CHAPTER ONE: INTRODUCTION

1.1 INTRODUCTION OF THE STUDY

The present scenario is witnessing a sea change in the role of Human Resource Management of business organizations as there has been a major shift in its focus from only recruitment and selection, induction and training, calculation of salary and PF of employees to developing such functional policies which helps in implementing the major corporate strategies in an efficient and effective manner. Nowadays, HR Department, including its other traditional functions, works on facilitating and improving the performance of the employees through a conducive and healthy work environment and providing with more scope for the employees to participate in planning and organizational decision making process.

Altogether the key actions of HR should be focused on developing high performance leaders amongst the employees understanding their professional needs and also through fostering their motivation. Performance Management is the contemporary concept and has become the necessity of the day due to aggressive competition in business. The process of performance management in an organization begins with the joining of an employee and ends when he leaves. Performance Management is defined as an organized process through which the entire organizational performance can be enhanced by refining the performance of employees. It is a means to promote and maintain a level of better performance by communicating expectations, defining roles and establishing benchmarks.

The term Performance Management System (PMS) gained popularity in early 1980’s when Total Quality Management (TQM) programmes received its due importance for achieving higher standards and quality performance. In the comprehensive and a much improved framework, various other HR practices such as job design, training and development and reward system were also recognized equally important as the traditional performance appraisal system. Performance management is a method of the managing employees and organizational culture in such a way that employees perform in order to achieve the desired and predetermined organizational goals.
Performance management, as a process, is all about developing an understanding, shared between management and employees, for what is required to set and achieve as organizational goals. It is an approach to manage people so as to increase the level of personal performance and business success at the same time. Performance management systems, that include performance appraisals, have become vital link pins for Human Resource Management.

Organizations, both public and private, are paying utmost attention to improve upon employees’ performance and productivity as never before so as to not only remain competitive but also to survive, though public and private sector enterprises vary from each other in relation to the structure, operations, policies, practices and productivity. The public sector enterprises are largely regulated and managed by the government bodies, whereas the private sector enterprises are managed by the private management. Fundamentally, public sector enterprises have a large network of branches generally situated in the rural and semi urban regions whereas the private sector enterprises largely operate in the urban and metropolitan regions. Public and private sector enterprises also differ in their environment and work philosophy. It has also been witnessed that the public sector enterprises have mainly a socioeconomic consideration while profitability remains as secondary motive as they are still involved in the diverse non-profit social and welfare activities. On the contrary, private sector enterprises work mainly for a profit motive. But one thing is common in both and that is managerial competence which is very much related to the performance of the organizations and plays a very vital role in growth and success of the organizations. The performance and efficiency of human resources determine productivity that further determines organization’s to achieve its desired goals.

The performance of a private organization is reflected in quality of its product, market share, customer satisfaction and ultimately their profits whereas performance of a public organization can be seen in its capacity of providing services and running projects with limited resources at a lower cost. That’s why managing performance at a continuous basis is a need of the organizations. But this is true that performance management is a way to translate the corporate objectives to attain optimum results for both public and private sector organizations.
Management professionals in both types of organizations were compelled to reconsider their priorities and approach towards developing methods and strategies like performance management system etc. which can keep track for the performance throughout. In order to understand the meaning and importance of performance management system, one must know about the basic concept of performance and performance management system.

1.2 PERFORMANCE MANAGEMENT SYSTEM: THEORETICAL FRAMEWORK

"Karmanyevaadhikaraste, ma phalesu kadachana" - The Bhagvadgeeta

1.2.1 PERFORMANCE

If one is unable to define performance one will not be able to measure and manage it. It is widely accepted fact that performance is a multidimensional construct and its measurement entirely depends on a number of features. However it is essential to identify whether the objective of measurement is to evaluate performance outcomes or is it to evaluate behavior.

There are a variety of views on what performance is. It can basically be regarded as the record of outcomes achieved. Individually, it can be defined as a record of an individual’s own accomplishments. The performance is related to past, i.e., something that an individual leaves behind. Latham, Sulsky and McDonald (2007) emphasized on the fact that a performance is a prerequisite for feedback and goal setting processes.

\[ \text{Performance} = \text{Skill to do} + \text{Will to do} \]

*Oxford English Dictionary* defined performance as: ‘The accomplishment, execution, carrying out, working out of anything ordered or undertaken.’
It refers to outcomes or accomplishments but it also explains that performance is all about doing the work and results achieved. Performance can hence be defined as behavior by which individual, teams and organizations get their work done.

Performance is not accidental or just by luck; it is a result of series of organized and integrated activities which leads to the achievement of individual, team and the organizational objectives.

An employee’s performance depends on mainly three factors, i.e., skills, knowledge and motivation.

Campbell (1990) explained that performance is behavior and it should be distinguished from the outputs or outcomes because they can be exploited by various systems factors. A more comprehensive view of performance is that it is defined as embracing both behavior and outcomes.

Performance is also defined by Brumbach (1988) as Performance includes both behaviors and results. Behavior is demonstrated from the performer who transforms performance from idea to action. Thus, while defining the performance of individuals and teams both inputs, i.e., behavior and outputs, i.e., results need to be considered.

1.2.2 PERFORMANCE MANAGEMENT

Performance management is a systematic process that enhances organizational performance by improving the performance of individuals and teams. It ensures getting better results by understanding and managing performance through planned goals, standards and competency requirements. Various processes have been established for developing a shared understanding about what needs to be achieved, and for managing people in such a way that it increases the probability that the standards will be achieved in an efficient manner. It is owned and driven by line management. Performance management is the system through which organizations determine work goals, set performance standards, review performance, provide performance feedback, distribute rewards and determine training and development needs. Performance
management as practiced in today’s competitive scenario incorporates processes such as management by objectives and performance appraisal that were first developed some time ago. But its overall approach is significantly different. Performance management is managing the business. It is what line managers do continuously on regular basis. It is not an HR-directed annual process.

Few definitions of Performance Management are given as follows:

“Performance management is a means of getting better results from the organization, teams and individuals within an agreed framework of planned goals, objectives and standards” (Armstrong and Murlis, 1994).

“Performance management is a broad set of activities aimed at improving employee performance” (DeNisi and Pritchard, 2006)

“Performance management is a systematic approach to improving business and team performance to achieve business objectives” (Strebler, Bevan and Robertson, 2001).

The concept of performance management is based on the theories of motivation, i.e., Maslow’s need hierarchy, Herzberg’s maintenance factor theory, expectancy model, goal setting theory, McClelland’s achievement motivation theory etc. Out of all these theories the theory which best compliments the concept of performance management is goal setting theory. It is because goals are performance standards to which individuals and organizations have agreed upon. The goal setting theory is based on the assumption that people have goals that stimulate them and direct their thoughts and behavior toward one end (Bateman and Zeithaml, 1993). People attain the positions they possess today because they are goal-oriented.

Many organizations have been converted into empires because they are goal-oriented. Researchers in goal setting theory show that properly conceived goals stimulate a motivational process that improves performance (Locke, 1981).
A goal setting model has following four components, i.e., goal, motivation, improved performance and performance feedback. Performance management is a term that includes performance planning, performance review, and performance feedback.

1.2.3 PERFORMANCE MANAGEMENT AS A SYSTEM

It can be argued that performance management is a process that helps in managing performance. It can be regarded as a function of managing which involves planning, analyzing and assessing. There are few researchers who point to relate the term ‘system’ with performance management because of its notion of a type of mechanism. They believed that performance management can never be mechanistic. However it may be indisputable but the term performance management system is in general use. The justification for this is that it requires the application of a number of interrelated activities that are dealt with as a whole, which is what a system does. According to Katz and Kahn (1966), systems are concerned basically with problems of relationship, of structure and of interdependence.

Williams (1998) took a systems view when he identified three models of performance management:

1) Performance management as a system for individual performance;
2) Performance management as a system for managing organizational performance; and
3) Performance management as a system for managing individual and organizational performance.

It cannot be denied that the management of performance is largely related with process, i.e., how it is performed. Performance management processes consist of goal setting mechanism, feedback, performance reviews, analyzing performance, rewards and recognition, coaching and counseling etc. These constitute the essential elements of performance management.

Performance Management System is another way of viewing the totality of a manager’s function. It uses the managerial function holistically. It is not a random collection of activities that most
managers identify and undertake as their core activity. It provides a systematic way to the managerial activities, i.e., highlighting their mutual interrelatedness and interdependence. Any system needs certain prerequisites to function smoothly, so does PMS.

Performance Management System becomes more productive to the extent that:

- It is viewed holistically.
- The relevant subsystems are accepted and interdependent.
- The organization’s beliefs and human environment is favorable to high morale.
- The manager is oriented to, and equipped with, high performing attitude and leadership skills.

Therefore performance management is considered as the organization of work to achieve the best possible results in an efficient manner. In simple words, performance management is not just a system or technique rather it is the whole combination of the regular activities of all managers.

The central spot of performance management system is Human Resource, it functions by applying various methods to modify and develop human potential and link the human power with performance. The centre of the philosophy of the performance management system is the assumption that it is capable of being developed and unfold human potential. The traditional method of simply assessing and evaluating the employees and using that evaluation for either reward or punishment, had a negative effect. At the end of the performance year, this method was reduced to mostly finding faults and being used as a control mechanism. It created a negative and non performing culture. It was more of an inquest after the performance was over. It was judgmental in approach whether an employee is good or bad the element of development was missing.

Performance Management System, on the other hand, starts with the premise of defining clear objectives, identifying and putting the right competencies on the right job profiles, giving performance favorable leadership guidance while performing and mentoring, giving employees timely feedback and corrective guidelines and rewarding the performers over non performers etc.
moves people and teams to work symbiotically, generating synergy necessary for excelling team and organizational performance.

1.2.4 HISTORY OF PERFORMANCE MANAGEMENT

It is difficult to explain about when were the formal methods of reviewing performance actually introduced. According to Koontz (1971), the first acknowledged instance of performance appraisal took place during the Wei dynasty (AD 221–65) when the emperor implemented an imperial rater system that reviews the performance of official family. However the first formal monitoring system was evolved before the First World War by Frederick Wilslaw Taylor and his followers. For US armed services, rating of officers were formally introduced in 1920s. Merit rating came to the force in 1950s and 1960s, when it was sometimes known as performance appraisal. Management by objectives was introduced 1960s and 1970s, and along with that few experiments were done with assessment techniques like behaviorally anchored rating scales etc. A renewed and revised form of performance appraisal which is more inclined towards results was introduced in 1970s. The term performance management was first introduced in the 1970s but it was not a recognized and well known process until the latter half of the 1980s.

a. Merit Rating: Merit rating was the process of assessing how well someone was regarded in terms of personality traits and qualities such as leadership, judgement etc. W D Scott was the American pioneer who introduced rating of the abilities of workers in industry prior to the First World War. It is said to have that earlier seniority based scheme of promotion prevailed in the army and introduction of merit rating system initiated an era of promotion on the basis of merit. The perceived success of this system led to its adoption by the British army.

Surveys conducted by the CIPD stated that there still exists few organizations those are using lists of competencies to identify the rating of employees, i.e., Merit rating still exists in some organizations even if it is now called performance management. Some companies adopt the total merit score as the basis to provide ranking to the employees, which is then translated into a forced distribution graph in order to fulfill performance pay purposes; As for example, the top
best 10 percent employees in the ranking get a 10 percent hike, the next 20 percent a 8 per cent increase and so on.

Although merit rating in various areas still exists, a strong criticism on this practice was done by McGregor in his Harvard Business Review article; He suggested that the subordinates should not be only evaluated by his supervisor rather he should be given chance to examine himself as the main motive of performance management is not only to identify the weakness of employees but also his strength and potential. He also proposed that the focus should not be only on past rather it should be on future also.

b. Management by Objectives: The phenomenon management by objectives claimed that it overcame the problems of merit rating. The term ‘Management by Objectives’ was first given by Peter Drucker (1955). Drucker emphasized that an effective management should be able to direct the vision of all managers towards a common goal. It ensures that the goals of individual and organization are integrated and would also make it possible for managers to control their own performance. Self-control in turn enhances the motivation of manager, i.e., a will to do the best.

Management by objectives is a continuous process to:

- review critically and restate the organization’s strategic and tactical plans;
- clarify the KRAs and performance standards with the managers so that he must achieve and gain his contribution and commitment to these, individually and as well as a team member;
- prepare a job improvement plan with managers to make a measurable and realistic contribution to the organization’s plans for better performance;
- provide conditions in which it is possible to achieve the key results and improvement plan;
- use systematic performance review to identify and discuss progress towards results;
- develop management training plans to build on strengths,
- help managers to overcome their weaknesses and to get them to accept responsibility for self-development;
- Strengthen the motivation of managers by effective selection, salary and succession plans.
Management by objectives was adopted enthusiastically by many organizations in the 1960s and 1970s. But it became discredited by the 1990s. However this system suffers a lot of criticism as well. Levinson (1970) stated that in MBO because of quantification, the performance quality frequently decreases. Moreover it leaves an individual’s personal needs. Further following criticisms were made by Schaffer (1991) in the Harvard Business Review: he stated that management by objectives programmes often create heavy paper workload in which managers can escape from demand making. In many MBO programmes, as lists of goals get longer and thicker, the focus is diffused, bulk is confused with quality, and energy is spent on the mechanics rather than the results. The demise of management by objectives was mainly due to the process becoming over-systematized and too much emphasis being placed on the quantification of objectives. In addition, management by objectives often became a top down affair with little dialogue, and it tended to focus narrowly on the objectives of individual managers without linking them to corporate or team. The system also tended to concentrate on managers, leaving the rest of the staff to be dealt with by an old fashioned merit rating scheme, presumably because it was thought that they did not deserve anything better.

c. Performance Appraisal: In the 1970s a revised approach to performance assessment was developed under the influence of the management by objectives. It was also known as result orientated appraisal as it integrates a shared understanding of the objectives and a result assessment on the basis of the predetermined agreed objectives. Ratings were usually obtained on the basis of overall performance in addition to the individual objectives. Merit ratings were also used, but recently these were replaced by competency ratings. This form of performance appraisal received a boost during the later 1980s as the concept of performance related pay is based on performance ratings.

Appraisal schemes often include ratings of performance factors such as quality and quantity of work, job knowledge, innovation, staff development and communication and an overall rating. In few cases self-assessment is also performed, and the forms frequently included spaces for work improvement plans, training requirements and the assessment of potential
It is therefore said that appraisals can assist to develop employees’ job performance by determining his strengths and weaknesses and thereby identifying how can their weaknesses be overcome and how can their strengths be best utilized for the benefit of the organization.

Levinson (1976) wrote that ‘It is widely recognized that there are many things wrong with most of the performance appraisal systems in use.’ He thought that the most obvious drawbacks were:

- Judgments on performance are usually subjective, impressionistic and arbitrary.
- Ratings by different managers are not comparable.
- Delays in feedback occur that create frustration when good performance is not quickly recognized and anger when judgement is rendered for inadequacies long past.
- Managers generally have a sense of inadequacy about appraising subordinates and sometimes they suffer with a feeling of guilt to find weaknesses in an individual.

The problem was that performance appraisal was too often perceived as a property of personnel department. This was where the forms were kept and where decisions were made about performance related pay.

d. Initial Phase of Performance Management System: Performance management arrived in the later 1980s partly as a reaction to the negative aspects of merit rating and management by objectives referred to earlier. Its strength is that it is essentially an integrated approach to managing performance on a continuous basis. Of course, performance management at first incorporated many of the elements of earlier approaches: for example, rating, objective setting and review, performance pay and a tendency towards trait assessment. The term ‘performance management’ was first used by Beer and Ruh in 1976. Their research work shows that performance management can be developed through realistic challenges and experiences on the job with honest and open feedback from superiors. They explained that the major aim of performance management system was to help managers to give feedback in a helpful and constructive way such that it assists in building a developmental plan for enhancing the performance of individual as well as organization.
The key features of the system which distinguish it from other appraisal schemes are as follows:

- It emphasize on both evaluation as well as development
- It uses a profile defining an individual’s strength and developmental needs.
- It integrates the results achieved with the methods or procedures through which they have been achieved.
- It separates developmental review from salary review.

According to Institute of Personnel Management (1992) Performance Management System is defined as “A strategy which relates to every activity of the organization set in the context of its human resource policies, culture, style and communication systems. The nature of the strategy depends on the organizational context and can vary from organization to organization.”

It has following features:

- Communicate its vision to all its employees.
- Set individual and organizational performance standards those are interrelated.
- Conduct a formal review about the progress towards these targets.
- Use the review process to identify training, development needs and reward outcomes.
- Evaluate the whole process to improve its effectiveness.
- Express performance targets in terms of measurable outputs, accountabilities and learning targets.
- Use formal appraisal techniques as means of communicating performance requirements that are determined on a regular basis.
- Link performance requirements to pay, especially for senior managers.

The appeal of performance management is holistic in approach. It permeates every aspect of the business and helps to assign meaning to all those who are deeply involved in achieving organizational success.
1.2.5 PERFORMANCE MANAGEMENT: CURRENT SCENARIO

The Performance Management practiced today is unique and different from its prototypes. It contains elements of all previous systems from the merit scale to the annual review meeting. The current scenario of performance management differs in the following ways:

1. Performance Management is an approach of continuous working which is done on daily basis not annually.
2. Performance Management is primarily concerned with what requires to be done both in terms of objectives to be achieved and training and developmental needs to achieve them. It focuses on future not past.
3. Performance Management is owned by line management.
4. Performance Management is a key instrument in corporate communication and employee engagement.
5. Performance Management is an integrated effort which recognizes the importance of everyone and everyone’s accountability for performance.
6. Performance Management is about developing the individual to make best use of their performance and recognizes the differences in individual capability.
7. Performance Management measures performance objectively with equal concern for input (knowledge, skills, and competence) and output (results and performance).
8. Performance Management requires training for all involved, particularly in the areas of goal setting, coaching and feedback.

1.2.6 PERFORMANCE MANAGEMENT V/s PERFORMANCE APPRAISAL

The modern organizations are transforming to cope up against the shifting requirements of the environment and to gain an edge in the business by building up their adaptive capabilities to manage change proactively. The traditional performance appraisal system did not fulfill the requirements of the changing competitive business scenario as it was mainly used as a tool to
evaluate employees’ performance in which the managers made subjective judgments about the performance and behavior of the employees against the predetermined standards.

According to Mondy (2010) performance appraisal is a formal system of review and evaluation of individual or team task performance. The word formal means that management should review an individual’s performance regularly on the basis of predetermined standards. The main objective of the performance appraisal system was to gain control over the activities of the employees through disciplinary actions and management of rewards and promotions.

In the current scenario, the focus of the organizations has been shifted from performance appraisals to performance management as a result of globalization of business. The functions of Human Resource Management have become more complicated as today the major focus of HRM practices is on managing talent by implementing various developmental programmes so that the competencies of the employees can be enhanced. The performance management system focuses more on concrete results based on the predetermined mutually agreed SMART objectives. The objectives are mutually decided at the beginning of the performance management cycle and serve as a standard. In such method, the employees can give a feedback about their contributions by filling up self-appraisal form. Performance management is a broader term as compared to performance appraisal as it deals with a combination of activities which performance appraisals never deal with. Performance Management system is a strategic approach which helps in building successful organizations by developing high performance teams and individuals and improving the performance of people. Performance management may be regarded as a continuous process.

Tools such as reward systems, job design, leadership and training must therefore join performance appraisals as part of a comprehensive approach to performance. It can thus be seen as a process of creating a work environment in which people can perform to the best of their abilities. For a diagrammatic representation of a comprehensive performance management system (refer to figure in annexure II)
Performance Appraisal is a part of performance management system. PMS emphasizes that performance is the joint responsibility of the supervisor and subordinate both whereas performance appraisal sees that it is subordinate’s sole responsibility.

The key differences between performance management and performance appraisal are given in the Table-1.1.

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Characteristics</th>
<th>Performance Management</th>
<th>Performance Appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Types of Objectives</td>
<td>Emphasis on Integrating Individual, Team and Organizational objectives</td>
<td>Emphasis on Individual Objectives</td>
</tr>
<tr>
<td>2</td>
<td>Types of Performance Measures</td>
<td>Competency requirement as well as quantified measures</td>
<td>Qualitative and Quantitative</td>
</tr>
<tr>
<td>3</td>
<td>Frequency</td>
<td>Continuous with one or more formal reviews in a year</td>
<td>Annual Appraisal</td>
</tr>
<tr>
<td>4</td>
<td>Rating System</td>
<td>Participative process, ratings less common</td>
<td>Top-down rating system</td>
</tr>
<tr>
<td>5</td>
<td>Reward Linkage</td>
<td>Does not directly linked to rewards</td>
<td>Often linked to pay</td>
</tr>
<tr>
<td>6</td>
<td>Ownership</td>
<td>Line Management</td>
<td>Human Resource Department</td>
</tr>
<tr>
<td>7</td>
<td>Corporate Alignment</td>
<td>Incorporated business driven system which is aimed at organizational and individual development</td>
<td>Isolated System, not linked to organizational objectives</td>
</tr>
<tr>
<td>8</td>
<td>Performance Reviews</td>
<td>Focuses on future performance</td>
<td>Focuses on Past Performance</td>
</tr>
<tr>
<td>9</td>
<td>Question asked</td>
<td>What can be done to help employees to perform as effectively as possible</td>
<td>How well was the work done</td>
</tr>
<tr>
<td>10</td>
<td>Emphasis</td>
<td>On Ratings and Evaluation</td>
<td>On Performance Planning, analysis, review and improvements</td>
</tr>
<tr>
<td>11</td>
<td>Monitoring and Designing</td>
<td>By the HR/ Administration department</td>
<td>Designed by the HR department but could be monitored by the respective departments themselves</td>
</tr>
<tr>
<td>12</td>
<td>Identification of Developmental Needs</td>
<td>At the end of the year</td>
<td>At the beginning of the year</td>
</tr>
</tbody>
</table>
1.2.7 COMPONENTS OF PERFORMANCE MANAGEMENT SYSTEM

Performance Management is a continuous process and is considered as a concept which streamlines from strategic planning to employee productivity in an organization. Performance Management associates the employee’s goals with the goals of the organization. The employees and managers collaborate to set joint goals and review their performance. It is a futuristic approach and is based on two way communication between the managers and employees. The managers provide both positive feedback for good performance and a constructive feedback over the areas where improvement is required. A good performance management system must fit the strategic direction and culture of the organization.

There are number of components which constitute an effective performance management system, some of the components suggested by the experts can be listed as follows

**Planning**
Before the commencement of the performance cycle, the manager and the employee meet to develop the employee’s work plan and the performance level expected. The manager explains the entire performance management process to the employee to make the employee understand the significance of his role in the organization’s success. Performance Plan facilitates in understanding the employee’s current role and responsibilities, the expectations about contributions of the employee, and behaviors and competencies needed to meet expectations.

**Analyzing**
Performance Managing pertains to analyze the ongoing basis of the performance of employees, and helping to remove deficiencies in performance. This means that performance managing is a process to realize performance planning.

**Appraisal**
Managers meet the employee to identify and discuss the employee’s performance and record the actual results and behavior achieved against each expectation. Employee career, Training and Development, succession planning and rewards are tied to this.
Monitoring
Managers track the employee’s progress towards achieving developmental plans for performance improvement. It is a tool available to the managers to develop the performance of employees through objective assessment of developmental needs and seeking commitment of employees to improve. In fact, it is the part of the management process employed to develop human resources based on needs.

Counseling
Performance Counseling includes 360 degree feedback, should be provided by the managers as a strategy for improving an employee’s performance. Performance counseling essentially involves a discussion about the performance achievement of the employee, his performance gaps with respect to expectations, and providing feedback.

Rewards
PMS provides a basis for objective assessment of reward strategy and its administration. Reward is administered after the performance occurs. Rewards are defined as the consequence of performance. Rewards require employees to know what performance activities the organization desires and values.

1.2.8 KEY BENEFITS OF PERFORMANCE MANAGEMENT SYSTEMS

Performance Management is a vital organizational strategy that enhances competitiveness of the organization. Successful implementation of corporate performance management system benefits the organization, the manager and the employee in the following ways:

Organization
- It helps in improving the overall performance of the organization.
- It helps in attracting and retaining best suitable employees for the organization.
- It improves the productivity of the organization.
- It sets clear responsibilities and accountabilities and
- It overcomes communication barriers in the organization.
• It provides a channel for change facilitation.
• It helps the organizations in taking effective decision concerning employees.

**Manager**
• It saves time and reduces conflicts within the department.
• It increases efficiency of team members and motivates them to perform better consistently.
• It helps in leveraging team strength.
• It improves communication between managers and employees.

**Employees**
• It clarifies the expectations of an employee about his job and key responsibility areas (KRAs).
• It gives employee an opportunity for self-assessment and to know about his strengths and weaknesses.
• It helps employees to attain full potential and creates a work-life balance.
• It contributes to enhance the performance of employees and thereby increasing productivity levels.
• It defines career path which in turn helps in promoting job satisfaction among employees.
• It helps in increasing self-insight through ongoing feedback system.

**1.3 PERFORMANCE MANAGEMENT SYSTEM IN INDIA**

At present, India is acknowledged as one of the fastest growing economies of the world. The economic reforms initiated in the early 1990s have resulted in numerous changes in policies and practices employed by Indian organizations (Kapur and Rammurti 2001). Furthermore numerous MNCs continue to set up operations in India. (Bjorkman and Budhwar, 2007). The competition presented by MNCs has forced Indian organizations to re-examine their systems with a view to stay competitive at a global stage.

A large variety of both forms and designs of Performance Management Systems are used in Indian Organizations. However, as expected, the nature and content of PMSs in the Indian
context differ in different types of organizations, i.e., public and private firms. (Amba-Rao et al. 2000, Budhwar & Boyne 2004; Saini & Budhwar 2007).

With the growth of Indian economy, more and more Indian organizations are emphasizing on the development of effective PMSs. Of course while there are some commonalities in the emerging PMSs, it is rather difficult to generalize given the scope of a diverse and varied country like India.

Some of the key factors influencing performance management in India are:

a) Changes in the economic environment resulting from the integration of Indian economy into the global economy.
b) Cultural diversity and;c) On-going technological revolution.

1.3.1 PERFORMANCE MANAGEMENT SYSTEM AT PUBLIC SECTOR ENTERPRISES IN INDIA

There is a resilient requirement for a strong PMS to be introduced in the government covering all organizations and different functional levels. It is the high time to look at a paradigm shift in ensuring accountability by introducing concepts like service agreements and bringing in tools of social accountability to involve the citizen also in appraising the performance.

The integration of individual performance and organizational performance goal is also of utmost importance by introducing an appropriate set of performance indicators. Measuring performance is useful only when it is translated into actions.

Firstly it should be identified what does it mean by public sector enterprises and what challenges public organizations face in an economy like India.
1.3.1.1 Public Sector Enterprises

The term Public Sector Enterprise or undertaking refers to a Government company. “Government Company” is defined under Section 2 (45) of the Companies Act, 2013 as Any company in which not less than fifty-one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

However the term ‘Government company is not intended to mean a public company in which shares can be freely transferred and possess a shareholder base of more than 200 people, although public sector enterprises are mostly public companies.

Public sector enterprises refer to those companies registered under the Companies Act, 1951, which are predominantly owned by Government and which are managed by a Chairman and Managing Director appointed by Government of India.

1.3.1.2 Current Scenario of Public Sector Enterprises in India

Initially, the public sector was confined only to the core and strategic industries like irrigation projects such as, the Damodar Valley Corporation; Communication Infrastructure project for example: Indian Telephone Industries; Fertilizers and Chemicals projects such as Fertilizers and Chemicals, Travancore Limited; Heavy Industries like Bharat Heavy Electricals, Bhilai Steel Plant, Hindustan Machine Tools, Oil and Natural Gas Commission etc.

However, subsequently the Government nationalized the number of banks, as for example Imperial Bank of India was nationalized which was renamed as State Bank of India in 1955 and other foreign companies like Jessop & Co., Braithwaite & Co., Burn & Co. etc. Later Public sector organizations started manufacturing consumer goods such as Modern Foods, National Textile Corporation etc., providing consultancy, contracting, and transportation services.
There is no doubt that public enterprises play a vital role in the economy of India. But the by and large the performance of most of the public sector enterprises is not up to the expectations, i.e., unsatisfactory. The rate of return on capital invested is very low. Most of them also suffer from various limitations.

In order to improve the performance of the public sector enterprise, Government of India took various measures. On 24th July 1991 the Indian Government announced its New Industrial Policy to improve the performance of public enterprises. The new economic policy emphasized on liberalization, privatization and globalization of Indian economy. Since then the role of public sector enterprises were reformulated.

In July 1997 the Government of India recognized nine central public enterprises as ‘Navaratnas’. They are BHEL, HPCL, IOCL, MTNL, NTPC, ONGC, BPCL, GAIL and SAIL. These public sector enterprises granted autonomy for capital investment to enter into joint ventures to increase investment from domestic and global market.

In October 1997 the Government granted autonomy and delegation of financial power to some other profit making public enterprises and identified them as ‘Miniratnas’. The Government has also taken step to renew and reorganize the public sector enterprises to improve their profitability, performance and productivity. As per the report by Economic Survey in 2014-15, the government provided about Rs. 39,663 crore by way of equity to a total of 146 Public Sector Enterprises to make them sustain and grow in today’s competitive scenario.

1.3.1.3 Challenges faced by Public Sector Enterprises in India

Few of the major problems of the public sector enterprises in India can be endowment constraints, underutilization of capacity, absence of rational pricing, technological gap, government interference, heavy social costs, operational and managerial inadequacies, marketing constraint and surplus manpower etc.
Moreover, external factors such as too much dependence on trade unionism and labor troubles are also disturbing the smooth functioning of the public sector enterprises in the country.

Considering the problems of sickness faced by the Public enterprises, the Standing Conference on Public Enterprises (SCOPE) had recently constituted a committee to study various aspects of sickness of public enterprises.

Various other problems such as allocation of resources, delays in filling up top-level posts, tight regulations and modes for investment and limitations on functional independence of the enterprises, e.g., in respect of labor and wage policy etc. have been creating serious constraints on the operational efficiency of public sector enterprises of the country.

In addition, organizations are also facing several challenges of virtual organization, and diverse workforce. One major consequence of this challenge is that they have to be organized and efficient in managing their human capital to gain competitive edge over their competitors. As human resource are considered to be the most important asset for an organization in corporate India. Various such factors are driving organizations to realize their need and importance for implementing Performance Management System in their organization.

1.3.2 PERFORMANCE MANAGEMENT SYSTEM AT PRIVATE SECTOR ENTERPRISES IN INDIA

In order to implement a performance management system, it is imperative to ensure that the performance of individuals and organizations are aligned. The goals and standards set for organizations are further penetrated down to outline individual performance targets with appropriate performance indicators.

To be effective PMS tend to be complex, requires significant amount of resources and entail a redefinition of the roles of human resources. PMS fulfils a strategic role in organization and its implementation requires paying particular attention to the setting work goals, performance
measurement, performance evaluation and feedback process. Finally PMS enables companies to set standard for attracting and retaining key human talent in such competitive scenario.

It is further explained by knowing about what private sector enterprises are and what challenges do they confront in India.

**1.3.2.1 Private Sector Enterprises**

The private sector refers to the sector which is run by private individuals or groups, generally as a motive for earning profit, and is not controlled by the state (areas controlled by the state are referred to as the public sector). Private Sector is sometimes also known as the citizen sector.

In some countries the private sector employs most of the workforce. Most of the activities are guided by the motive to earn money. Private sector is legally regulated by the state. Businesses operating in a country are required to comply with the laws and regulations of that country.

Private sector enterprise includes all types of individual or corporate enterprises, i.e., both domestic and foreign, engaged in different areas of industrious activity. Private sector enterprises are owned and managed by the private sector. These private sector enterprises are characterized by some common features like, profit motive, ownership and management in private hands and private initiative.

In a developing country like India, with the continuous development of the public sector, the areas of production open for the private sector has gradually become limited. It is only after the period of economic liberalization, more areas are being made open for the private sector and the private business activities gained its momentum both through participation of domestic and international private organizations.

In India, the difference between the private and public sector gained its importance, particularly after the introduction of Industrial Policy Resolutions 1948 and 1956, showing the way to adopt mixed economy in India.
1.3.2.2 Current Scenario of Private Sector Enterprises in India

At the present time, the span of private enterprises is very much restricted due to the expansion of public sector in different countries. Even the capitalist countries like USA, Japan, Western European countries etc. have developed public sector in various strategic areas like defence production, aircraft production, atomic energy, multipurpose projects etc.

The industrial policy resolutions initially reserved certain industrial areas for the public sector but later allowed certain existing private sector industries to persist along with the public sector whose future development would be limited to the public sector alone and finally set aside certain other areas exclusively for the private sector.

Largely, the public sector in India is assigned with the responsibility of mounting and managing heavy and basic industries, social economic infrastructure but the private sector has been assigned with the charge of developing consumer goods industry. Railways, power generation and distribution civil aviation, insurance, banks, and other financial institutions are reserved to the public sector, while the private sector has been given the entire agriculture and allied activities, plantation, internal trade both wholesale and retail, foreign trade, mining, road freight traffic etc.

At present, the structured areas of the private sector are mostly controlled by the corporate industries and the unorganized agricultural and cottage industries are handled by the household sector and private individuals. In the preliminary stage of economic growth and development, investment in the public sector was quite essential to accelerate the speed of economic development as well as for the growth of infrastructural areas and basic and heavy industries so as to provide required support to private sector.

The new industrial policy has made provision for reducing the load of public sector enterprises as they were showing poor performance either due to low rate of return or incurring losses over the years. The new industrial policy has now limited the list of industries under the public sector to 8 against the 17 industries reserved earlier according to 1956 policy.
The industries which are detached from the list of reserved industries for the public sector and made unlock for the involvement of private sector enterprises include iron and steel, air transport, electricity, heavy machinery industries, telecommunication and telecom cables and instruments, ship building etc. Thus, in current era, private sector has been assigned with increasing responsibilities in a developing country like India.

In the past few years the private sector of Indian economy has demarcate significant development in terms of investment and its share in the gross domestic product. The main areas in private sector of Indian economy that have outshine the public sector are transport, financial services etc.

Private sector has now been permitted to take part in the basic, complicated and strategic areas to compete with the public sector of the country. Thus, this is quite a demanding situation before the private sector enterprises of the country. It is expected that the private sector will be able to acknowledge this challenge and demonstrate its worth within the specific time frame.

1.3.2.3 Challenges Faced by Private Sector Enterprises in India

Few of the challenges faced by private sector in India is that they pay too much emphasis on Low-Priority Industries. Moreover growing economic concentration along with growing tendency on the part of the individual to avoid taxes has led to a huge concentration of black money in the hands of private sector. Such accumulation of black money and Government’s failure to arrest such tendency has resulted in a huge drainage of real resources into undesirable channels, leading to considerable wastage, economic scam, political tampering etc.

The fundamental limitation of the private sector is that it has always been assigned with a secondary role to play in the field of economic development of the country by the Government. Naturally it could not find any chance to show its worth in basic, heavy and capital goods industries and also in infrastructural sector. With the gradual opening of the economy through economic liberalization, the private sector has now been assigned with a greater role to play in
that priority sector during the post-1991 period, which was earlier reserved solely for the public sector.

Although the large scale industrial units of the private sector are assembling their fund from banks, financial institutions and from the market through trade of their equities but the small scale units are facing severe problem in raising fund for their growth and expansion.

The private sector in India has been suffering from poor industrial relations. Since independence, the country has been experiencing a good number of large scale strikes and lockouts leading to valuable loss of man-days as well as production. Industrial disputes in the private sector of the country is mostly resulted from the issues like wages and allowances, bonus, working hours, leave privileges, victimization of workers, retrenchment, recognition of unions etc. Moreover, the incidence of industrial disputes is much higher in the private sector as compared to that of public sector of the country.

Private sector organizations tackle the challenges of increased competition and a highly volatile business environment, in order to seek new ways to evaluate performance and better way to meet their targeted goals. Performance management is the practice of vigorously using performance data to improve an organization’s performance. This practice involves tactical utilization of performance measures and standards to set up performance targets and goals, to inform managers about required adjustments or changes in policy to meet goals, to prioritize and allocate resources, to frame reports on the accomplishment of performance goals, and to develop the overall excellence of task in any organization.

1.4 NEED FOR THE STUDY

The business paradigm is changing and so are the HR imperatives. The Business houses are under tremendous pressure to visit and revisit, orient and reorient their strategies. Organizations have to struggle and compete for survival. Performance is the way not only to survive but excel at the same time. Performance needs to be properly managed and be the best in order to compete and thrive in today’s economic scenario. Although there is a huge hue and cry about the
performance management but no significant study has been done in this area particularly comparing two different types of organizations. Some researches published in the form of papers discuss about performance management system and different issues but a comprehensive research study is the need of the hour especially in the Indian context where new economic development are taking place and economy is witnessing a transitional phase and lot of structural changes are taking place in public and private enterprises.

It has, therefore, become imperative to conduct a study which looks into various aspects of performance management system and the effect of its implementation in public and private sector.

1.5 SIGNIFICANCE OF THE STUDY

The post-liberalization era has observed significant variations in the structure and operations of the organizations functioning in India. Advent of new and innovative private and foreign enterprises has given an origin to public sector enterprises to be more aggressive, effective and novel in their approach. Previous researches have compared public and private sector enterprises and have designated that new private sector units are outscoring public sector units in terms of technical and economic efficiency Therefore, this research will help in identifying the differences between public and private sector enterprises with respect to the performance management system followed by them. Being owned by government, public sector enterprises have to function under certain constraints which affect their effectiveness and efficiency. For example, the quality of human resource (HR) working in public sector enterprises can suffer as they can neither lay off poor performers nor can offer hike in salaries to attract new talent. On the contrary private enterprises have grown assertively by using highly innovative strategies. As a result, private sector enterprises have made significant progress in a very short duration of time.

Any organization with appropriate performance management system increases employer confidence that it has the right people in the right place at the right point in time. Public sector enterprises are usually less expected to adopt formal PMS practices, including setting goals and
performance evaluation practices. They usually follow traditional means of basic human resource functions such as employee recruitment, selection, training and development, compensation etc. However it has also been analyzed that employees do not have an apparent understanding of what performance management system intend to achieve similarly a number of employees believe that performance appraisal is not associated with organizational goals it has no functionality in employee career planning or progression. The basic way of thinking is that, by transferring methods and techniques of private sector to public sector organizations, the latter will progressively be able to get better in their performance.

1.6 LIMITATIONS OF THE STUDY

The proposed study makes an effort to look into the difference between performance management systems in public and private sector units. Although utmost care has been taken in the data collection, analysis and interpretation but the results may not be generalized because the sample has been taken of the organizations from selected districts of Uttarakhand and Western UP. Moreover the study has been conducted to compare the public and private sector units of four industries respectively, i.e., Manufacturing, Banking, Software and Telecommunications; hence the findings of study may not be applicable to other industries. This is a major limitation of study. The time of research is also limited therefore it gives a reflection of findings for the present phase. The findings are based on the survey method and hence depend entirely on the perception of people especially on some issues.

1.7 ORGANISATION OF THE STUDY

The study presented in the thesis is covered in five different chapters. The chapter wise presentation of the study is given below

Chapter One states in detail about the background of the study, the statement of the problem, objectives of the study, significance of the study, and limitations of the study.
Chapter Two presents an extensive review of literature. Here the various types of literature, i.e., books, research papers, Ph. D. thesis, articles and features relevant to the study are dealt with in-depth review.

Chapter Three focuses on research methodology that provides research questions and hypotheses, sampling techniques, explanations for the techniques for collection, classification of data and analytical methods used in the study.

Chapter Four is dedicated to the data presentation and analysis of the field data collection in the course of the research.

Chapter Five gives a summary of the major findings of the present research study. Conclusion of the study; recommendations have been made based on the findings drawn from the study and prospects have been identified for future researches in the given field of study.