# Chapter 3: Performance Appraisal in Public Utilities

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.</td>
<td>Introduction</td>
<td>99</td>
</tr>
<tr>
<td>3.2.</td>
<td>The Public Sector of India</td>
<td>102</td>
</tr>
<tr>
<td>3.3.</td>
<td>Characteristics of Employees in Public Sector</td>
<td>108</td>
</tr>
<tr>
<td>3.4.</td>
<td>Private vs. Public Sector</td>
<td>111</td>
</tr>
<tr>
<td>3.5.</td>
<td>Challenges of Public Sector Organization</td>
<td>117</td>
</tr>
<tr>
<td>3.6.</td>
<td>Importance of Performance Appraisal in Public Sector organization</td>
<td>127</td>
</tr>
<tr>
<td>3.7.</td>
<td>Performance Appraisal System in Indian Public Sector</td>
<td>132</td>
</tr>
</tbody>
</table>
3.1. Introduction

Public sector organizations in India are facing significant uncertainty and ambiguity due to the new economic policy followed by liberalization, privatization & globalization. As a result such organizations require being flexible, advanced and innovative. To achieve the competitive advantage public sector managers are also facing challenges to meet the volatile environment. The literature says that an organization can achieve competitive advantage by improving the performance of the employees along with the advancement in technology. Traditionally the organizations put more stress on the technological, economic and strategic capabilities to gain competitive advantage. But research suggests the crucial role of effective management of employees in the performance of the organization. As a result the importance of human resource is increasingly felt and recognized for the survival of the organization. This is understood that the sustainable competitive advantage can be derived not from the resources and technology alone but from the efficient human resources which in turn even may contribute to the development of innovative ways and generating resources.

The emergence of challenges of globalization creates tensions for the public sector organizations which require new forms of management to meet the demands for the public sector management. There is no doubt that public sector organizations of developing countries play a crucial role in economic development, socio economic transformation to catch up the developed economies and help the countries to promote efficiency and equity in the process of development. Hence this is understood that theory construction and research development to such public sector organizations are very much needed.

It is universally recognized that the state must play a positive role to overcome the rigidities inherent in a less developed country. The necessity of basic services like railways, road transport, telecommunication, gas, and electricity is imperative for future development. These basic socio-economic services are often termed as public systems for which large investment is made for the development of such public systems. India was a less developed country with low per capita income, low rate of capital formation, low human quality and low industrial output at the time of independence i.e. 1947. Parliamentary form of democracy was adopted by the people of independent India. The
democratic Government embraced a mixed economy, where the state and the private entrepreneur were to play their role for socio-economic development of the country in a planned manner. The large scale investment in public systems with high gestation period was left to the initiative of the state because of resource constraints and lack of capacity of private enterprise. Subsequently management of infrastructural facilities was vested with Government departments. This resulted accelerated growth of economic development e.g. increased per capita income, moderate rate of capital formation, better human quality and large volume of population during the first four decades after independence. However, the facilities provided by such organizations to the general masses were either highly subsidized or was totally free.

According to economic theory, the factors of productions required to produce and distribute goods and services are land, labor, capital, organization and enterprise. These five factors can be grouped into two broad categories 1) land and capital and 2) labor, organization and enterprise. The first group is passive in nature while the other one is active. The factors belonging to second category may largely be termed as human resources working in the form of workers, managers and entrepreneurs. The production of goods and services are not possible in the absence of these factors. The magnitude and quality of goods and services depend on the quality of such human resources.

Government of India adopted a liberalized open market economy in 1991 for increasing the size of the economy. As a result a more efficient modern public system was required. In the present day of liberalized economy, cut-throat competition raise the need for well developed and well qualified human resources to successfully face such competition. The development of human resource has been assumed more significant so as to understand and use ever-changing technology and to do the job in an effective and efficient manner, eventually leading to customer satisfaction and economically viable and commercially profitable organizational units. Therefore, human resource development is not considered as an end in itself but a continuous and creative process which is being practiced as a means to achieve the increased productivity and profitability, improve morale and career development of employees, better industrial relation and the overall goals of the
organizations. To realign all these aspects all types of organizations in whatever form have started the process of human resource development.

A highly competitive, complex and demanding business environment brings a period of almost revolutionary changes for the public sector organization around the world. An adaptive and innovative organizations more suited in a new world of change and transformation that is why Static, permanent and traditional organizations working in a predictable world are being forced to be flexible. In this new era of multiple changes, efficient human resource management can bring change in the organizational culture and influence the working environment. In the current environment, a professional public administrator must be prepared to advocate for the strategic importance of human resources, find ways to be flexible and responsive to change, adapt to changing patterns of employment and intersect oral relations, utilize technology to communicate more effectively with prospective and existing employees, and develop more sophisticated and effective methods of measuring and rewarding performance (Ingraham and Rubaii-Barrett, 2007). Only by empowering employees to accept the responsibility and to make decisions as fully active participants in the life of the organization, the organizations can create an environment of responsiveness which is required to meet the changing needs of customers in today's business environment. Thus survival of organizations in the post liberalization era of change and uncertainties to a large extent depends on the performance of their human resources.

The performance of an organization depends on not only just the available resource but also the quality and competence as required by the organization time to time. An organization possessing competent human resource grows faster than the other organization. The performance appraisal is essential to improve the performance of the public employees through Human Resource development (HRD). In fact performance appraisal is the foundation for HRD. Some views performance measurement system as a classical and scientific technique. Others view the system as the importation of naive management technique from the private sector. Few are of the opinion that the performance measurement technique acts as a means of exercising greater control over public service bureaucracies.
As the importance of human resources is increasingly felt by the organizations, they are becoming more conscious about the welfare of the employee to have satisfied workforce to achieve the goal of the organization. The state intervention to protect welfare of employee was felt in India soon after the completion of First World War. Considering the welfare of employees the trade union act developed in 1926 gave formal recognition to the trade union of employees. But after the independence there was a shift from concern for welfare to concern for efficiency in 1970 due to emphasis given by the government on heavy industries. The government also set up a separate ministry of HRD in the Central Cabinet realizing the importance of human resource development. The establishment of such a separate Ministry of Human Resource Development in 1986 by Government of India is a logical culmination of the realization of the importance of the human factor in development of efficiency of employees. Such initiative taken by the government encouraged many organizations to introduce HRD department and others named the department as Personnel department. Overall the term HRD started becoming popular in Indian scenario. International observers agree that something unusual was occurring internationally in the 1990s with ‘the rise and rise of “performance” as an issue in public sector theory and practice’ (Talbot, 1999). After the initiation of economic reforms in 1991 there has been increased pressure on human resource as strategic role of human resources is being felt in achieving the organizational goal. The performance appraisal as a crucial part of HRD plays an important role to bridge the gap through human resource development technique like training and development etc. Performance appraisal plays a crucial role to improve the efficiency of the employees and to fulfill the target of the organization. It indicates the gap between the desired level of performance and actual level of performance. Though the importance of HRD is widely recognized unfortunately, the focus on human resource (HR) is still lacking. As a result little support from the top management is received as they feel role of HRD is not up to their expectation.

3.2. Public Sector of India

The public sector in India emerged out of a mandate to provide a strong industrial base in the economy needed by the state. A variety of problems at the time of independence like high income inequalities, low growth in income and savings, very poor infrastructure
facilities and inadequate technological resources caused economic problems in India. Such a situation demanded a vast industrialization to produce goods of mass consumption and several other basic and key goods that were needed as inputs for manufacturing. To ensure industrialization India also needed infrastructural development like power, telecommunications, railways and steel. A strong need to produce defense equipments and other heavy goods like automobiles, railway coaches that were imported was also felt. Thus setting up of a vast empire of public sector enterprises took place following a strategy of laying an industrial base, rapid industrialization even in the backward regions of the country and a need for import substitution. As huge investment with low returns did not encourage the private sectors to invest, the Government came into being to take the initiative to establish large scale industry. The public sector also played an important role in the achievement of constitutional goals like reducing concentration of economic power in private hands, increasing public control over the economy and creating a socialistic pattern of society etc.

In India public sector undertaking originate from two distinct areas; taking over from the earlier colonial businessman or by taking over sick industries and building up a new plant as an object of 5 year plans. In case of taking over of a sick industry the finance required to make the unit viable and compatible was shown as debt capital. Such increase in debt capital generates a tendency among the public managers to increase the price to break even at low volume of production which results in further low demand and loss of production. To overcome this vicious circle this is required to restructure the capital of the company. As the share of capital and debt capital for the public sector organization come from the same source the cost of capital should remain same for both type of finance. Here lies the main difference in basic philosophy of public and private sector employees. For a healthy company the cost of debt capital is much lower than the other form of financing. In addition the object of public sector origination is to increase the rate of return on investment and not the earning per share.

Public sector has several meanings. Since this sector is mostly involved in providing public service, it is often referred to as public service. Public service has several meanings. First, ‘the public service’ refers to people employed by governments to carry out the
administrative functions of the state; second, a public service refers to a service authorized and funded by government. Third, a public service can also refer to any service provided to the public. Finally, public service can refer to the motivation of people who feel a sense of duty or responsibility for contributing to the welfare of others and to the common good of the community or society (De Barun Kumar, 2006).

The important forms of public sector can be as below:

1. Departmental Organizations (like Post and Telegraphs, Railways, Broadcasting, and Defence undertakings in India): A top executive appointed by the ministry or inter-departmental board manage the departmental organization.

2. Public Corporations: Public Corporations also called as statutory corporations such as Damodar Valley Corporation (DVC), the Life Insurance Corporation of India (LIC), the Indian Airlines Corporation, etc. are established in the interest of public with best possible management under the specific acts of the Parliament or State Legislature. The capital of such organizations is usually provided by the Government and the corporation is managed according to the provisions of the Act. The broad policies are decided by the Government but they enjoy autonomy for their internal management. They place the annual reports before the Parliament as they are answerable to it for their activities.

3. Government Companies: According to the Indian Companies Act 1956, a Government company is any company in which not less than fifty one percent of the share capital is owned by the Central or by any State Government or Governments, or shared partly by the Central and State Governments e.g. Steel Authority of India Ltd. (SAIL), Bharat Heavy Electricals Ltd. (BHEL), and Hindustan Shipyard Ltd. (HSL) are a few examples of such companies.

Public enterprises in India cover a wide range of industrial and commercial activities and have been assigned a key role in developing economic structure of the country. The public sector plays a vital role in the socialistic and mixed economies for three reasons; helps to gain control of the commanding heights of the economy, promotes critical development in
terms of social gains or strategic value rather than primarily on earning profit and provides commercial surplus which helps in financing the economic development of the country.

The main objective of assigning such a king-pin role to public enterprises was to ensure the uninterrupted supply line of basic goods and services. They are expected to avoid waste through the effective and efficient use of resources and help in the growth of the private sector. However, the objective of public sector organizations nowadays is far from being fulfilled. On the economic front, most of the public sector organizations have been losing in today’s competitive market.

Public sector organizations play a prominent role in industrial and economic development of India. During the pre-independence era there were few public enterprises, namely the railways, the posts and telegraph, the port trust, All India Radio and the ordinance factories, among few other government managed enterprises. After independence in 1947 the Industrial Policy Resolution 1956 was implemented where importance was given to enlargement of public sector organizations. This is because of the fact that since independence, Indian economy which was predominantly an agrarian economy was facing various socio-economic problems like a weak industrial base, low savings, inadequate investments and lack of industrial facilities etc. As a result state intervention to use the public sector as an instrument to steer the country’s underlying potential towards self reliant economic growth was felt. Several strategies relating to public sector organizations were taken in the policy statements afterwards. The public sector undertakings emerge very significant in the Indian context by fulfilling various social obligations such as generation of employment for mass, provision of basic infrastructure and public utilities, protecting the consumers from being exploited etc., promoting backward regions of the country and achieving balanced regional development. The basic characteristics of public sector organizations are:

- Public sector is built upon social values and welfare criteria.
- The purpose Indian public sector is to achieve economic equality for all classes and regions in an orderly, peaceful manner.
Public sector will have to focus on the development of infrastructure, key intermediate goods, production and distribution of strategic commodities and provision of social services.

During post liberalization era to accord greater financial and managerial autonomy with the aim of incurring higher capital expenditure the government introduced the concept of Maharatna, Navratna and Miniratna from 1991. Now in recent globalised market such organizations are facing various challenges to keep space with the growth of competition. Though great push was given to the public sector in the initial Five Year Plans but now started to recede. This paradigm shift can be attributed to the overwhelming public orientation, namely to serve the social purpose than to run them as profit making apparatus as in the private sector.

The public sector has three key features that impact on the management of its employees. First, it is heavily influenced by contextual factors in particular by public policy (Willis et al., 2006). Second, the diverse nature of the work and the workforce is a challenge, public sector organizations are diverse in size, type of work performed and history (Kalleberg et al., 2006). Third, the scope of the public sector can also be viewed according to the employment status of its employees. It is in this respect, and through the ‘civil service’ model, that traditionally key distinctions between public and private employment conditions and the associated expected behaviours of the employee occurred. The ‘civil service’ model of public service was based on public rather than private employment law, comprising key differences: employment was generally for life, with recruitment typically starting at the beginning of a career and with promotion reserved for insiders. Remuneration was based on seniority, rather than performance. There was a great emphasis on ‘objectivity’, loyalty and due process and an emphasis on formal certificates and diplomas. Special retirement schemes were also part of this employment arrangement (Charbit and Michalun, 2009).

Despite continued efforts and amendments, the essence of the organizational culture in the public sector remains that of government administration and not one of professional management. Job security, the conduct and service rules, the quasi judicial method of dealings with disciplinary issues, the inability of the management to decide any knotty
issues without reference to Ministry or Minister are for all practical purposes indistinguishable from proceedings in government departments. The departmental undertakings likewise see no reason for the marginal difference in privileges, between them and tie with public enterprises. The managers know that they cannot decide important issues on their own, they cannot buy or sell, reward or punish, according to their best commercial or professional judgment. A single mistake can cost them dearly. Playing safe is the surest strategy for survival; and survival itself can ensure progress in career because proving merit is as impossible as proving incompetence? For the public, doing business with public enterprises as a buyer or as a seller, the experience is qualitatively not much different from that of dealing with a government department. Decisions are rarely expected within the validity period, negotiations never appear to be final, decisions may even be reversed, payments may not be made on the dates promised, delivery dates may not be maintained, and claims may not be settled for months and years.

Political criticism, fear of public scrutiny and risk aversion are the main barriers for innovation in public sector. Every innovation is subject to public scrutiny and consequences of unsuccessful innovations are also very grave. As every decision require political judgment, the environment of public sector becomes very difficult to operate which leads to the tendency of risk aversion.

Public sector organizations are predominantly service sectors. Service is more of a competency than an asset that is why excellent service is difficult to replicate entirely as opposed to an exceptional product which can be replicated. In contrast to manufacturing concern the success of a service sector depends on the quality of service delivery not on the quality of the product. There is no buffer between an employee’s attitude, an employee’s satisfaction or an employee’s performance and the perception of the customer about the organization. But the service sector employees are the key participants in service sector transaction. The service sector organization can compete when they treat the employees as valuable resources. In other words if an organization wants to deliver an excellent service, the organization must focus on training and retaining the right kind of employees.
3.3. Characteristics of Employees in Public Sector

In spite of initiatives taken by the government, employees’ perception in the public sector is that the fortunes of the company are of little concern to them because, irrespective of profit or loss, they will continue to get their wages, bonus, incentives allowances and overtime. In spite of occasional threats, no one seriously believes that a losing concern in the public sector will eventually close down. Nor will they get any more than the other enterprises if their enterprise does well, because of the pattern of uniform wages differentials ‘adopted by, the government. Despite continued efforts and amendments, the essence of the organizational culture in the public sector remains that of government administration and not one of professional management. The employees look upon themselves as government employee.

The private sector employees have the right to strike which serves the basis for collective bargaining and encourages both parties to try and reach agreement. Such right empowers the private sector unions to follow movements on broad issues like pay, benefits, and job security etc. But majority of the government unions do not have the right to strike on such broad issues. As a result generally government employees negotiate on even minor changes in policy. Educated employees often do not join government unions, because they cannot negotiate on issues that are of importance to them.

The public sector organizations fulfill multipurpose objectives which limits the determination of individual goals, the role stress occurs among the public employees. Moreover public sector employees across all levels cannot participate in decision making nor can they express their ideas concerning the goals of the organization and the jobs they are doing. Such role stress acts as a barricade for achieving the job success for public employees. Role stress also acts as a factor which acts as a hindrance to motivate the public employees.

Being a public sector employee a public servant gets some benefits by virtue. According to the Sixth Central Pay Commission such benefits can be categorized into two broad
categories - ‘transactional benefits’ and ‘relational benefits’. Transactional returns are those monetary and nonmonetary returns that the employee is entitled to perennially such as the basic pay, dearness allowance, house rent allowance, city compensatory allowance, conveyance allowance, etc., and all the intangible benefits fall under this category. “Relational” returns refer to those needs that are not necessarily monetary in nature. These returns satisfy the self-esteem and self-satisfaction needs of the employees like the pride of having an association with an organization, job challenge and satisfaction, opportunities for learning and advancement, a sense of being part of a nobler cause (in case of some organizations), job security and so on. The relational benefits in government are different for different people; but roughly the list below would be applicable to most employees.

a. Employment security
b. Respect in society
c. Balance between work and life
d. Opportunity to be part of the larger cause of serving the country
e. Variety in job profile

Generally, the ‘transactional returns’ for a public sector employee are much less as compared to a similarly placed person in the corporate sector, but the ‘relational benefits are generally much more. Burgess and Ratto (2003) studied that money is not the only motivating factor for public sector employee because civil servants are motivated by other benefits and incentives than private sector workers. This is also confirmed in a study conducted on public sector workers of Italy (Borzaga & Tortia, 2006).

The Sixth Central Pay Commission examined the issue of giving monetary incentives in order to motivate government employees for better performance. The Pay Commission observed:

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2 A study of Estimating Cost to Government for a government employee; XLRI (2007), The study was Commissioned by the Sixth Central Pay Commission.
“In India, Government employees are paid according to their service incremental salary scales. For a larger (majority) section of employees there is hardly any performance for pay incentive available to them. Their salaries are today only a composite of basic pay plus certain allowances (variable) including Dearness Allowance that are admissible depending on the nature of jobs and duties and accompanying working conditions. In fact, natural increases in salary are very much guaranteed to Government employees. This leads to a situation where employees do not exert themselves for a higher level of on the-job performance and achievements, thus depriving the Government of potential productivity gains and service delivery enhancements, both in terms of quantum and quality. There is no external motivation for risk-taking and delivering a higher level of performance, because though the risk-taking is punished if things go wrong, it is not financially rewarded if things improve because of employees’ initiative and risk taking. Over the years, this has led to the development of a culture where employees have become risk averse.”

The Government of India plays an important role to provide employment where unemployment is a great problem of the nation. The Railway is an important public sector among the public sectors in India. It is considered as the country’s largest employer employing more than 13 lakhs of employees. The success of such organization as well as the nation ultimately depends on how efficiently employees perform their jobs. The state-ministers and the high ranking government officials give plans and vision for the future of the nation. The duty of public employees is to bring the plans in reality. Unless the public employees are motivated, committed and hard working all planning will go to waste. Hence this is very much important to take care of motivating employees along with designing the sound policies.

Motivating government employees is difficult in comparison to motivating the private employees. There are a variety of positive reinforcements like bonus pay, reward, promotion etc. and negative incentives like threat of disposal to motivate the employees or team of workers in private sector. In public sector these types of positive and negative incentives are not be implemented. Because most governments use a rigid grade- based pay system across the entire public sector. On the contrary it is also not easy to remove a non
performer from the service. With such limitations it becomes a challenge for the
government to charge the public sector human resource to achieve the desired performance
levels.

The liberalization of the economy, and the extra competition from overseas firms, has put
considerable pressure on the personnel function of Indian domestic companies to prepare
and develop their employees. In response to such pressures, Indian firms have also reacted
positively by bringing a clear change in the priority of the HRM function which aims
towards a strategic approach to human resource development in place of routine kinds of
HR activities. The human resource development (HRD) has taken initiative relating human
resource management which enables management to achieve its goals of productivity,
efficiency and profitability and provides stability to the organization. People are the most
important and valuable resource for every organization. Dynamic people can build
dynamic organizations and effective employees can contribute to the effectiveness of the
organization. Thus competent and motivated people are required to achieve the goals of the
organization. Public Organizations, therefore, need to contribute to the dynamism,
competency, motivation, efficiency and effectiveness of the employees continuously.

3.4. Private vs. Public sector

There are three environmental factors which make public and private organizations
managed differently (Harel and Tzafrir, 2002). Firstly, the private sector organizations
must worry about their profit margins and bottom-line performance. In contrast, public
sector managers and organizations are judged by how well they provide service or correct
problems, therefore they have high disincentives to control labor cost. The second factor is
the legal and constitutional framework which makes the public employment relationship
fundamentally different from that in the private sector. Finally, the major difference is the
diffusion of authority in the public sector as opposed to a single, formal line or chain of
command.

Research on Indian HRM practices suggests that, in comparison to public-sector firms,
private-sector firms are more likely to compensate their employees based on the
performance and competencies. On the other hand, Indian public-sector organizations still
rely on total work experience to compensate their employees instead of their performance. Hence employees in public sector organization are less motivated to perform their duties than the public sector employees.

In private sector the salary increment policy is directly linked with the performance of the employees i.e. merit based policy. On the contrary the salary increment policy in public sector mostly time based. A group of employees belonging to same scale of pay gets equal amount of salary and enjoys time based increment in salary in spite of differences in their performance level.

According to Buelens and Van den Broeck (2007) private and public employees differ relating the issues; compared to private sector employees, public sector ones are less influenced by monetary rewards; if public sector employees do not seem more sensitive to intrinsic factors such as self-development or responsibility, they seem more motivated by a supportive working environment; public sector employees report fewer working hours and less willingness to exert considerable effort on behalf of the organization; hierarchical level impact at least equally on motivational differences than sector employment (education, healthcare or police). Finally, if sector employment is not a decisive factor as compared to gender, age or education, public sector employees experience less work-family conflicts than private sector employees.

Public and private organizations are differentiated on the basis of ‘ownership’. Entrepreneurs or shareholders are the owner of private-sector firms. On the other hand, Public sector is owned, funded by public agencies and members of political communities at different levels of government collectively control the functions of public agencies. The nature of ownership influences the policies adopted for human resource management. The sense of propriety in the public sector is based on ethics of public morality which goes beyond private sector ethics of which the boundaries are mainly legal.

In the private sector, employees perceive that they have only one boss while, in the public sector, employees must respond to executive and legislative political superiors. The workers in Indian private sector organizations perceive that the work climate is more authoritarian than the public sector.
Private firms adopt more rational and system approach relating the HRM functions like recruitment training, evaluation, performance related pay etc. than the public sector counterparts. It is observed that the administrative practices followed by the private sector are superior to the practices followed by the private sector. It is supported by the fact that after the initiation of privatization programs in developed countries like UK, roughly from the late 1960s and early 1970s, public-sector managers have been encouraged to emulate the workplace practices and policies of the private sector (Box, 1999; Ferlie et al., 1996).

Most of the employees of public sector organizations are also not satisfied with the pay packet. This is criticized that there are wide wage differential in monthly emoluments between the public and private sector organization. Generally the monthly salary of private sector employee is higher than the employees at the same level in public sector organization. Considering the socio economic condition of the country the salary of public sector employees is not so much attractive and motivating to attract the efficient people.

In Public sector organizations different constraints factors limit the power of making strategic choices. Any decisions about strategic choice in a public organization are subject to disclosure. Budgetary constraints due to legislative mandates prohibit or limit public sector leaders from spending money to collect information for decision making. The public administrators must report to people in oversight roles who are often political appointees and prone to leaking discussions. This limits the type of planning in which preliminary lines of inquiry are explored to search for ideas. Thus the decision making in public organizations is different from that in a for-profit organization.

Another factor which deters public sector is the establishment of the dominance of public good, over private interests in the production amid distribution process. The decision making process in private organizations is smoother as their only goal is to earn profit. But the public sector organizations experience more turbulence, interruptions, recycles, and conflict in making any decision.

In public sector organizations strategic decisions are made with comparatively little data support, which limits knowledge about useful alternatives. But the private sector organizations take any decisions based on the acquired data about
technology and other developments in the market that may offer useful ideas. Whereas the external environment of a public organization is littered with political considerations like opinion of political leaders, outright manipulation by legislators and interest groups etc.

The fundamental difference between private sector and public sector is that though profit must be secured through earnings in both sectors, but the prime need for this profit in the public sector is for investment in national development including that of the enterprise, itself. In private sector profit is to be made from the differential between price and costs, but in the public sector it must be primarily through cost reduction, not by expedient price rise which eventually affects the public. The object of reducing costs is not primarily to increase profits but to ensure optimal utilization of national resources, i.e. increasing productivity of all factors of production including the human resource. Productivity is thus an end in itself independent of profit. The public sector executive, therefore, needs a built in independent sense of judgment about what is public good. In this respect, it can be argued that difficulties with performance management system in the public sector do not lie in the lack of bottom line performance measure against which performance is to be measured but in the complexities surrounding its measurements.

Performance could be more difficult to assess in the public sector than in the private sector due to complex goals which are harder to measure. The biggest problem with the move to a meritocracy is that it is susceptible to subjective measurement where doubt undermines the system. Chun and Rainey (2005) have studied the specificity of goal for both motivating and evaluating the effectiveness of an employee in the private sector, which is easier to define and quantify than the case for an employee in a Govt. agency.

The nature of public organization is arguably based on the principles of conflict-avoidance among the subordinate and the superior. As a result, accurate assessment of performance of employees is not reflected through the performance appraisal by the superior. Such appraisal system also lead to difficulty in making objective assessments of performance of the employees, and the reluctance of managers in taking any action that may disappoint fellow employees.
Though it is recognized that the employees should be given proper training to improve their performance with the changing needs of the society, this is studied from the literature that the public sector spend less money in training and fewer employees are provided training than the public sector organizations. The employee satisfaction between private and public-sector organizations is in favor of the former.

The problem of creating performance criteria and implementing evaluation schemes are complex and difficult for public sectors in comparison to private organizations as government organizations are predominantly service providers, with additional burden of accountability and public responsiveness. The effectiveness and success of a Performance Appraisal System is to be judged considering the role played by the organization. The lack of clear objectives for the public sector organizations makes it problematic to set intermediate objectives for all levels of employees within the public sector. It is studied a key potential role of performance indicators for performance measurement in the public sector is clarification of objectives. Output based performance appraisal formats are based on more objective criteria than the Behavior-based performance appraisal formats which are more subjective. Output control requires the supervisor to be able to negotiate performance objectives and/or to develop performance strategies with the subordinates. Behavior control requires the supervisor to be able to guide and direct his/her subordinates as needed and to give a subjective evaluation of the subordinate's performance. Thus, in order to be able to utilize the performance appraisal process optimally, other than matching the performance appraisal format with the task types, the rater or supervisor must be trained to provide direction, to observe and correct inadequacies for the subordinate, and most of all, to increase observational accuracy and provide informational input for ratees to improve future performance. In the absence of clear objectives the public administrators fail to implement the performance appraisal effectively in comparison to the private sector.

Another factor is that the public sector enjoys monopoly power with no other forces to ensure efficiency and quality. Moreover they do not sell their product directly in the market; the services provided by the public sector are purchased on behalf of the customer by some statutory or fund-holding body with limited accountability to the customer to whom the services are given. Public organizations cannot compete for customers. Their
service area is stipulated and not grown by marketing. Rather, they are allowed to collaborate with other organizations that offer similar services and not compete with them for resources. As a result, public sector strategic decision makers attempt to enhance cooperation and collaboration by giving many of the key players an opportunity to suggest alternatives. On the other hand, Private sector organizations do not share their ideas and experience few demands to disclose or collaborate as they uncover alternatives.

Another distinguishing feature of the public sector is the presence of multiple principles which influences the optimal performance measurement. Due to multiple principle problems the measurement of performance and efforts is more difficult than in the private sector. Private sector organizations often have simpler goals and more responsive control mechanisms than public sector entities, meaning that cause and effect relationships are clearer, and the impact of actions more quickly apparent.

Public organizations are supposed to have more bureaucratic structure than the private organizations. The organizational structure, seem to maintain a pyramidal structure with greater number of role incumbents at the bottom. This because of the facts that the government followed the models and experiences of the organizations of pre-independence India, or foreign countries many of which were privately owned in establishing the public sector post independence era. The private sector executives were invited to acts as the head of the public enterprises who brought along their values, norms and culture in public organizations.

According to Liff Stewart, (2007) seven reasons are there why working for the government is different from working for the private sector.

- The private sector is in business to make a profit, while government exists to serve and protects its citizens

- Government organizations are typically run at the highest levels by the elected officials, meaning the agenda and direction of the organization are subject to change every few years
Government organizations, specially at the federal level, are generally larger than most private companies and as such, require a higher degree of bureaucracy, rules and regulations.

Government organizations typically receive more scrutiny than the private sector because oversight by Congress, the inspector General, the media, consumers advocates and others, which means that the organizations will probably move more slowly and be less innovative than the private sector.

Govt. employees are often paid at different rate from their counterparts in the private sector.

Govt. employees usually have better job security than private sector employees because they have more legal protections and do not have to worry about their organization being taken over by other company.

In the federal Govt. and in most state and legal governments employees do not have the right to strike.

3.5. Challenges of Public Sector Organization

Public sectors are owned, funded and controlled collectively by members of political communities at different levels of government. The object of public organizations is to serve the nation. Therefore the organizations can improve the performance through higher productivity of all factors of production including the human resource instead of raising the price of the service provided by them. But job security, absence of job accountability makes the public sector employees less motivated to improve their performance. But nowadays Public sector organizations are facing challenges to achieve their target with reduced number of employees. Hence such organization should concentrate on designing such an appraisal system which will ensure the optimum utilization of human resource performance. Globalization, persistent poverty, and growing citizens’ demands for quality service delivery and infrastructure have substantially increased demands on the civil services.
The recruitment policy of the public sector organization is not adopting modern and sophisticated selection techniques in selecting the employees. There are the problems of overstaffing and understaffing in some of the public sector units. Hence the organization either facing the problems of wastage of national property or struggling for achieving the target with reduced number of employees.

The number of public organizations using a good performance appraising system is narrowly bordered as the operation of public organizations in most of the cases is influenced by the central authority. Public administrators unlike private managers have no target of profit to be achieved and comprehension to increase the return on investment of the shareholders. Due to these characteristics of the public organizations, without any forcible external power, performance measurements fails to bring noticeable change at the comprehension of public organization being good for its own condition.

Performance evaluation systems have been introduced in public service organizations as one of the elements of the new public sector management. Unfortunately, some views that the performance appraisal of public sector employees is not an easy task. Unlike private sector the public service sector organizations have diversity of customers, multiple objectives, function within complex and uncertain socio-political environments and deliver wide range of policies and services. Government socio-economic objectives for public enterprises are often defined ambiguously; usually the goals are stated in general terms like ‘maximization of society’s well-being’ or ‘increase of living standards’. In some cases the objectives may be inconsistent with each other, and in other cases they are altered in response to political circumstances. In absence of clear goals the public manager requires a wider range and greater intensity of skills to evaluate the performance of each employee.

Although public sector organizations have implemented performance measurement systems but adaptation of such private sector approaches has caused a number of difficulties because of multiple stakeholders in public sector organizations – in comparison to private sector organizations that mainly focus on customers. Rantanen et al. (2007a) identified specific problems faced by Finnish public sector organizations in designing and implementing performance measurement systems.
They are:

- many stakeholders with conflicting needs;
- undefined end products and goals;
- lack of ownership of the property; and
- Poor management skills

The monetary reward in public sector organizations is less attractive than the private sector. The individuals entering the public sector value economic growth of the organization to a lesser degree than do entrants to the profit sector. Because the public sector employees receive much lower monetary rewards in spite of the addition of monetary incentives than the private sectors. Greater emphasis on monetary incentives will help to attract individuals who value economic growth more highly. Moreover the successful use of monetary incentives in government also is threatened by the extent to which Performance Appraisal System can measure performance differences in precise manner and provides an equitable basis which ties rewards to performance.

This is studied that rewards and benefits that people receive from their employer/organization are expected to vary differently between public and private sector organizations (Boyne, 2002). Private sector employee, in fact value high salaries significantly more than the public sector employees (Frank & Lewis, 2004). Jurkiewicz et al. (1998) find that public sector people place a stable and secure future on the top, while private sector people put high salary on the top of the rank order in terms of motivational factors. The stability and job security provided to the employees by the public sector creates a great challenge to motivate the poor performers for greater performance.

Moreover as the employees are not awarded for taking initiative and risk rather risk taking is punished if things go wrong, the attitude of employees in public sector organization are risk averse. It becomes very difficult to motivate the employees to improve the performance of public employees and thus depriving the organization to increase the output.
One of the most important factors behind successful operative level performance measurement is establishing the linkage between measurement and rewarding. In most of the cases the monetary reward given for excellent performance of the employees are not attractive to the employees to improve their performance. This is also studied that Public sector organizations do not, however, have similar financial resources for rewarding their employees as private sector organizations do, because the municipal economy limits financial rewarding (Pekkola et al., 2007). In spite of financial constraints, it is very crucial to develop and implement an appraisal system which will provide the basis for reward and recognition schemes for the employees.

Moreover, government organizations mostly do not follow performance related pay. But merit increases should consist of meaningful increments. Otherwise superior performers could feel that they are equitably compensated for their efforts. If employees do not see significant distinctions between top performers and poor performers, top performers may become frustrated and reduce levels of performance. Good performers should get proper incentives or recognition, while bad performers should have necessary training or performance-related discipline. Measurability, appraisal, participation of employees, and rewards are key variables in an equation of pay-for performance (Choi, 2007). Hence proper attention must be given on designing a Performance Appraisal System which can provide the basis for evaluating the performance of employees as well as for implementing performance related pay.

Goal setting is one of the integral parts of an effective Performance Appraisal System. Perhaps the most challenging problem confronting the success of goal setting is the vagueness of the goals of public organizations with which public managers and policy makers must be concerned. The diversity of internal and external constituencies increases the likelihood of political attacks upon public administrators. Jalan (2005), records the decay in Indian public services: the system is dominated by internal conflicts of interest (for example, powerful but separate trade unions for different classes of government employees), political interference, statutory provisions, complicated seniority bound procedures, fiscal stringency and the proliferation of agencies which operate at cross purposes without any clear division of work.
Whereas the prime goal of various levels of a private firm is to perform those activities which contribute to the firm’s profitability. But the lack of clear objectives for the public sector organizations makes it problematic to set intermediate objectives for all levels of employees within the public sector. It should be noted that a key potential role of performance indicators in performance measurement in the public sector is clarification of objectives which is great challenge to the public sector organization.

The contributions of job design to public sector performance are somewhat problematic. Job design fails to explain a direct cause effect relationship between satisfaction with job content and service quality or output, or in cases in which an employee is being underutilized. Another threat to the successful implementation of job design involves the inability of managers to alter variables significantly, such as self direction or responsibility etc. these aspects of the job design are controlled by legislators or program constituents.

The public sector in most countries, small or big, are going through profound restructuring, trying to provide improved services while at the same time having to drastically downsize in the face of major fiscal constraints. As a result initiatives have been taken to reform and reinvent public administration. The process of reforming public administration is felt necessary to meet the dual challenges of providing improved services with fewer resources.

The public sector is a sub-system of government and a part of the state that deals with the delivery of goods and services by and for the government. Government organizations typically receive more scrutiny than the private sector and a number of political, bureaucratic, and technical obstacles constrain government performance. The management is also unable to decide any knotty issues without reference to Ministry or Minister which means that the organizations will probably move more slowly and be less innovative than the private sector.

Public sector organization is also facing financial challenges due to budgetary constraints. As a result such organizations are adopting the policy of reducing the labour cost. But due to shrinking of labour supply and increasing international competition it is going to be harder to raise the standard of living or even to maintain current good quality of public
services. As a result reducing labour cost in turn puts challenges to the organization of achieving the competitive goal with reduced number of employees.

Another major problem is that the public sector managers lack autonomy in most of the managerial matters in comparison to the private sector executives. The autonomy of the public sector managers is grossly diluted to the extent of virtual negation by a variety of factors, most important among them being the domination of political influence. Public sectors are considered as organizations directly subordinate to the Ministers. Such excessive interference at every stage by the ministers becomes the cause of frustration and flight of good personnel. More freedom to the management and less interference from the ministry in the public sector management is essential for improving the performance and image of the public sector. Thus public sector managers cannot take any decisions regarding improvement of performance of their employees as per their needs.

The widespread limitation of public sector organization is that the feedback is not shared in most of the cases, if shared not in detail. Thus having a good idea is not enough. The good idea must be followed up by system improvements and sound practices. If performance measurement is simply viewed as a data collection exercise it will serve little purpose to in formulation and implementation of policy in an organization.

Though the public enterprises in India are assigned a key role to the process of developing the basic infrastructure for industrial growth, their performance is not up to the expectation. Overall the main challenges to such organizations are political interference, irresponsible criticisms by the Parliament, instability on top, absence of profit motives, lack of discretion to reward and punish etc.

Government organizations are predominantly service providers, with additional burden of accountability and public responsiveness, the problem of creating performance criteria and implementing evaluation schemes are complex and difficult. Unlike a manufacturing sector in a service sector there is a direct contact between employees and the customer so if a service sector employee is frustrated with work environment or are not properly motivated for doing the job that will directly influence the customer’s perceptions about the organization. So employees’ perception about the about the organizations is one of the
most important factor which is in turn affected by their perceptions about the Performance Appraisal System.

As service marketing requires not only external marketing but also internal and interactive marketing the selection, training and motivation of employees can make a huge difference in customer satisfaction. An effective Performance Appraisal System can provide basis for rewarding an efficient employee to motivate as well as rectifying the deficiencies for the poor performer through proper training.

Though it is a well-known fact that the employees should be provided formal training but it is criticized that some of the public sector under takings suffer from the absence of support of the top management, absence of inadequate in plant training facilities and shortage of technically qualified personnel to train the employees whilst there has been under-utilization of capacity of the training institutes of some other units (Laxminarain, 1982). It is also criticized that the training programs in majority of the public sector units were not systematized, it was given just as formality. Hence effectiveness of the training programs was also a matter of criticism.

The performance of service sector plays an important role in speeding up the growth of an economy. Service sector refers to those sectors which provide services that are intangible.

The term "Service" has to be distinguished from the term "Product". Much has been debated about "what constitutes a service?" Many writers on 'Service' concept have developed their views. But still a specific definition of service is yet to be identified. Following are some of the definitions that throw light on the concept of 'service'

"There is no such thing as service industries. There are only industries where service components are greater or less than those of these industries." - Levitt (1972).

"A service is an activity or benefit that one party can offer to another which is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product." – Kotler, Armstrong, Saunders and Wong (1966).
"The production of an essentially intangible benefit either in its own right or as a significant element of a tangible product which through some form of exchange satisfies an identified need." – Palmer (2011).

The above definitions exhibit that there is no "Service Sector" as such and service is a part of the product. "Service" can be bifurcated from the physical product with its characteristic features like intangibility which may or may not be identified with services.

In this service sector unlike the physical product the consumer puts more importance on the signs or evidence of the service quality to reduce uncertainty. Service providers are thus challenged to put physical evidence and imagery on their intangible service output to “tangibilize the intangible”. The performance of employees in such a sector acts as a driver of goodwill of the organization.

In public service sector, human resource plays an important role in the overall performance of the organization and the success of such organizations depends on the customer satisfaction and quality of services. The main problem faced by the public service sector is in quantifying their main performance measures such as customer satisfaction, and quality of service (Jackson, 1990). Thus designing the Performance Appraisal System becomes challenging to service sectors as services are intangible and the quality of such output depends on the level of customer satisfaction and quality of service provided which cannot be measured. It is also very difficult to quantify the relation between the final output and the factors contributing to quality of service because of the characteristics of service like tangibility, reliability, responsiveness, communication, credibility, courtesy, understanding the customer etc. It is a challenge to public sector service organizations to design such a Performance Appraisal System which measures the performance of intangible output and relate it to tangible reward.

Gummesson (1993) distinguished four basic types in service production according to the relationship between service provider and customer: the service provider produces the service apart from the customer; the customer produces the service as self-service; the two parties produce the service together or in interaction; and the customers produce the service amongst themselves. According to these four basic types, Gummesson (1998) took
into account the larger context: productivity arises from the service provider’s own actions, actions of the customer, interaction between the service provider and the customer; or interaction among customers. Gummesson (1998) also noted that the customer is – rather than an “end user” – an active actor in a continuous cycle of value creation. A service sector organization can not improve its productivity in quantitative sense because that may lead to a greater share of defective or low quality performance. So service sector organization should take into consideration quality of the end result of the service process. Such quality of service and satisfaction of customers depends on employees’ satisfaction and motivation to do the work in a service sector organization that can be enhanced through Performance Appraisal System.

Provider- client interaction is a special feature of service marketing as services are produced and consumed simultaneously hence both the service provider and the customer affect the service outcome. The quality of service and satisfaction of customers depends on employees’ satisfaction and motivation to do the work and that can be enhanced through Performance Appraisal System.

The quality of service also varies with the factors such as who provides them and when and where they are provided. So in a service sector selection and training of good human resources, standardizing service performance process and monitoring customer satisfaction are predominant factors of quality control. The training needs of the employees can be identified by evaluating the performance through Performance Appraisal System.

The core competency of service sectors depends on the efficiency of human resources. Such efficiency is ensured by optimum utilization of human resources through motivation. It is a challenge to such organization to design an appraisal system which is the driver of human resource efficiency to meet high demand with efficient employees due to the reason that services cannot be stored. As the services cannot be stored another challenge in performance evaluation is that it cannot be evaluated latter the time when it is performed.

Condrey (2012) correlates the difficulties of Performance Appraisal Systems in the public sector to some elements: low organizational trust levels, perceived ineffectiveness of performance appraisal instruments, small monetary rewards, a large and diverse
bureaucracy, and a lack of union support. But on the other hand, he believes that, despite the series of failures in performance evaluation systems, they continue to be implanted for being popular among politicians and the public “due to perceived possible effectiveness in influencing recalcitrant bureaucrats”.

Indian organizations nowadays find themselves operating in a dynamic environment marked by rapid economic reforms i.e., regulated to deregulated, from domestic to global market. This changing business scenario calls for a change in the attitudes of the management as well as the employees. However, the changes all over the world have forced the organizations to think about how to respond to these changes and how to prepare themselves to face the challenges ahead due to global competition. Therefore, it is not 'profit' alone which is critical in this context; rather focus would be on determinants of profit such as, productivity, market share, good image, professional management, satisfaction of the stakeholders and customer satisfaction etc.

Overall Indian organizations, in both the public and private sectors, share less information related to both strategy and financial performance with their blue-collar staff in comparison to with managerial staff. The top management has ‘mistrust’ or low faith on their subordinates. They prefer centralized decision-making, practice tight control and do not like to delegate authority to their subordinates. On the other hand the majority of the lower level employees in India is not aware of their rights and thus exploited by management. For such reasons, it is not surprising that little information is shared with employees in Indian organizations. Both public and private sector firms communicate with their employees through their immediate superiors. The hierarchical system is still prevalent in Indian organizations, which results mainly in top down communications. Nevertheless, Indian firms also communicate with their employees through unions, work councils, suggestion boxes and regular work meetings. But regular communication between the evaluator and the employees helps to improve the working relationship between them and also motivate the employees to provide higher performance.

The debate on effectiveness of performance appraisal process takes more serious dimensions in public utility service organizations. As the evaluation process is subjective often the Performance Appraisal System gets influenced by the “personal decision” of the
rater. This influences the accuracy of ratings, biasing them in a manner likely to reduce their value in performance improvement. In order for a performance system to be perceived as fair, it must be free of bias so that the right person can get the right judgment relating to his performance.

The government service sector organization where the evaluation system is subjective and contribution of each employee can not directly be related to the final output, an effective Performance Appraisal System is required to recognize the contribution of employees. Therefore an effective Performance Appraisal System should be developed on the basis of shared perceptions of managers and subordinates which are considered as the primary precondition for the development of an effective Performance Appraisal System.

3.6. Importance of Performance Appraisal in Public Sector Organization

Performance Appraisal Systems is used as one of the most popular tools to reform activities in strengthening employee performance, improving the productivity, quality, timeliness, responsiveness, and effectiveness both in public and private sector. Progressive expansion in the public sector organization has been observed in India after the attainment of independence in 1947. Time to time Industrial Resolution Policy has also encouraged the enlargement of public sector. Over last few decades the public sector organizations have not enabled the country to acquire the commanding heights of the economy and generate surpluses for the government to contribute to economic development financially. Though in a mixed economy like India both the private and public sector organizations are supposed to act as partners in bringing economic development, but the private sector organizations is basically profit oriented where the public interest is secondary but public sector is public interest oriented against the profit motive.

Performance is commonly conceived in either individual or organization terms, and also as a combination of both. Talbot (2005) outlines the different dimensions of performance – as accountability; user choice; customer service; efficiency; results and effectiveness; resource allocation; and creating public value. ‘Performance’ is also commonly used as prefatory to other activities such as auditing and budgeting and more diffusely to ‘improvement’, ‘orientation’ and trajectories (Pollitt and Bouckaert, 2004).
In a competitive world, organizations can only compete with their rivals by innovating and organizations can be innovative by managing their human resources well. A valid and accurate appraisal system used for rating performances of the employees plays an important role to make such human resource system more effective. Recognition of the contribution of employees as a result of Performance Appraisal System also acts as a true motivator to enhance efficiency of the employees. Unfortunately, the number of the organizations using an effective Performance Appraisal System is limited. Widespread attention is required to be paid to the role of the formal appraisal process because an effectively designed and implemented appraisal system can provide the employee, the manager, and the organization with a host of positive benefits. Also there is a growing interest worldwide in strategies for turnaround of public services because of the growing awareness that public resources need to be efficiently deployed.

This is especially true in the Indian public sector. In India the public sector provides basic infrastructure support to the economy, in the form of transportation- rail and roadways, postal and telecommunication services and various other essential services. Therefore the service provided by the sector is vital for the smooth operation of the economy. These enterprises of the public sector are also mostly service providers, and not predominantly in manufacturing sector. Hence the employees of the service providing public sector enterprises are significant contributors to the functioning of the economy as a whole. Then performance of such enterprises cannot be overlooked in any way. Thus performance management of the employees in the public sector in general and in the service providing enterprises like the railways in particular is of vital importance.

The new public management (NPM) was first introduced in UK and New Zealand which was quickly adopted in different countries. The NPM came in to force due to absorption of high proportion of GNP by the public sector organizations together with use of resource in an ineffective and in efficient manner. To curb the expenditure incurred by the government and to ensure effective utilization of resources the idea of NPM was conceived. In NPM the beneficiaries of public services are treated as the customers in private sector and the citizens as the stakeholders. The focus of NPM is on performance through efficient use of resources, through output measurement, through small flat and lean organizational
structure and through personnel developments, training and reward. In other words, the main goal of NPM was eliminating the difference between the private and public sector organization and shifting accountability towards results rather than processes. Bach and Bordogna (2011) summarize the NPM components under four headings:

- Structural reorganization toward market-type governance mechanisms result in a breakup of public services into smaller units.
- Attempting to increase efficiency by privatization and outsourcing.
- Use of managerial techniques such as leadership skills and performance management and emphasis on consumers and service quality to strengthen the power and responsibilities of public managers.
- Altering the traditional employment relationships by reducing the influence of unions and life-time employment.

The NPM reforms and the focus on accountability and decentralization have led to provide opportunities for the public managers to develop new strategies for the management of the staff. The performance appraisal is an integral part of such new NPM which provides vital input for employee development, training, rewards etc.

The foundation of human resource function in India dates back to 1926 when the Trade Union Act gave recognition to workers’ union as to show concern for labor welfare. The growth of public sector undertakings in the field of road, sea and air transport, railways, electricity, water supply, postal, telephone and telegraph services benefits the development of industrial and agriculture of the economy. Thornhill (2006) identifies three main reasons for why public sector productivity is crucial. First, the public sector is a major employer. Second, the public sector is a major provider of services in the economy, particularly business services (affecting cost of inputs) and social services (affecting labor quality). Third, the public sector is a consumer of tax resources.

Wholey (2004) stated that “Strengthening government performance, improving the productivity, quality, timeliness, responsiveness, and effectiveness of public agencies; and programs are important to all, as beneficiaries of public service and as taxpayers”. In order
to achieve these broad objectives Government companies are established in appropriate numbers. Since 1956 there has been impressive growth in public sector organization. Initially the public sector undertaking conceived to fulfill dual objectives firstly, to act as an instrument for social and economic justice and secondly to act as source of revenue to the state. With the passage of time the public sector undertakings expanded with multiple objectives. Such public sector organizations are the suppliers of raw materials to the private sector organizations provides employment and developed industries in rural areas. But the organizations fail to earn satisfactory rate of return on investment due to some constraints. The factors which can be contributed to such failure are as follows (De, Barun Kumar, 2006):

a) Operating inefficiency resulting from backdated technology, productivity, uneconomic scale of operation etc.

b) Low demand for product resulting in stock piling and unremunerated prices.

c) Inadequate capital structure, high level of social cost and high rate of Interest.

Public sector productivity is an important contributor to economic development of a country. An underdeveloped economy is generally characterized by the unutilized or underutilized manpower on the one hand and of unexploited natural resources on the other. An effective Performance Appraisal System can ensure the effective utilization of human resource and effective use of natural resources by enhancing their productivity. In the early seventies Prof. Udai Pareek and Prof. T. V. Rao (1981) from Indian Institute of Management were approached to review the exercise of Performance Appraisal System. They felt that a development oriented Performance Appraisal System may fail to achieve its goal unless accompanied by the subsystems like employee counseling, potential appraisal, career planning and development, training and organizational development. They recommended that “…Performance appraisal, potential appraisal, feedback and counseling, career development, career planning and training and development get distinct attention as unique parts of an integrated system which we call the Human Resource Development System. Thus Performance appraisal is considered as an important part of HRD system. Indian organizations use the HRD philosophy, planning, promotions and rewards extensively as HR instruments.
Dandekar, Karnik and Sathye (1994) during their study on the Maharashtra State Electricity Board, stressed that the most important requirement for improvement in the performance of these Public Sector Undertakings is the development of human resources available in the organizations. Looks at the man to man interface of the service sector where service consists almost exclusively of interaction between human beings, the role of HRD becomes virtually synonymous with improvement in services, shift from technology driven or product driven to being market driven and the role of HRD in making tremendous gains in productivity and efficiency for the organization.

Sharma and Pooja Purang (2000) in their study Value Institutionalization and HRD Climate: A Case Study of a Navratna Public Sector Organization, found a positive relationship between value institutionalization and HRD climate in a large public sector organization, meaning thereby that a better and more ethical environment of the organization shall lead to a better HRD climate for the organization.

It is believed that pay-for-performance, based on appraisal ratings, will give employees incentives to improve productivity (Mani, 2002). There are studies about performance measurements and performance appraisals in public and private organizations e.g Cederblom, (2002) studied that the organizations, incorporating the developments of Total Quality Management (TQM) system and core competencies to the performance appraisals and moving towards performance management from performance appraisal. On the other hand Jansen, (2004) studied measuring the performance in governmental organizations and controlling the management by performance appraisals. Developing and improving performance appraisal determinants for public organizations were also studied by Jas and Skelcher (2005). Redman and et al., (2000) revealed the effectiveness of Performance Appraisal Systems and their contribution to HRM activities in public organizations.

In Turkey, researches concerning the Performance Appraisal Systems and performance appraisal biases have focused both on the public and private organizations too. Yücel (1999) analyzed performance appraisal as a new concept by emphasizing the importance of performance appraisal for the employees and identified the opinions of public and private sector employees for the performance appraisal.
Government rewards and recognition programs for the employees in the public sector are very much important firstly to recognize both individuals and groups of employees who have contributed to the mission, organizational goals and objectives, and strategic plan and secondly to motivate employees to make contributions to achieve the organizational goals and objectives. This is studied from literature that reward is positively linked with job satisfaction. Thus the need for an effective appraisal system is felt. An appraisal system will be effective when it will provide an accurate basis of rewards and recognition system which is aligned with the organization’s mission, goals, objectives, and performance management system. The more reliable the rewards and recognition system, the more it will motivate the employees to drive the right behavior. The employees should also be involved in the development and implementation of the Performance Appraisal System. It is a well established tenet in both public and private sector organizations that linking rewards with performance is a powerful motivating tool for its employees. So far as the public services in India are concerned, this fact had been highlighted in 1984 by the then Prime Minister Shri Rajiv Gandhi who in his broadcast to the nation had said: “Our administrative system must become more goal-oriented. A new work-ethic, a new work culture must be evolved in which Government is result-bound and not procedure bound. Reward and punishment must be related to performance.”

Public sector organization is the largest employer of our country. Moreover most of the public sectors are predominantly service sector. Thus the growth of the public sector organization is very much dependent on the human resources. Hence the successes of such organizations are primarily driven by the performance of its employees. An effective appraisal system can serve that purpose of the organization by improving the performance of the human resource.

3.7. Performance Appraisal System in Indian Public Sector

The Government of India has laid down its policy in the Five Year Plans convey the issue that the employees, employers and other people directly or indirectly involved in the management of human resources and industrial relations advocate that public sector should set the pace in various personnel policies viz., recruitment and selection policy, promotion policy wages, implementation of labour laws and industrial relations to the private sector.
During the Third Five Year plan, the Study Group of the National Commission on Labour (1969) reiterated that public enterprises are claimed and intended to be model employers and the public sector should adhere to labor laws, have cordial labor-management relations and evolve exemplary personnel policies, practices and procedures. The Administrative Reforms Commission (1967) also state that "it is expected that public enterprises will conduct themselves in labor matters as model employers and in a manner that they may stand out as an example to private concerns".

The personnel function has gained momentum over the plan periods with the status of a specialized function in public sector organization. As a result separate personnel departments in the same status as other departments have been created to perform the functions related to personnel management in small and large scale industries. Moreover professional HR managers are also employed as the head of departments of these organizations. Unfortunately the nature of activities as well as the way of functioning performed by the Personnel Department is target of criticism in public sector organizations. The report of the Study Team on Personnel Administration of Administrative Reforms Commission (1967) observed that, ‘recruitment and promotion do find a place in the functions of a personnel department but beyond these, to many undertakings, personnel management means nothing more than normal establishment work ’. It is also criticized that Personnel Departments in public enterprises more or less resembled the establishment sections of the government departments with their activity often decaying into a lifeless routine (Laxminarain,1982). Moreover the Personnel Departments in most of the public sector organizations are headed by non-professionalized employees of lower ranks/status with the qualifications in the area of labor welfare or industrial relations\(^3\). The attitude of top management towards personnel department is not so demanding as compared to Production, Finance, and Marketing etc. Hence Indian Railways like other public sector organizations need to employ qualified personnel having professional knowledge and background in charge of the Personnel Department. In addition the organizations should give equal status to the Personnel Department like other department of the organization. This is the most relevant thing which motivates this study.

The performance of all the individuals involved in public sector contributes to the total performance of the public sector. Hence increase in efficiency of the employees will also increase the overall efficiency of such organizations. It is often criticized that the main source of manpower recruitment i.e., deputations which is based on the practice of depending upon civil servants particularly non-technical ones, is not conducive to efficiency (Laxminarain, 1982). It is criticized that a deputationist was "unlikely to have any commitment or loyalty to the enterprise in which he was employed". Further it is pointed out that the civil servants with their basic attitude, training, qualifications and experience were hardly suited to the job requirements of a job in a business organization. However it may be mentioned that this practice was followed during the initial stages of establishment and development of these public enterprises. But the public sector organizations, have taken initiatives to improve the performance of the employees. Performance Appraisal is one of the management tools which is followed by the public sector organization to evaluate the performance of the employees.

Performance appraisal is a tool for human resource development which enables a public sector employee to realize his true potential. His performance is assessed annually (April-March) through the Annual Performance Assessment Report. It is an important document which provides the basic and vital inputs for assessing the performance of the individual. The Annual Performance Assessment Report is used for assessing the suitability for further advancement in career like confirmation, promotion, selection for deputation, selection for foreign assignment etc.

Previously the performance of government sector employees was evaluated through Annual confidential report. The previous system of management of performance in public sector was based on annual confidential report (ACR) was only to appraise and not to manage performance in real sense. The purpose of ACR (annual confidential report) was to develop the performance of employees and serve many other purposes as below.

- To identify the capability to fit into higher responsibility during promotion,

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4 Estimates Committee, First Report on Public Undertakings, Third Lok Sabha, New Delhi, Manager of Publications.
To develop the competency of the employees on a continuous basis.

The top management’s willingness to invest its time and efforts in giving feedback to its own subordinates.

The management’s willingness to take the appraisal system seriously and do all that is needed to ensure its effective implementation.

The management can conduct the performance review and counseling sessions regularly.

Though the purpose of Performance Appraisal System was to develop the competency of employees but an appraisal system cannot be an effective exercise so long confidentiality is there. As per the previous system the feedback was not communicated unless an adverse remark was given to an employee. Effectiveness and credibility of the ACR system that is based on the philosophy of control and secrecy has been questioned and viewed negatively (Biju Varkkey, 2007). Mohammed A.H. (2012) while studying the efficacy of annual confidential report method of performance appraisal in public sector found that for the performance management to be effective, its validity, reliability and perceived fairness before and after rating are very important factors. The absence of criteria of sharing feedback to all employees irrespective of adverse remarks raised the scope of Performance Appraisal System of most of the public sector organization as raters’ perception based appraisal. Hence such Performance Appraisal System failed to achieve the goal of evaluation. The performance appraisal interview between the rater and the ratee relating performance feedback can reduce the problem of raters’ perception based Performance Appraisal System.

The Second Administrative Reforms Commission (2005) (other than the All India Services) has identified the limitations in the system of appraisal of public sector employees in India. Some of the deficiencies of the appraisal system based on annual confidential report as per the report are listed below:

- It lacks in quantification of targets and evaluation against achievement of targets.

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5 Government of India, Department of Administrative reforms and Public Grievances, Performance Management in Government, April 2009, 4th civil services day, p. 5.
The ACR system does not give scope for a two way consultative process and there is a lack of clarity about performance standards.

Performance appraisal becomes meaningless in cases where the job fit is ignored while posting an officer, and where there are frequent transfers.

The quality is seriously affected when reporting officers write ACRs of a large number of employees, some of whom they may not even personally recognize.

Since the present system shares only an adverse grading, a civil servant remains unaware about how he/she is rated in his/her work. Hence there is no incentive for good performance.

Many reporting officers pay little attention to distinguish between good and average workers. So, most Government officials end up getting very good/outstanding grading which is considered “good for promotion” and there is no motivation for real performers.

The system of deciding on representations against adverse entries takes so long that reporting officers avoid giving an adverse entry. Often, for want of evidence against an employee, the reporting officer is in a defensive position and thus unable to justify the adverse remarks. In fact it will not be inappropriate to say that we rarely punish and never reward in the present system.

Due to a plurality of cadre controlling authorities, members of different Services working in the same Ministry may be appraised using different formats, which is irrational.

The practice of Performance Appraisal System based on Annual Confidential Report was very personality oriented rather than function oriented. Though the purpose of performance appraisal is to evaluate the performance of the employees but the system put more stress on to appraise the ‘individual’ rather than the ‘performance’. The importance given to personality oriented features makes the appraisal system very much subjective. This was based on conventional trait theories of performance appraisal rather than the contemporary behavioral theories of performance management.
It was observed that the absence of a continuous and open system of appraisal de-motivates the raters to fill up the appraisal form on time and there was a natural reluctance to make the confidential report. It would create unhealthy repercussions on persons as they were not communicated the feedback which played a vital role in a person’s career. Moreover an appraisal system looses objectivity in the absence of a culture of openness. Though an adverse remark and outstanding remark reported upon by the rater should be supported by the reasons/justification but grades other than those were not given any justification. Hence raters’ tendency was mostly to assign a grade which is neither outstanding nor adverse. This system inherently suffered from the error of central tendency. Now a trend towards an open system of communication in the Performance Appraisal System has emerged.

One of the objects of Performance Appraisal System is to set the goals of individuals which will contribute to the overall objective of the organization. In the absence of a mechanism to link the individual performance with the organizational goals and achievements, the appraisals based on Annual Confidential Report are reduced to a narrow focus in the larger context of performance management. There is a growing realization that appraisal must be more behavior oriented than trait oriented. The employee behavior is influenced by the goals set before him. Thus democratic setting of goals will enable the organization to set goals and make the employees competent to achieve the goal. Thus the need to shift from ACR based approach to a progressive Performance Management system to fulfill the requirement of modern public sector is felt at all levels. Recognizing the importance of shifting from ACR to more progressive Performance Management System, Annual Performance Assessment Report (APAR) has been introduced in the public sector.

The system of APAR has two principal objectives and the Reporting Officer should have a very clear perception of these objectives. The first and foremost is to improve the performance of the subordinate in his present job. The second objective is to assess the potentialities of the subordinate and prepare him through appropriate feedback and guidance for future possible opportunities in service. To a great extent, the second objective is dependent on the achievement of the first.
The system of Annual Performance Assessment Report (APAR) on the performance of employees of public sector is a means to an end and not an end in itself. The ultimate goal is to optimize the achievement of Government policies and programs. This is possible only if the APAR lead to the optimization of the performance of the concerned Government employees. The main focus of the Reporting Officer should, therefore, be developmental rather than judgmental. The APAR should be a true indicator of the achievement of the employee; it should not be a mere tool to control or discipline him.

The immediate superior officers of an employee, who is the Reporting Officer, while writing the Annual Performance Assessment Report (APAR) of subordinate should be objective and impartial. As the superior officer functions through his subordinates, he also gets credit for the good work done by them. It would, therefore, be in the interest of the Reporting Officer himself also to assess the performance of the subordinates objectively and thereby give them counseling and proper guidance for improvement of their performance.

It is the duty of the superior officer to give the subordinate a clear understanding of the tasks to be performed and to provide requisite resources for his performance. The subordinate is required to contribute to the best of his capacity to the qualitative and quantitative achievement of the given tasks making optimum use of the resources provided. Also, both the superior and his subordinate have to be necessarily aware of the ultimate goal of their organization, which can be achieved only through the joint efforts of both of them. This is the basic philosophy underlying any system of APAR.

The first part of Annual Performance Assessment Report i.e. Self Appraisal part is reported by an employee himself, where he gives a brief description of his duties, achievements and the shortfalls, if any, constraints encountered and areas where the achievements have been greater.

In the second part the performance of the employees is assessed by the Reporting Officer. After completion of the report by the Reporting Officer it is submitted to his own superior, known as the Reviewing Officer for review. The object of such assessment of the performance of the employee at two levels is to ensure a greater degree of objectivity and
fairness. But where there is only one supervisory level then the assessment is performed by the Reporting Officer only. As it might be difficult for the reviewing officer to have a detailed knowledge of the qualities of the employee two levels below him, the self appraisal reported upon by the government servant himself about his character, performance and ability is considered as vitally necessary as a built-in corrective.

As the judgment of the immediate superior can sometimes be too narrow and subjective to do justice to the employee reported upon, it is the duty of the Reviewing Officer to gain knowledge personally and form his judgment of the work and conduct of the employee reported upon. At the time of review the reporting officer should exercise positive and independent judgment clearly mentioning his agreement or disagreement with the evaluation and remarks made by the Reporting Officer under the various detailed headings in the form of Report. Where the Report of the Reporting Officer is too brief, vague or cryptic, the Reviewing Officer is also free to make his own remarks on points not mentioned by the Reporting Officer. However, the remarks of the Reviewing Officer himself should not be vague or self-contradictory to another remark given by himself in the APAR.

To ensure raters’ knowledge about the performance of the ratees at the time of evaluation the system sets the rule that the officers at both Reporting and Reviewing levels are required to have at least three months experience of supervising the work and conduct of the employee reported upon, before they can record their assessment on his performance. Normally there should be one report covering the appraisal year but there may also be more than one report written by different Reporting Officers covering a specific period of a year. But every reporting officer should have least three months experience on which he can base his report on the Government servant reported upon. When a reporting officer has been transferred, the report should be written at the time of transfer or immediately thereafter and not deferred till the end of the year.

In any case where there is no Reporting Officer with the requisite experience, the report is written by the Reviewing Officer provided the Reviewing Officer has been the same for the entire period of Report and he is in a position to fill in columns to be filled in by the
Reporting Officer. Such report will have to be submitted to his own superior for Review if there is a superior officer to him.

In today’s competitive economy any organization irrespective whether in the public or private sector requires more attention towards the attainment of dedicated and efficient employees. It is also required that the management must keep abreast of technological progress and social aspect for development and motivation of its employees to remain ahead of competitors. Indian Railways is the country’s largest public sector organization should also concentrate on developing a highly productive work force and the effective utilization of the largest work force to achieve successful results. The next chapter will give an overview of Indian Railways and the Performance Appraisal System followed by the organization.