily available was, however, promised by them that the same would be furnished to the Committee Secretariat in due course.

5. The Chairman then thanked the representatives of HPCL for providing information on the subject matter as desired by the Committee.

6. The witnesses then withdrew.

7. A copy of the verbatim proceedings has been kept on record separately.

MINUTES OF THE 12th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 2nd DECEMBER, 2008

The Committee sat from 1430 hours to 1500 hours.

PRESENT
Chairman

Shri Rupchand Pal

Members, Lok Sabha

2 Smt. Sangeeta Kumari Singh Deo
3 Shri Francis K. George
4 Shri Harikewal Prasad
5 Shri Kashiram Rana
6 Shri Mohan Rawale
7 Smt. Pratibha Singh
8 Shri Bharatsinh Madhavsinh Solanki
9 Shri K.V. Thangkabalu
10 Shri Ram Kripal Yadav

Members, Rajya Sabha

11 Shri R.K. Dhawan
12 Shri Sharad Anantrao Joshi

Secretariat

1	Shri J.P. Sharma	Joint Secretary
2	Smt. Anita Jain	Director
3	Shri N. S. Hooda	Deputy Secretary
4	Shri Ajay Kumar	Deputy Secretary-II

<u>Office of the Comptroller & Auditor General of India</u>

Shri P.K. Mishra Principal Director (Commercial)

2. The Committee considered two draft reports on the following subjects and adopted both without any modification:

(i) Hindustan Petroleum Corporation Limited – Unproductive payment of incentive" – unproductive payment of Rs. 76.26 crore.

(ii) Xxxxxxxxxxxxx xxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxx

Xxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxx

3. The Committee authorized the Chairman to finalize the Report for presentation.

4. The Committee then adjourned.

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