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**GUIDELINES FOR  
PERFORMANCE AGREEMENT (PA)**

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Abbreviations:

**Annexure:** PA Evaluation Methodology (PEM)

# GUIDELINES FOR PERFORMANCE AGREEMENT (PA)

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## I. Background

A Performance Agreement (PA) provides a summary of the most important results that a Ministry/department/organization (m/d/o) expects to achieve during the financial year. This document has two main purposes: (a) move the focus of the m/d/o from process-orientation to result-orientation and, (b) provide an objective and fair basis to evaluate m/d/o's overall performance at the end of the year.

## II Format of Performance Agreement

A Performance Agreement (PA) is essentially a record of understanding between a Minister representing the people's mandate, and the Secretary of m/d/o for implementing this mandate. This document contains not only the agreed objectives, policies, programs and projects but also success indicators and targets to measure progress in implementing them. To ensure the successful implementation of agreed actions, PA may also include necessary operational autonomy.

The PA seeks to address three basic questions: (a) What are m/d/o's main objectives for the year? (b) What actions are proposed by the m/d/o to achieve these objectives? (c) How would someone know at the end of the year the degree of progress made in implementing these actions? That is, what are the relevant success indicators and their targets which can be monitored?

The PA should contain the following six sections:

- Section 1 M/d/o's Vision, Mission, Objectives and Functions.
- Section 2 *Inter se* priorities among key objectives, success indicators and targets.
- Section 3 Trend values of the success indicators.
- Section 4 Description and definition of success indicators and proposed measurement methodology.
- Section 5 Specific performance requirements from other m/d/os that are critical for delivering agreed results.
- Section 6 Outcome / Impact of activities of m/d/o

## **Section 1: M/d/o's Vision, Mission, Objectives and Functions**

This section provides the context and the background for the Performance Agreement (PA). Creating a Vision and Mission for a m/d/o is a significant enterprise. Ideally, Vision and Mission should be a byproduct of the strategic planning exercise undertaken by the m/d/o. Both concepts are interrelated and much has been written about them in the management literature. Here we will provide some working guidelines to write this section of the PA.

### **Vision:**

#### *Meaning:*

Vision is an idealized state for the ministry/department/organisation. It is the big picture of what the leadership wants the m/d/o to look like in the future.

Vision is a symbol, and a cause to which we want to bond the stakeholders, (mostly employees and sometime other stake-holders). As they say, the people work best, when they are working for a cause, than for a goal. Vision provides them that cause.

#### *Nature:*

The Vision of any organization is supposed to act as the loadstar for that organization. Vision is a long-term statement and typically generic and grand. Therefore a vision statement does not change from year to year unless the m/d/o is dramatically restructured and is expected to undertake very different tasks in the future.

Vision should have a time horizon of 5-10 years. If it is less than that, it becomes tactical. If it has a horizon of 20+ years (say), it becomes difficult for the strategy to relate to the vision.

#### *Point to be kept in mind while drafting vision statement:*

The entire process starting from the Vision down to the objectives is highly iterative. The question is from where we should start? We strongly recommend that vision and mission statement should be made first without being colored by constraints, capabilities and environment e.g., It is akin to the vision of several armed forces: 'Keeping the country safe and secure from external threats'. This vision is non-negotiable and it drives the organization to find ways and means to achieve their vision, by overcoming constraints on capabilities and resources.

Vision should be a stake in the ground, a position, a dream, which should be prudent, but should be non-negotiable barring few rare circumstances.

Vision should never carry the 'how' part of vision. For example 'To be the most admired brand in Aviation Industry' is a fine vision statement, which can be spoiled by extending it to 'To be the most admired brand in the Aviation Industry by providing world-class in-flight services.' The reason for not including 'how' is that the 'how' part of the vision may keep on changing with time.

### **Features of a good vision statement:**

- Easy to read and understand.
- Compact and crisp to leave something to people's imagination.
- Gives the destination and not the road-map.
- Is meaningful and not too open-ended and far-fetched.

- Excites people and makes them feel energized.
- Provides a motivating force, even in hard times.
- Is perceived as achievable and at the same time is challenging and compelling, stretching us beyond what is comfortable.

*Important:*

Writing up a Vision statement is not a big challenge. The challenge is to make employees engaged with it. Many a time, terms like vision, mission and strategy become more a subject of scorn than being looked up-to. This is primarily because leaders may not be able to make a connection between the vision/mission and employees' every day work. Too often, employees see a gap between the vision, mission and their goals and priorities. Even if there is a valid/tactical reason for this mismatch, it is not explained. The leadership of the ministry (Minister, political executive) and the Secretary, administrative executive) should therefore consult a wide cross section of employees and come up with a Vision that can be owned by the employees of the m/d/o.

*Performance Agreement Evaluation Methodology (PEM):* PEM is a rigorous methodology to measure the quality of PA. It is enclosed as an Annexure along with these Guidelines. PEM provides a methodology for evaluating all sections of PA and must be read along with these Guidelines. M/d/os must use PEM to self-evaluate the quality of their M/d/o's PA.

**Mission:**

*Meaning:*

The M/d/o's *Mission* is the nuts and bolts of the vision. Mission is the who, what and why of the M/d/o's existence. It is the purpose for which the Organisation/ministry/department exists. It is in one way the road to achieve the vision.

*Key points for drafting mission statement:*

We strongly recommend that mission should follow the vision. This is because the purpose of the organization could change to achieve their vision. The vision represents the big picture and the mission represents the necessary work.

**Objectives:**

*Meaning:*

Objectives represent the developmental requirements to be achieved by the m/d/o in a particular sector by a selected set of policies and programmes over a specific period of time (short-medium-long). For example, objectives of the Ministry of Health & Family Welfare could include: (a) reducing the rate of infant mortality for children below five years; and (b) reducing the rate of maternity death by (30%) by the end of the development plan.

*Types of objectives:* Objectives could be of two types: (a) Outcome Objectives address ends to achieve, and (b) Process Objectives specify the means to achieve the objectives. As far as possible, the ministry/department/organization should focus on Outcome Objectives.<sup>1</sup>

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<sup>1</sup> Often a distinction is also made between "Goals" and "Objectives". The former is supposed to be more general and latter more specific and measurable. The Vision and Mission statement are expected to capture the

*Points to be kept in mind while framing objectives:*

Objectives should be linked and derived from the m/d/o Vision and Mission statements and should remain stable over time. Objectives cannot be added or deleted without a rigorous evidence-based justification. In particular, a m/d/o should not delete an objective simply because it is hard to achieve. Nor, can it add an objective simply because it is easy to achieve. There must be a logical connection between Vision, Mission and Objectives.

Objectives should be directly related to attainment and support of the relevant national objectives stated in the relevant Five Year Plan, National Flagship Schemes, Outcome Budget and relevant sector and M/d/o priorities and strategies, President's Address, the manifesto, and announcement/agenda as spelt out by the Government from time to time.

### **Functions:**

The functions of the m/d/o should be listed in this section. These functions should be consistent with the Allocation of Business Rules for the m/d/o. Unless they change, they cannot be changed in the PA. This section is supposed to reflect the legal / administrative reality as it exists, and not a wish list.

## **Section 2: *Inter se* priorities among key objectives, success indicators and targets.**

The heart of the Section 2 of the PA document consists of the Table 1 given below. In what follows we describe the guidelines for each column of this Table.

### **Column 1: Select Key M/d/o Objectives**

From the list of all objectives, select those key objectives that would be the focus for the current PA. It is important to be selective and focus on the most important and relevant objectives only.

### **Column 2: Assign Relative Weights to Objectives**

Objectives in the PA should be ranked in a descending order of priority according to the degree of significance and, specific weights should be attached to these objectives. The Minister in-charge (political executive) will decide the *inter se* priorities among M/d/oal objectives. All weights, including the weight of mandatory indicators, must add to 100.

### **Column 3: Specify Means (Actions) for Achieving m/d/oal Objectives**

For each objective, the m/d/o must specify the required policies, programmes, schemes and projects. Often, an objective has one or more policies associated with it. Objective represents the desired "end" and associated policies, programs and projects represent the desired "means"

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general direction and future expected outcomes for the m/d/o. Hence, only the inclusion of objectives in Section 1 is required. See also Figure 3 on page 11.

and actions to be taken to achieve the objective. The latter are listed as “actions” under each objective.

**Table 1: Stylized Format of the Performance Agreement (PA)**

Column 1	Column 2	Column 3	Column 4		Column 5	Column 6				
Objective	Weight of Objective	Actions	Success Indicator	Unit	Weight of Success Indicator	Target / Criteria Value				
						Excellent	Very Good	Good	Fair	Poor
						100%	90%	80%	70%	60%
Objective 1		Action 1								
		Action 2								
		Action 3								
Objective 2		Action 1								
		Action 2								
		Action 3								
Objective 3		Action 1								
		Action 2								
		Action 3								

#### **Column 4: Specify Success Indicators and Units**

For each of the “action” specified in Column 3, the m/d/o must specify one or more “success indicators.” They are also known as “Key Performance Indicators (KPIs)” or “Key Result Indicators (KRIs).” A success indicator provides a means to evaluate progress in implementing the policy, programme, scheme or project. Sometimes more than one success indicator may be required to tell the entire story.

Success indicators are important management tools for driving improvements in m/d/o performance. They should represent the main business of the organization and should also aid accountability. If there are multiple actions associated with an objective, the weight assigned to a particular objective should be spread across the relevant success indicators.

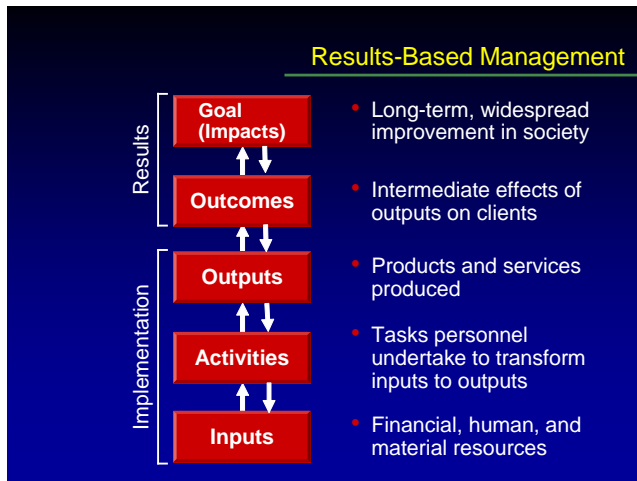
Success indicators should consider both qualitative and quantitative aspects of m/d/o performance

In selecting success indicators, any duplication should be avoided. For example, the usual chain for delivering results and performance is depicted in Figure 1. An example of this results chain is depicted in Figure 2.

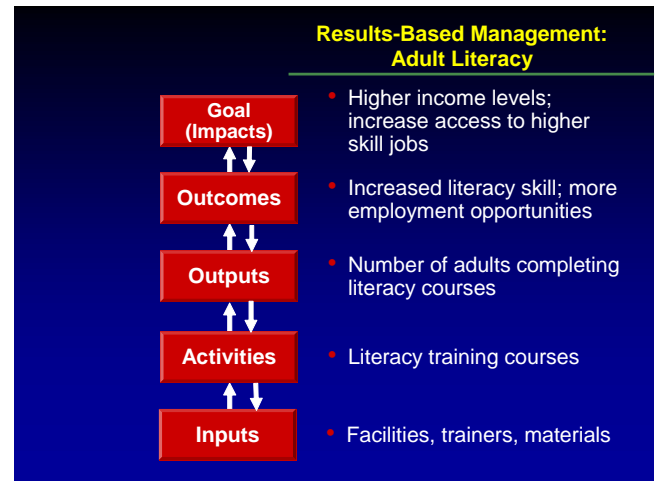
If we use Outcome (increased literacy) as a success indicator, then it would be duplicative to also use inputs and activities as additional success indicators.

Ideally, one should have success indicators that measure Outcomes and Impacts. However, sometimes due to lack of data one is able to only measure activities or output. The common definitions of these terms are as follows:

- 1. Inputs:** The financial, human, and material resources used for the development intervention.



**Figure 1:** Typical Results Chain



**Figure 2:** An Example of Results Chain

- 2. Activity:** Actions taken or work performed through which inputs, such as funds, technical assistance and other types of resources are mobilized to produce specific outputs
- 3. Outputs:** The products, capital goods and services that result from a development intervention; may also include changes resulting from the intervention which are relevant to the achievement of outcomes. Sometimes, 'Outputs' are divided into two sub categories – internal and external outputs. 'Internal' outputs consist of those outputs over which managers have full administrative control. For example, printing a brochure is considered an internal output as it involves spending budgeted funds in hiring a printer and giving orders to print a given number of brochures. All actions required to print a brochure are fully within the manager's control and, hence, this action is considered 'Internal' output. However, having these brochures picked up by the targeted groups and, consequently, making the desired impact on the target audience would be an example of external output. Thus, actions that exert influence beyond the boundaries of an organization are termed as 'external' outputs.
- 4. Outcome:** The likely or achieved short-term and medium-term effects/ impact of an intervention's Outputs

### Column 5: Assign relative Weights to Success Indicators

If we have more than one action associated with an objective, each action should have one or more success indicators to measure progress in implementing these actions. In this case we will need to split the weight for the objective among various success indicators associated with the objective.



## Column 6: Specify Targets/Criteria value for Success Indicators

The next step is to choose a target for each success indicator. Targets are tools for driving performance improvements. Target levels should, therefore, contain an element of stretch and ambition. However, they must also be achievable. It is possible that targets for radical improvement may generate a level of discomfort associated with change, but excessively demanding or unrealistic targets may have a longer-term demoralizing effect.

The target should be presented as per the five-point scale given below:

Excellent	Very Good	Good	Fair	Poor
100 %	90%	80%	70 %	60 %

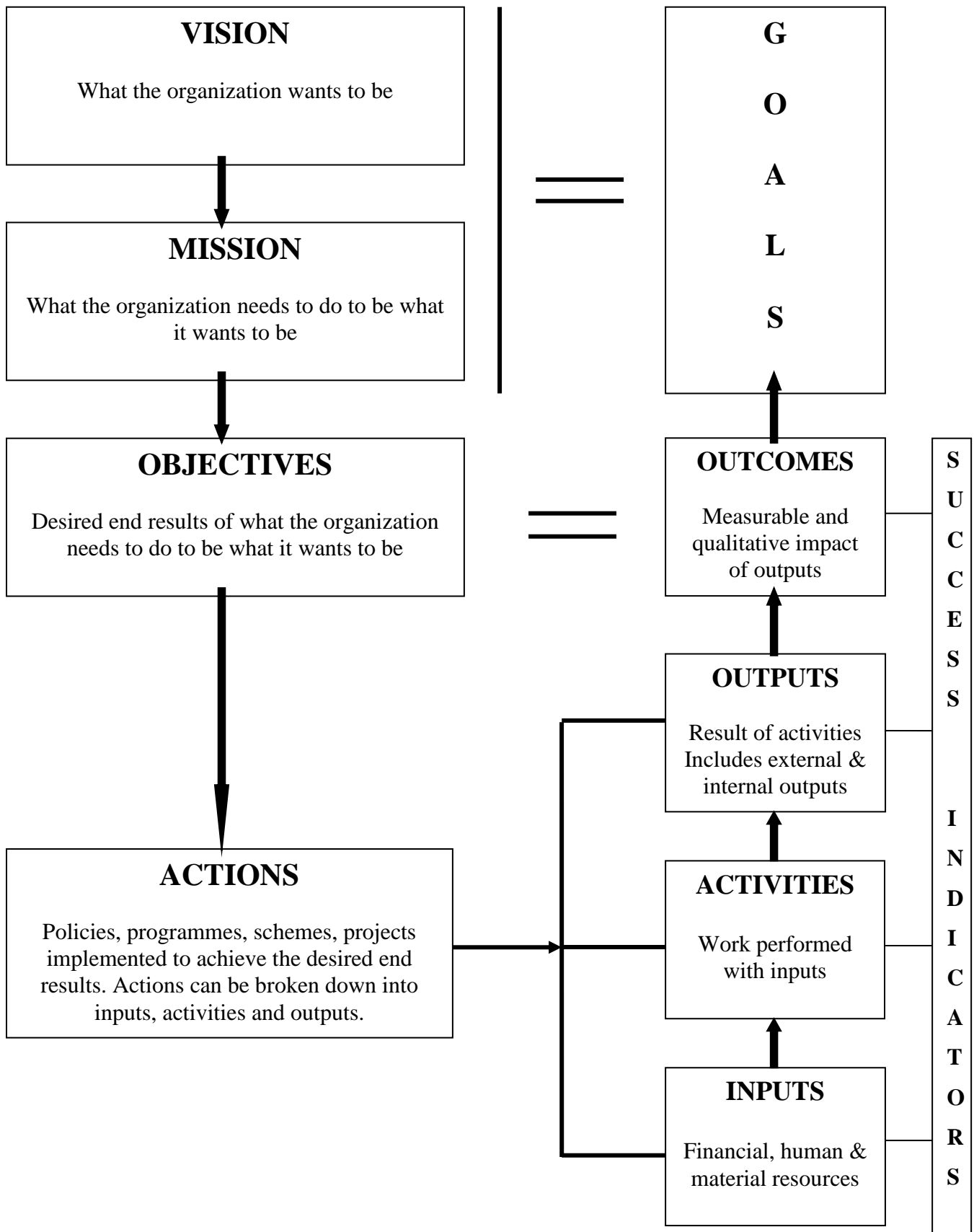
It is expected that, in general, budgetary targets would be placed at 90% (Very Good) column. There are only two exceptions: (a) When the budget requires a very precise quantity to be delivered. For example, if the budget provides money for one bridge to be built, clearly we cannot expect the Organisation/ministry/department to build two bridges or 1.25 of a bridge.(b) When there is a legal mandate for a certain target and any deviation may be considered a legal breach. In these cases, and only in these cases, the targets can be placed under 100 %. For any performance below 60%, the m/d/o would get a score of 0 in the relevant success indicator.

The PA targets should be aligned with Plan priorities and be consistent with m/d/oal budget as well as the outcome budget. A well framed PA document should be able to account for the majority of the budget. Towards this end, m/d/os must ensure that all major schemes and relevant mission mode projects are reflected in the PA.

## Diagrammatic Representation of Section 2

Figure 3 on the next page presents the interrelationships between various elements of Section 2.

**Figure 3: Interrelationship between Elements of Section 2**



### Section 3: Trend values of the success indicators

For every success indicator and the corresponding target, PA must provide actual values for the past two years (Column e and f) and also projected values for two years in the future (Column h and i). The inclusion of actual values for the past two years vis-a-vis the projected values for the next two years will help in assessing the target value for the current year.

**Table 2: Trend Values for Success Indicators**

Objective	Actions	Success Indicator	Unit	Actual Value for FY 12/13	Actual Value for FY 13/14 (anticipated)	Target Value for FY 14/15	Projected Value for FY 15/16	Projected Value for FY 16/17
a	b	c	d	e	f	g	h	i
Objective 1	Action 1							
	Action 2							
	Action 3							
Objective 2	Action 1							
	Action 2							
	Action 3							
Objective 3	Action 1							
	Action 2							
	Action 3							

If an action is being initiated in the current year, then no values would be listed in the previous year column. Also, in case an action is going to be completed in the current year, then no values would be listed in the next 2 years. Kindly do not copy Section 2 figures here and care should be taken that the date values are for the relevant year listed in the column.

### Section 4: Description and definition of success indicators and proposed measurement methodology.

PA must contain a section giving detailed definitions of various success indicators and the proposed measurement methodology. Abbreviation/acronyms and other details of the relevant scheme may be listed in this section. Wherever possible, the rationale for using the proposed success indicators may be provided as per the new format recently incorporated in the RFMS. M/d/os should specify in Section 4 of the PA, the basis on which they have set the targets. The projected Trend Values also need to be specified preferably in section 4. Supporting documents should be uploaded for each indicator regarding Targets and projected trend values

SI. No.	Success Indicator	Description	Definition	Measurement	Causality

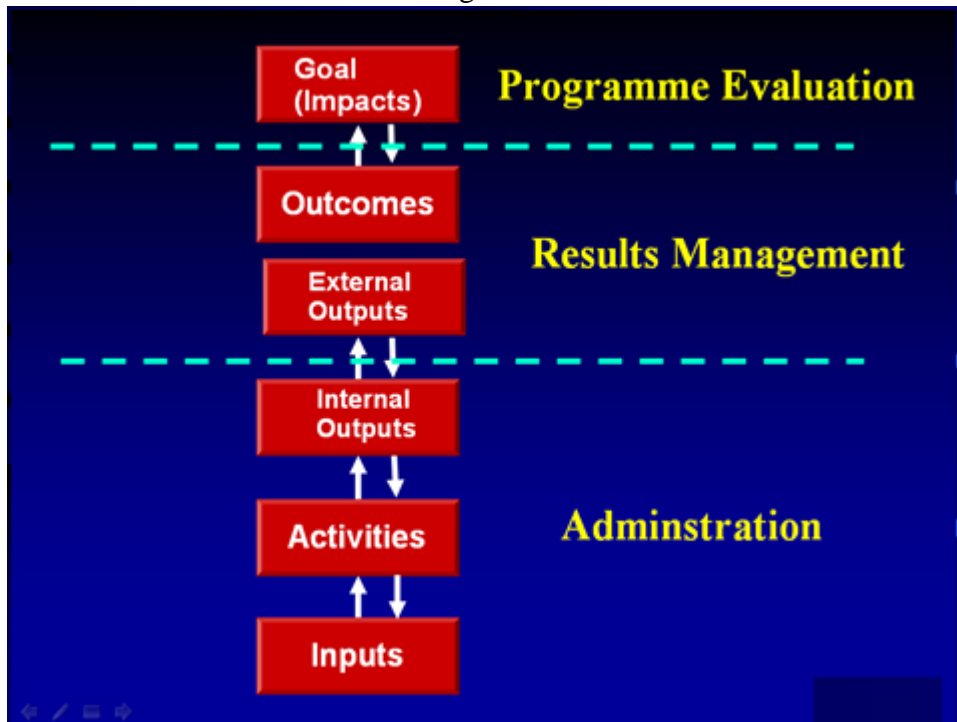
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**Section 5 Specific performance requirements from other m/d/os that are critical for delivering agreed results.**

This section should contain expectations from other M/d/os that impact the M/d/o's performance and are critical for achievement of the selected Success Indicator. However, names of those M/d/os only need to be incorporated where dependency is more than 20%. These expectations should be mentioned in quantifiable, specific, and measurable terms.

Organization Name	Relevant Success Indicator	What is your requirement from this organization	Justification for this requirement	Please quantify your requirement from this Organization	What happens if your requirement is not met

It is important to note that this section is not meant to provide alibi for potential shortfalls in targets. Therefore, it is recommended that only a handful of key dependencies, perhaps not more than 5 or 6, should be mentioned in this section. The essence of management is to deliver results that are outside the boundary of direct control. Figure 4 on the next page illustrates the difference between administration and management.



**Outcome / Impact of activities of M/d/o/ministry.**

## Section 6

This section should contain the broad outcomes and the expected impact the m/d/o has on national welfare. It should capture the very purpose for which the m/d/o exists.

This section is included for information only and to keep reminding us about not only the purpose of the existence of the M/d/o but also the rationale for undertaking the PA exercise. However, the evaluation will be done against the targets mentioned in Section 2. The whole point of PA is to ensure that the M/d/o serves the purpose for which they were created in the first place.

The required information under this section should be entered in Table 3. The Column 2 of Table 3 is supposed to list the expected outcomes and impacts. It is possible that these are also mentioned in the other sections of the PA. Even then they should be mentioned here for clarity and ease of reference.

Like, Vision and Mission, Outcomes do not (and should not) change from year to year.

**Table 3:** Outcome / Impact of activities of m/d/o

S. No	Objectives	Outcome / Impact	Jointly responsible for influencing this outcome / impact with the following organisation (s) / M/d/os/ministry(ies)	Success Indicator (s)	Unit	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017

## III. Evaluation Methodology

At the end of the year, we look at the achievements of the government M/d/o, compare them with the targets, and determine the composite score. Table 4 provides an example from the health sector. For simplicity, we have taken only one objective to illustrate the evaluation methodology.

The Raw Score for Achievement in Column 6 of Table 4 is obtained by comparing the achievement with the agreed target values. For example, the achievement for first success indicator (% increase in primary health care centers) is 15 %. This achievement is between 80 % (Good) and 70 % (Fair) and hence the “Raw Score is 75%.”

The Weighted Raw Score for Achievement in Column 6 is obtained by multiplying the Raw Score with the relative weights. Thus for the first success indicator, the Weighted Raw Score is obtained by multiplying 75% by 0.50. This gives us a weighted raw score of 37.5%

Finally, the Composite Score is calculated by adding up all the Weighted Raw Scores for achievements. In Table 4, the Composite Score is calculated to be 84.5%.

The Composite score shows the degree to which the government Organisation/ ministry/ department in question was able to meet its objectives. The fact that it got a score of 84.5 % in our hypothetical example implies that the M/d/o's performance vis-à-vis this objective was rated as "Very Good."

The methodology outlined above is transcendental in its application. Various Government M/d/Os will have a diverse set of objectives and corresponding success indicators. Yet, at the end of the year every Organisation/ministry/department will be able to compute its Composite Score for the past year. This Composite Score will reflect the degree to which the Organisation/ministry/department was able to achieve the promised results.

<b>M/d/oal Rating</b>	<b>Value of Composite Score</b>
Excellent =	100% - 91%
Very Good =	90% - 81%
Good =	80 - 71%
Fair =	70% - 61%
Poor =	60% and below

#### **Abbreviations and acronyms:**

- KPI : Key Performance Agreement
- KRI : Key Results Indicators
- M/D/O : ministry/department/organization
- PA : Performance Agreement
- SI : Success Indicator

**Table 4:** Example of Performance Evaluation at the End of the Year

Column 1	Column 2	Column 3		Column 4	Column 5					Column 6			
Objective	Action	Criteria / Success Indicators	Unit	Weight	Target / Criteria Values					Achievement	Raw Score	Weighted Raw Score	
					Excellent	Very Good	Good	Fair	Poor				
					100%	90%	80%	70%	60%				
<b>Better Rural Health</b>	Improve Access to Primary Health Care	1	% Increase in number of primary health care centers	%	.50	30	25	20	10	5	15	75%	37.5%
		2	% Increase in number of people with access to a primary health center within 20 KMs	%	.30	20	18	16	14	12	18	90%	27%
		3	Number of hospitals with ISO 9000 certification by December 31, 2009	%	.20	500	450	400	300	250	600	100%	20%
<b>Composite Score =</b>											<b>84.5%</b>		