

PERFORMANCE APPRAISAL SYSTEM OF PUBLIC SECTOR UNDERTAKINGS IN INDIA

F.R. Alexander Pravin Durai
Associate Professor, Department of Commerce
Director, PU – SJC MBA Twinning Programme
St. Joseph's College (Autonomous)
Tiruchirapalli – 620002.

G. Sivasankar
Research Scholar,
Department of Commerce,
St. Joseph's College (Autonomous)
Tiruchirapalli – 620002.

Abstract

The contribution of public sector enterprises to the Indian economy grown leap and bounds over the past few decades be it in terms of revenue, contribution to exchequer, contribution to social obligations. To maintain this momentum motivation of employee is one of the important factor. Annual performance appraisal system is one of the factor, which keeps the employee motivated if the correct method of appraisal system is used. The article examines the Annual performance appraisal system of the public sector, methods of target fixation, evaluation of annual performance, in detail and give recommendation for its effectiveness.

Introduction

Public sector undertakings in India are playing a pivotal role in the economy. In India after independence the government invested heavily in almost all the sectors of the economy and they were dominating the Indian Economy. The government chose to invest even in those areas which are traditionally shunned by the private sectors. As on date, the PSUs in India playing a dominant role in sectors like Aviation, telecom, oil & gas, etc. The importance of public enterprises can be understood from the fact that with an investment of Rs. 29 crore in 7 public sector undertaking in the year 1951 it grew to Rs. 1171844 crore in 327 public sector enterprises as on 31.03.2016. The objectives for which the *Public sector enterprises were set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services, long-term equilibrium in balance of payments and low and stable prices besides meeting certain socio-economic obligations*¹. It is very important to keep the work force of public sector enterprises motivated to serve the objectives of national interest, therefore it is very essential, that the PSEs uses the very effective system of appraisal system to keep the workforce motivated.

Literature of Performance Management System

In a study by Mayer RC & Davis JH stated that the implementation of a more acceptable performance appraisal system increased trust for top management.²

Gary E Roberts, states that performance appraisal is one of the most complex and controversial human resource techniques. Participatory performance appraisal is an essential and proven attribute of an effective performance appraisal system and concludes with factors that attenuate the effectiveness of participation including lack of training, absence of rater accountability strategies, and organizational and supervisory resistance to honest subordinate feedback³.

*In a study conducted by A. Shrivastava, Department P. Purang, it was observed that, performance appraisal is the most critical human resource practice and an indispensable part of every organization; however, the practice continues to generate dissatisfaction among employees and is often viewed as unfair and ineffective.*⁴

¹Public Enterprises survey, 2015-16, volume I, published by Department of Public Enterprises, Ministry of Heavy Industries, Government of India.

²The effect of performance management system on trust for management, A field quasi experiment, Journal of applied psychology, 84(1), 1999, pages 123-136.

³Employee performance appraisal system participation: A technique that works, First published March 1, 2003

⁴Employee perceptions of performance appraisals: a comparative study on Indian banks - A. Shrivastava, Department of Humanities and Social Science, IIT, Mumbai, P. Purang, Department of Humanities and Social Science, IIT, Mumbai, The international journal of Human resource management, Vol 22, 2011, Issue 3.

Cultural assumptions are often inadvertently exported or imported when performance appraisal is introduced in organizations in developing countries. Performance appraisal has been developed in “individualist” societies, and the systems, when applied in non-individualistic cultures, can cause unintended offence, or are incorrectly, and therefore uselessly, employed.⁵

Some researchers have argued that the interpersonal affect may not be a bias, especially where it develops as a result of past performance. In India, the interpersonal affect and performance levels were found to have significant effects on performance ratings. For instance, a study in India suggests that the supervisors inflate ratings of low performers, suggesting that local cultural norms may be operating as a moderator.⁶

In a study conducted by Dr. A. SrinivasaRao, It was found that managers having good academic backgrounds with high profiles are effective implementers of the system. Further, it was found that personality characteristics/consequences such as system discipline, exposure to the system, effective interpersonal relations and team working are essentially required for the effective implementation of the system.⁷

Appraisal system of PSUs in India

The performance appraisal system followed in the PSU undergone a sea of changes from paper based confidential report to electronic based annual performance appraisal system. As per the directives of Department of Public Enterprises, Government of India, Public sector undertakings are required to follow bell curve approach in performance appraisal of their officers⁸. Under the bell curve approach the performance ratings are distributed on a fixed percentage basis to Unsatisfactory, Fair, Good, Very Good and Outstanding. The ratings of Outstanding / excellent can be given to maximum of 10% to 15% employees, 10% of the employees should be given unsatisfactory and the remaining % is distributed between Fair, Good and Very Good.

The appraisal system of the PSUs covered under the above guidelines consists of two sections. One is Key result areas and the other is Values. The value is further divided into Competency and potential. The KRAs and values have different weightage which is differs grade to grade as detailed below.

Grade	KRA	Values	
		Competency	Potential
ABC	60	20	20
DE	55	25	20
FG	50	25	25

Annual Target fixation and Performance Appraisal

Each employee is having the annual target to be achieved during the year which is captured in KRA (Key Result Area) section. KRA section is having mandatory KRA with weightage of minimum 70% and additional KRA with balance weightage depending on the weightage of mandatory KRAs. Each target/KRA will have stretch factor, which is the difficulty factor to achieve a target. The stretch factor is assigned by the controlling officer. Once the target is fixed mutually by the concerned officer and their controlling officer it should be approved by the reviewing officer. Any changes modifications are done at this level and the previous level also.

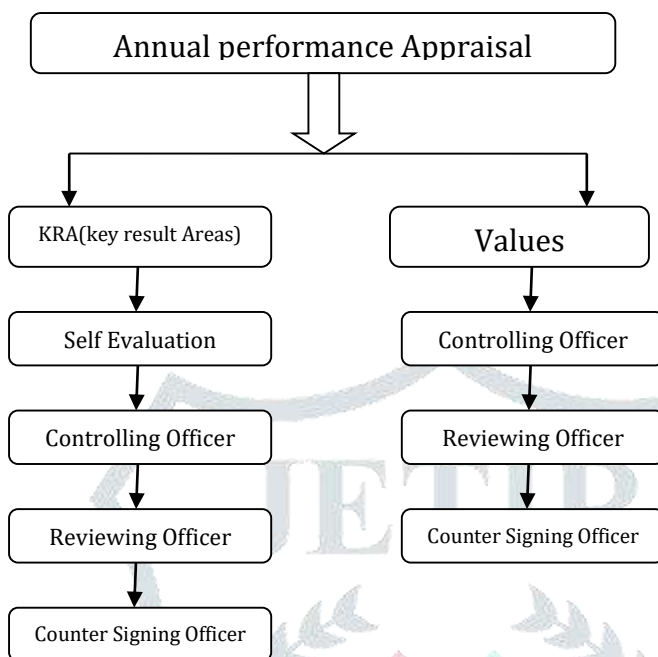
⁵Assumptions, Culture and Performance Appraisal - John Seddon (Consultant, UK), Journal of Management Development, Volume 6, Issue 3, Pages 47 - 54

⁶The role of interpersonal affect in performance appraisal: evidence from two samples – the US and India - AnupVarma, Shaun Pichler, Ekkirala S. Srinivas, The international journal of Human Resource Management, Volume 16, 2005 – Issue 11.

⁷Effectiveness of Performance management systems: an empirical study in Indian Companies, The international journal of Human resources amangement, Volume 18, 2007, Issue 10

⁸Guidelines for Administrative Ministries / Departments and Central Public Sector Enterprises, issued by Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India.

At the end of the year, the performances are evaluated. The method of evaluation is detailed in the picture.



As can be seen from the above picture the KRA is transparent one which is evaluated first by the concerned officer and further it is evaluated at three more levels whereas the values section is non-transparent the evaluation starts from controlling officer level. The evaluation of KRA is based on the achievement of target fixed at the beginning of the year whereas the values is based on the officers attributes, characteristics as assessed by their controlling officer, reviewing officer and the countersigning officer, which is not known to the concerned officer. After the evaluation of the above, the final scores are made known to the officers.

The rating of Outstanding, Very good, good, Fair and un satisfactory depends on the final score obtained by the officer, as per the table given below.

Performance Rating	Score
Outstanding	4.350 to 5.000
Very Good	4.000 to 4.349
Good	3.000 to 3.999
Fair	2.000 to 2.999
Un-satisfactory	<2.000

The evaluation of final score can be explained with the help of an example. One of the Officer A in Grade D, working in Public sector enterprises X, the final score is arrived as below.

Factor	Evaluation by				Weightage	Final Score
	Self	CO	RO	CSO		
KRA	4.5 out of 5 Maximum	4.50	4.30	4.50	55	2.475
Competency		5.00	4.75	4.50	25	1.125
Potential		4.5	4.25	4.35	20	0.870
Total						4.470

The above officer final rating is Outstanding the top rating as the final score is above 4.350.

Drawbacks of the appraisal system

The following are the drawbacks of the appraisal system used by the public sector enterprises.

1. The appraisal system could be more transparent as the scores for competency and potential is presently assigned by the controlling, reviewing and countersigning officers which could be biased.
2. The scores could be moderated with either up gradation or down gradation after the self evaluation to give the pre-determined rating to a particular officer.
3. The system does not allow top rating for all the achievers as there is a percentage restriction for both top and bottom rating due to the inherent characteristics of bell curve model.
4. The system is not capturing the group task, group achievement as there are certain tasks, goals which can be achieved on group basis, which involves the activities of more than one department/ function in an organization.
5. It is not giving the officers an opportunity to review their performance and make corrections as the score for competency and potential is subjective.
6. The system is evaluated at four levels including the countersigning officer who may not know the officers whom they are evaluating.

This method is unpopular in many organizations as it usually keeps the employee in constant fear of their future. For instance in a survey of HR professionals 44 per cent of the respondents felt that the forced ranking system prevalent in their organization damaged the morale of the employees and generated a mistrust of leadership. This method can also cause potential damage to employee loyalty and cooperation as the employees may suspect it to be an exercise to get rid of them.

Conclusions

The present method used by the public sector enterprises for evaluation of the annual performance of its officers may be reviewed to make it open ended, instead of forcibly distributing the rating into Outstanding, Very Good, Good, Satisfactory and Poor, which will make the officers motivated as they will not be under fear of their future. The system could be modified to assign better weightage for group activities, goals and its achievement. The system could consider the assignment of weightage for knowledge and continuous up-gradation of the respective field of knowledge of the appraisee as it could contribute to the achievement of organizational objectives too. The review and revision of the present appraisal system of the public sector enterprises would help and achieve the objectives of PSEs for which it was started. It would also pave way for more objective and goal driven.