

M.B.O. Based Performance Appraisal System

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ABSTRACT

Performance appraisal is systematic evaluation of the employee with respect to his performance on the job and his potential for development. It was Peter Drucker the great management expert, who proposed goal settings approach to performance Appraisal System. He emphasized that objectives are needed in all areas where performance and results vitally affect the survival and growth of the organization. The performance that is expected from the Executive/Manager can be derived from the performance goal of the organization. Individual results must be measured by contribution, he makes to the success of the enterprise. This is precisely M.B.O. based Performance Appraisal System. The Appraisal System on M.B.O. philosophy was introduced by General Electric USA in the year 1954, as a part of their executive development Plan. Bharat heavy Electrical Limited (B.H.E.L) a leading public sector undertaking with NAVRATNA STATUS has endeavored to introduce the performance Appraisal System based on M.B.O. philosophy. The company is a leading Power Plant manufacturing Company has a mission to become —World Class Organization!. The study aims to have complete analysis of the Performance Appraisal System of the company by going into detail of structuring the main instrument and the contribution of the system in achieving corporate objectives.

INTRODUCTION

The concept of Management by Objective was introduced by Peter Drucker in 1954 and latter on developed by various writers like Job Humble. Dale McConkey and others. In recent years Management by objectives has become a philosophy of managing in many enterprises and it has come to be recognized as the most dynamic and exciting thinking in the area of management. He emphasizes that objectives are needed in all the areas where performance and result directly and vitally affect the survival and prosperity of the business. The performance that is expected from Manager can be derived from the performance goal of the business. The results achieved by individual should be measured by the contribution they make to the success of the enterprise. This is precisely M.B.O. based Performance Appraisal System.

The Appraisal system based on the M.B.O. philosophy was introduced by General Electric Company, USA in the year 1954, as a part of their extensive Reorganization Plan. The Growth story of G.E., since then is quoted as a model of success in the business world.

Bharat Heavy Electrical Ltd. A leading Engineering and Manufacturing organization of India, has also adopted appraisal system based on M.B.O. philosophy. This was one of their efforts to achieve their vision to be the 'World Class Organization'. Adoption of this most modern approach to performance appraisal by a dynamic company with its diversified activities requires appreciation of the effect of the introduction of the system on the company performance. A Little effort has been made by the Author in this direction and is reproduced as this paper.

BHEL is the largest engineering and manufacturing enterprise in India in the energy-related/infrastructure sector, today. BHEL was established more than 40 years ago, ushering in The indigenous Heavy Electrical Equipment industry in India - a dream that has been more than realized with a well-recognized track record of performance. The company has been earning profits continuously since 1971-72 and paying dividends since 1976-77. The Company has to sign memorandum of understanding with Govt. of India annually, giving commitment not only for the profits but also achieving efficiency and growth targets. Keeping in view the national challenge of building its capacity to manufacture and supply power plant equipment to meet the growing power requirement of the nation :- and to ensure the compliance M.O.U Clauses and further to enhance its capability and competency to maintain a competitive edge in the international market BHEL has adopted an Appraisal system based on M.B.O. Philosophy. The system has been implemented for executives from Engineer to GM level. The system can be operated online. The system has been named as MAP i.e. **Moving Ahead through Performance**.

SCOPE / RELEVANCE OF THE STUDY

The basic scope of the proposed study was to know the mechanism of such an elaborate performance appraisal system by a large engineering company with its operations spread in many fields and having strategic and administrative linkage with Govt. of India. The study will give the rich experience and guidelines for independently framing performance Appraisal system based on M.B.O Philosophy in other similar organizations. The present study aims at complete appreciation of the performance Appraisal system of the company (MAP) by going into details of mechanism of structuring the main instrument with the various stretch tools and normalization formulas.

The study has tried to access the following aspects of the new performance appraisal system since its implementation in BHEL:-

- **The effectiveness of the system with regards to achievement of various parameters of the company.**
- **The response of executives to the new system.**

Performance Appraisal System:

Definition of Performance Appraisal (Dale Yoder) is —Performance Appraisal includes all formal procedures used to evaluate Personality, Contribution and Potential of group members working in an Organization. It is continuous process to secure information necessary for correct and objective decision on employees. In simple words Performance Appraisal is systematic evaluation of the employee with respect to his performance on the job and his potential for development. The main features of the Performance Appraisal are:

- It is a Systematic Process. It tries to evaluate the performance in the same manner using the same approach.
- It provides an objective description of employee's strength and weakness.
- It tries to find out how well the employee is performing the present job and his capacity to shoulder higher responsibility.
- The appraisal is a continuous process carried out periodically, according to a definite plan. It is not a 'One Shot Deal'.
- Provide input for decision about transfers, promotion and Training & development Programs.
- Provides Input to review the company Policies.

Various methods of performance appraisal have been adopted since the era of Scientific Management. The traditional Appraisal methods have been viewed as subjective - based on personal judgment of the appraiser. They not only fail to meet the objectives of the organization but also fail to motivate and meet the expectations of the present day's employee who are well informed and more sensitive to their growth and want to have effective say in the management of the enterprises. However the M.B.O based Appraisal system is a modern approach and meets the requirement of a progressive and growth oriented organization.

MANGEMENT BY OBJECTIVE

It was Peter Drucker who proposed goal setting approach to Performance Appraisal which he called 'Management by Objective and Self control'. This approach was further strengthened by Douglas MC Greg. and Odorne. M/B.O can be defined as 'a process where by the supervisors and managers of an organization jointly identify their common goals, define each individual's major areas of responsibility in terms of results expected of him and use these measures as guide for operating the unit and assessing the contribution of each of its members. It is viewed as Philosophy of management practice.

The key elements in a MBO programme are:-

1. Arranging organizational goals in a means and chain fashion.
2. Engaging in joint goal setting.
3. Conducting periodic progress review.
4. Conducting annual performance review.

The Key Appraisal document based on MBO should essentially include the following information:

1. The overall objective of the job of the subordinate.
2. The Key result he must achieve to fulfill his objectives.
3. The long-term and short-term priorities of tasks he must adhere to.
4. The scope and extent of assistance he may expect from his superior and related departmental managers and the assistance he must extend to other departments.
5. The nature of information and report he will receive to carry out self evaluation.
6. The standards by which his performance will be measured.

RESEARCH METHODOLOGY

The Procedure for the proposed study has been as under:

- 1) The structure of the present system has been studied along with the actual process of implementation of the system.
- 2) The Quantitative Data of the various performance parameters achieved since the implementation of the new system have been studied.
- 3) Interactions with various sections of executives have been held to know their reactions with special reference to the effectiveness of the present system.

STRUCTURE OF THE PERFORMANCE APPRAISAL SYSTEM: - The Appraisal System based on MBO philosophy adopted by BHEL, is popularly named as MAP. MAP has 3 Phases.

1. Performance Planning
2. Mid Year Review
3. Final Review

1.0 Performance Planning

Performance Planning Phase of MAP is initiated in the month of March upon the finalization of the draft budget for BHEL. The targets finalized for the Unit, Product Group, Department and consequently the Section, will serve as the starting point for an individual to do his performance planning. The Strategic Objectives of the Company / Unit / Product Group (PG)/ Deptt. / Section for a given financial year is outlined in the Balanced Scorecard prepared for that Level. The Balanced Score Card of the company is prepared at the company level at the beginning of the Year based on the Strategic Plan as well as the MOU and Budget targets decided for the year. Based on this, the Balanced Scorecards are also prepared for the following levels:

- Unit Head Level
- Product Group / Service Function Head Level
- Department Head Level

Although the Balanced Scorecard is prepared outside MAP, it is critical for the success of the system. The individual performance plans are derived from the section level BSC which will derive its strategic objectives and targets from the Department/ NC/ Unit and Company level BSCs through a process of cascading. Thus, ensuring proper alignment between the objectives /targets flowing from top to bottom.

1.1 Workflow of Performance Planning Phase:

- Unit HR maps Appraisee to suitable URR (Unique Role and Responsibility) format of an individual
- Appraisee makes plan for the year
- Submission by Appraisee
- Appraiser sees plan and accepts or Appraiser Discusses plan with Appraisee
- Appraiser Accepts and Submits plan
- Reviewer Approves Plan
- Plan is Submitted

1.2 Creating the Performance & Development Plan (P&DP)

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The Performance Plan of an individual essentially consists of one section – KRAs. This is the essential component of any Performance Plan and the individual is expected to fill in this section adhering to all guidelines in order to be able to submit his plan to his Appraiser. KRA's –critical result areas are the critical achievements to be attained by an individual to ensure the achievements of the business result of the company.

1.2.1 Selecting the KRAs

The Appraisee will select relevant KRAs from the KRA Master of his function (i.e. the function to which he has been mapped). A minimum of 4 and a maximum of 15 KRAs can be selected. (max. 15 from own KRA Master; 5 optional which can be taken from KRA Masters of other functions so as to ensure that the total no. of KRAs per plan does not exceed 15).

1.2.2 KRAs Concept:

These are Critical achievements required to deliver BHEL's desired business results. Typically, these are outcomes that directly contribute to BHEL's MoU or Strategic Objectives and Balanced Scorecard of the Unit and Department. Measurable and clear targets are necessary and are required for KRAs. There are 2 categories of KRAs -Operational (O) and Capability Building(C)

- KRA (O) – are ongoing significant activities of a function undertaken to achieve annual / short term objectives.
- KRA (C) - are activities that improve the capability of the function to deliver better results on a sustained basis over a period of time.

1.2.3 Target Setting and Action Plans for KRAs

For each KRA, 5 levels of performance must be defined by the Appraisee that quantify the extent of achievement in a given timeframe (L5 being the best and L1 being the lowest level of performance).Along with these, the Appraisee will develop an Action Plan consisting of specific steps required to achieve the target for each KRA.

1.2.4 Calculate 'Stretch' for L5 performance

For each KRA, the stretch for L5 Performance will be calculated using the Stretch Tool provided in the system.

1.2.5 Assigning Weightage

The Appraisee will propose weightages between 5% and 25% for each KRA. The total weightage for KRA (C) should be equal to or more than the minimum weightage for KRA(C) prescribed for the relevant URR to which the individual has been mapped. The total of all KRA weightages should add up to 100%. Maximum limit of weightages have been suggested for all KRAs across all functions for all the three categories of URRs. Executives while assigning weightages to the KRAs selected by them in their plan cannot exceed the maximum permissible weightages specified against each KRA. This is ensured through inbuilt system checks. The P&DP is now ready for submission.

1.2.6 Obtain Appraiser's and Reviewer's Sign-off

After creating his P&DP the Appraisee will submit his plan to his Appraiser. If the Appraiser wishes to modify the plan, he will discuss the same with the Appraisee and make the necessary modifications. Thereafter, the Appraiser will forward the Performance Plan to the Reviewer for final sign-off. In case the Reviewer wishes to modify the plan, he can mark it back to the Appraiser who will make the required modifications after discussing with the Appraisee and re-submit to Reviewer for final approval.

2.0 MID YEAR REVIEW PHASE

Mid-Year Review is an interactive feedback session between the Appraisee and Appraiser ONLY and takes place during the month of October for the half-year ended September 30th . It is a mid-cycle process for reviewing and tracking achievements thus reducing the scope for year-end surprises. The Mid-Year Review does not result in a performance score and will be treated as a —course correction mechanism wherein the Appraiser guides the Appraisee on whether the Appraisee is 'on track' to achieve the performance plan finalized in April. Road blocks can be discussed and resolved so that the Appraisee is able to achieve his targets. Mid Year Review begins with the Appraisee's self-appraisal. In his self-appraisal, the Appraisee will comment on his/ her current level of achievement on KRAs and Developmental Competencies, which will then be discussed with the Appraiser for his feedback and inputs. During this phase the appraisee also identify both behavioral and functional competency and completes one of the requirement of this phase.

2.1 Creating the Development Plan using Competencies and Development Plan Sections

Development Planning in MAP focuses on building individual capability using competencies.

Identifying competencies for development from the standard list .From the list of functional & behavioral competencies identified for the role, the Appraisee will identify a minimum of one and maximum of three competencies during this phase. These will be taken as training requirement which will be met in the following year. The urgent functional competencies will be arranged internally by the department. Documentation of the Performance Discussion and completing the competency section concludes the Mid-Year Review Phase of MAP. The Appraiser and the Appraisee will refer to documented and objective facts regarding performance-related events for a meaningful performance discussion.

3.0 FINAL REVIEW PHASE

The Final Review Phase will begin with the Appraisees' self-appraisal wherein he/she gives the assessment of target achievement on each KRA defined in the Performance Plan. The Appraiser will review the outcomes of self-appraisal and give his own assessment of the achievement of the targets in the performance plan for each KRA. In addition he will also give his assessment on the Behavioral Traits defined in the system. After appraisal by Appraiser the plan will come back to the Appraisee for his information and assessment done for KRAs (the assessment of Behavioral Traits will not be visible at this stage). If the Appraisee feels that his Appraisers' Assessment is correct, he can Accept and forwards it to his Reviewer. However, in case of any issues regarding the assessment, the Appraisee can request for a "Discussion" with his Appraiser. After the discussion, the Appraiser will finalize his assessment and send it back to the Appraisee. The Appraisee at this stage can either Accept the assessment or Reject it. In either case the plan will go to the Reviewer with the appropriate message for his final assessment.

The Reviewer will give his assessment on the KRAs which will form the basis for calculation of the final performance score of the individual. He will also give his assessment on the Behavioral traits. Till such time the decision regarding Normalization is not taken the final performance score will be visible to the Appraisee on his dashboard under the link Final Review. Once it is decided to run Normalization, only the final Rating will be visible. Also visible will be those Behavioral Traits in which he has been given a score of 3 or less on a five point scale.

The feedback during Mid Year Review will be taken into account to significantly add value to the Final Review. The Appraisee's self-appraisal will not directly contribute to the performance score but will be viewed as the Appraisee's opportunity to share his/her perspective on performance.

Feedback and Coaching by Appraiser will be a key component of the Final Review as this serves as an important input into the next cycle's Plan

4.0 Stretch Tool

Stretch is the Degree of Difficulty built into the target at the time of Performance Planning.

The Targets in BHEL's Balanced Scorecard will be cascaded to the business sectors / units, their respective product groups, departments, sections and finally to the level of individuals within the groups. BHEL, as an organization, will achieve its targets through the efforts of its people. This is possible only if the individuals and teams have targets with a degree of difficulty that meets or exceeds that of BHEL. The Stretch Tool consists of Three Dimensions that capture the underlying factors that cause the Degree of Difficulty to vary across business and individual situations. Assessments of each dimension using a ten point running scale from 1-10. Stretch Calculation Table These three dimensions of Stretch will be used to ascertain the degree of difficulty of a target.

4.1 Normalization: - In MAP, Normalization is the process of aligning the distribution of individual performance scores to the performance level of the company, unit and product department in a defined Performance Cycle. Business sectors will be treated as units for the purpose of Normalization. The Functional KRA Masters and the Stretch Tool ensure that there is objectivity and consistency in the definition of performance and the Stretch in Targets.

The process of Normalization will ensure that:

1. The percentage of high performers in a product group / department that has achieved its performance objectives is greater than the percentage of high performers in a product group / department that has not achieved its performance objectives.
2. The number of high performers in a year in which BHEL has met its goals is greater than the number of high performers in a year in which BHEL has not met its goals.

The applicable distribution of scores for the Performance Cycle will be determined from the "Table of Distribution by Performance Level" based on actual performance achievement by BHEL, units and product groups / departments.

Normalization Process:

At the beginning of the financial year, performance measures and Targets will be clearly defined for BHEL, units and product departments. On completion of the financial year, the actual performance of BHEL, units and product departments will be known in terms of performance levels as per MOU or the unit / departmental scorecards.

At the beginning of the Performance Cycle, KRAs and targets will be clearly defined for Appraisees in MAP. On completion of the Performance Cycle, the actual performance of Appraisees will be known in the Final Review in terms of the Final Score. Corporate HR will input the following into the MAP Normalization software to generate the Final Performance Rating for Appraisees:

1. Performance level data for BHEL, units and product groups / departments
2. Final Score data of all Appraisees
3. Table of Distribution by Performance Level. The Final Performance Rating will be communicated to each Product / Department Head All Appraisees will be informed of their Final Performance Rating

5.1 Role Overview (Appraisee):-Appraisee: Role Overview

Every executive whose performance is assessed under MAP is an Appraisee. The Appraisee has the major role in MAP as MAP enables him/her to effectively manage his performance in a given performance cycle.

Performance Planning

- Identify appropriate KRAs from functional KRA Master
- If required, request for new KRAs and seek approval from HOD
- Set five levels of targets for each KRA
- Propose an action plan for achievement of each KRA Target
- Assign a weightage for each KRA

Mid Year Review

- Conduct a self-appraisal to track progress of performance on KRAs & Complete the Competencies section.
- Discuss performance with Appraiser and seek feedback on performance
- If required and approved, initiate request for Edit Plan

Final Review

- Conduct self-appraisal to evaluate performance on KRAs

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- Discuss performance with Appraiser and seek feedback on performance
Finalize with Appraiser actual achievement against targets

5.2 Role Overview (Reviewer):-

Reviewer: Role Overview

Appraisers' Appraiser, who is responsible for reviewing the entire performance process, is the Reviewer.

The Reviewer has the role of validating performance plans and final ratings to ensure consistency and objectivity across the teams reporting to his/her Appraisees.

The Reviewer is responsible for obtaining agreement when differing points of view arise between the Appraisee and the Appraiser.

EFFECTIVENESS OF THE SYSTEM

The system has been implemented from the year 2004-05 have been giving positive results. A comparison of some important financial parameters over the years summarized below:

RS IN CRORES			
Year	Turnover	Profit after tax	Value added
2001-02	6348	469	3074
2002-03	7492	444	3248
2003-04	8662	657	3680
2004-05	10338	953	4254
2005-06	14525	1679	5683
2006-07	18739	2415	7182
2007-08	21401	2859	8323

From the above it is seen that:

1. Turnover has increased from 6348 Crores in 2001-02 to 10338 Crores in 2004-05 where as T.O. has increased to 21401 Crores in 2007-08
2. Profit after Tax has been increased from 469 to 963 Crores from 2001-02 to 2004-05 and 2859 Crores in 2007-08.

3. Value added has been increased from 3074 Crores to 4254 Crores from 2001-02 to 2004-05 and 8323 Crores in 2007-08.

Thus since the introduction of MAP, the new Performance system in 2004-05, in 2007-08 the increase in T.O. has been 107% as compared 62% from 2001-02 to 2004-05. Similarly the P.A.T has increased to 200% in 2007-08 from 2004-05 against 103% in 2004-05 to from 2001-02. The value added has increased by 95% in 2007-08 from 2004-05 as compared to 38% in 2004-05 from 2001-02.

Thus there has been steep increase in all the three parameters i.e. Turn Over, Valued added and Profit after Tax. (Also evident from plots shown in page)

The achievement of growth visible through the parameters has been as a result of several factors but the contribution of executives in achieving the quantum jump is quite significant. B.H.E.L. has been able to build up its capacity, technological capability, update its facility and maintain a professionally competent workforce. However the introduction of the performance system (MAP) has been instrumental in motivating and making executives more focused and committed. Each executive sets his targets in line with objectives of the organization. The achievements are reviewed mutually, timely corrective actions taken to ensure achievement of the results. Thus a formal system of review is in place during mid year review but this is to ensure that necessary help is given to individual to achieve the results. Rarely the targets are modified that too after thorough review and discussions.

The system takes care of subjectivity. It brings the overall rating of individual executive on uniform scale through application of stretch tool and normalization process. This enables the system to be used for promotion and execution career development.

In addition, Training needs are focused on the competencies which are particularly significant for the particular role/jobs. This makes training programme more meaningful and effective.

IN order to ensure the achievement of overall objective and compliance of MOU clauses, the performance targets of each executive are stretched to enable them to put extra efforts set tools have been provided for the same in the system.

Thus MAP has been quite effective in achieving business result and has also proved to be useful parameter for the growth, Career planning and Development of the executive in B.H.E.L.

RESPONSE OF THE EXECUTIVES

In order to have the impression of the executives about the usefulness, effectiveness and adoptability of the system, an interaction with cross section of executives of CFFP - a unit of BHEL at was undertaken. Out 130 executives in CFFP, 52 executives (40%) covering all the levels (from GM to Engineer) were interviewed along with a structured questionnaire. (Page)

The findings of the above exercise are as under:-

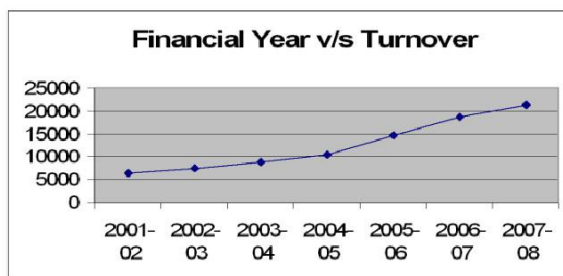
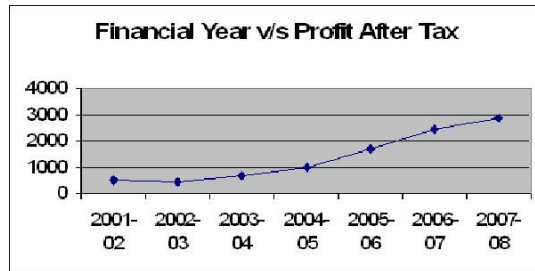
1. 47 executives felt that the system is comprehensive. However, 5 executives felt that system needs improvement.
2. 40 executives felt that the system will lead to avoiding any bias and subjectivity. 8 executives did not agree with this. 4 executives did not give any comment.
3. 40 executives did not find any difficulty with the new system and 7 executives felt that the system is too detailed and complicated. 5 executives did not give any comment.
4. 35 executives felt that the system is being used by the management for considering the promotion and career development programmes for executives. 17 executives could not give any opinion.
5. 40 executives felt that the system is highly effective, has contributed to the growth of the company and motivation of the executives. 10 executives felt that the system is moderately effective. 2 executive felt that the system is not effective.
6. 40 executives liked the system. However 7 executives had reservations about the system.

From the above, it is clear that the most of the executives feel that the new system is comprehensive, effective, user-friendly and is being used as one of the criteria for personal growth of the executives. Majority of the executives liked the system. Some executives (very few), however, felt the system needs improvement .Thus the overall reactions of the new system can be considered as positive and encouraging.

CONCLUSION:-

1. MAP-moving Ahead through Performance adopted by BHEL has been well documented and implemented successfully in spite of initial teething problems. The system is being continuously updated. On the basis of feedback from executives chosen from CFFP (an important manufacturing division of the company) the system has been proved to be very effective.
2. The study shows the model can be adopted by other business units. This will enhance their performance and growth rate besides increasing the motivation of the executives. The adoption of appraisal system based on MBO by manufacturing companies in India will have a valuable

contribution in efficient utilization of resources of the country and will lead to quantum jump in the national economy.



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