ALL INDIA BANK OFFICERS' CONFEDERATION

(Registered under the Trade Unions Act 1926, Registration No.3427/Delhi)

C/o State Bank of India Officers' Association (North-Eastern Circle)

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To All Affiliates (Please Circulate)

Dear Comrades,

We reproduce below the text of our letter no AIBOC/2024/26 dated 22.11.2024 sent to the Secretary, Department of Financial Services on the Proposed PLI to Senior Executives and Board Members of PSBs for your information.

General Secretary

The Secretary
Department of Financial Services
Ministry of Finance
Government of India
New Delhi – 110001

Dear Sir,

PERFORMANCE LINKED INCENTIVE FOR WHOLE TIME DIRECTORS AND SENIOR EXECUTIVES OF PUBLIC SECTOR BANKS- REVISED SCHEME

We refer to your Notification No. eF. No. 15/6/2024-BO.I dated 19th November 2024 regarding the revised scheme for Performance Linked Incentives (PLI) for Whole Time Directors, which also extends to officers from Scale IV to Scale VIII. The directive to the State Bank of India and the Nationalized Banks, to formulate board-approved policies under the framework of this scheme has raised significant concerns.

The Performance Linked Incentive for officers up to Scale VII has already been determined through bilateral agreements between the Indian Banks' Association (IBA) and officers' associations at the industry level. These agreements, based on mandates provided by member banks' boards, also encompass officers in Scale VIII. The DFS directive undermines this well-established framework, violating the sanctity of collective bargaining and the bilateral settlements.

This selective approach to incentivise only officers from Scale IV to VIII (counting less than 5% of the total workforce), while excluding over 95% of employees who primarily drive business at the field level, is inequitable. It risks fragmentation of the workforce and impairing the collective growth and harmony, which is paramount and essential for any organizational growth and sustainable success.

During the Gyan Sangam held at Pune on 2nd and 3rd January 2015 the Hon'ble Prime Minister of the country had said that "Banks would be run professionally, and there would be no interference". It was

also decided that the Bank's Board should be given full autonomy on HR decisions such as on recruitment, Consequence management and Compensation.

This was extensively covered by the Print and electronic media and the decision was welcomed across the board.

The department of financial services vide its office memorandum no F.No.4/9/I/2014-IR (Pt.) dated 13th January 2015 has also emphasised on the same and below is the brief extract of the communication:

" The undersigned is directed to refer to the subject cited above and to say that Gyan Sangam was recently held on 2-3 January, 2015 at Pune where the Hon'ble Prime Minister interacted with the Chief Executives of Public Sector Banks and Financial Institutions (PSBs/ Fis). During the discussion, it was conveyed from the highest level in very clear terms that the Government will not interfere in the working of the Banks/ FIs."

The current directive, which prescribes how senior officers should perform and prioritize their work to earn incentives, surely infringes upon the autonomy of public sector banks. It disregards their governance structures and imposes centralized control, which could stifle strategic decision-making aligned with individual banks' unique challenges. Such micro-management by the government sets a dangerous precedence, undermining the independence of functions of the boards of the public sector banks.

CMDs of PSBs and SBI have performed better than their private bank peers despite being paid comparatively less. It is evident that money or incentives are not the motivators. When Yes Bank collapsed, it was the State Bank of India that bailed it out, with senior executives of SBI taking charge to steer the bank out of troubled waters. It is governance and orientation, not pay scales, that drive success.

There are already policies in place to reward and reprimand, motivate and counsel, and nurture and channelize the workforce in line with organizational goals. The board is capable of looking into governance issues and improving based on periodic reviews and should be allowed to perform independently with full autonomy.

The proposed PLI scheme is nothing but the Bell Curve method of performance evaluation, once popular for ranking employee performance, is now widely criticized as an outdated and inequitable tool that undermines employee morale. Its flaws include a one-dimensional focus on scores, force-fitting employees into arbitrary distributions, and difficulties ranking individuals with similar scores. Bell curves fail to account for employees' competencies and potential, focusing narrowly on review scores. This approach overlooks individuals with untapped potential hindered by constraints, making rankings inadequate. It limits the organization's ability to identify capabilities and provide effective training for long-term growth. No matter how well employees perform, the bell curve forces them into predetermined ratings, often misrepresenting their actual performance. Even if an entire team excels, members are compelled to fit the curve, leading to unjust adjustments and depriving them of fair recognition. If multiple employees achieve the same score, the bell curve fails to rank them fairly, often forcing artificial adjustments to fit its structure. The question arises: why manipulate scores instead of assigning equal ranks? This highlights why critics deem the bell curve outdated and unjust in modern performance management.

While this approach promotes individual development, it has limitations, such as reliance on potentially biased or flawed system. To overcome these challenges, organizations should standardize competency assessments, delink competency and performance evaluations, and emphasize frequent, constructive feedback. To encourage growth and collaboration, companies are encouraged to implement regular check-ins, provide a platform for open discussions, and focus on continuous employee development rather than rigid rankings. This shift transforms performance management from punitive rankings to developmental milestones, aligning individual progress with organizational goals.

Sir, Individual Incentives, a version of what psychologists call extrinsic motivators, do not alter the attitudes that underlie our behaviours. They do not create an enduring *commitment* to any value or action. Rewards do not create a lasting commitment. They merely, and temporarily, change what we do.

Public Sector Banks are the backbone of the Banking System which thrives for qualitative improvement in human lives not mere for achieving numbers. There are different intermediaries to achieve short term goals. If the individual incentive is promoted or introduced for performing our duties, it will be assumed that what we use bribes to accomplish may have changed, but the reliance on bribes, on behaviourist doctrine, has not.

Over the long haul, however, the potential cost to any organization of trying to fine-tune reward-driven compensation systems may be considerable. The fundamental flaws of behaviourism itself doom the prospects of affecting long-term behaviour change or performance improvement through the use of rewards.

Rewards have a punitive effect too, because they, like outright punishment, are manipulative. “Do this and you’ll get that” is not really very different from “Do this or here’s what will happen to you.” In the case of incentives, the reward itself may be highly desired; but by making that bonus contingent on certain behaviours, the superiors manipulate their subordinates, and that experience of being controlled is likely to assume a punitive quality over time. **Punishment and rewards are actually two sides of the same coin. Both have a punitive effect because they are manipulative.**

Further, not receiving a reward one had expected to receive is also indistinguishable from being punished. Whether the incentive is withheld or withdrawn deliberately, or simply not received by someone who had hoped to get it, the effect is identical. And the more desirable the reward, the more demoralizing it is to miss out.

Introduction of Individual incentive shall result into everyone pressuring the system for individual gain. No one is improving the system for collective gain. The system will inevitably crash. Without teamwork, in other words, there can be no quality. The surest way to destroy cooperation and, therefore, organizational excellence, is to force people to compete for rewards or recognition or to rank them against each other. For each person who wins, there are many others who carry with them the feeling of having lost. People will do precisely what they are asked to do if the reward is significant, in a word, the number one casualty of rewards is creativity.

Excellence pulls in one direction; rewards pull in another. If our goal is excellence, no artificial incentive can ever match the power of intrinsic motivation. People who do exceptional work may be glad to be paid and even more glad to be well paid, but they do not work to collect a pay check. They work because they love what they do. The more employees experience being controlled, the more they will tend to lose interest in what they are doing. If the organisation has to bribe employees to do it, it must be something they may not want to do.

We therefore, urge the Department of Financial Services to respect the autonomy of public sector banks and entrust the Indian Banks’ Association, along with bank managements, with the responsibility to design compensation mechanisms taking the Unions/ Associations along as hitherto. These mechanisms should align with the collective growth of the banks and their workforce, ensuring fairness and sustainability.

Thank you for your consideration.

Yours sincerely,

Sd/-

(Rupam Roy)

General Secretary