

# MOU SYSTEM: ENHANCING EMPLOYEE PERFORMANCE IN INDIAN CPSE'S

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**Abstract** Companies take numerous initiatives to ensure higher performance. The role of HR and HR systems has become indispensable for companies to ensure performance and survive in the competitive world. The role of HR systems of public sector units (PSU) in India is equally important in establishing a performance culture. Government has taken numerous initiatives to ensure a performance culture among the PSU's. The Memorandum of Understanding (MoU) system is an age old process in India which underwent numerous modifications over the years and has ensured greater involvement of people with higher individual and organisational performance. The paper elaborates the concept of MoU system and its implementation approach in Indian Central Public Sector Enterprises (CPSE's). The paper uses secondary data to identify the relation between the MoU, organisational performance, and its employees. The paper provides a new thought on the concept of MoU as an HR process based approach which enhances individual performance. The paper discusses a model for initiating performance based focus in organisations.

**Keywords:** Performance Management System, Performance Model, MoU, DPE, CPSE's, India

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## INTRODUCTION

On recapitulating the state of economy of India during the yester years of independence, history reveals that India has been an agrarian economy with a weak industrial background, low level of savings and investments, and near absence of infrastructure facilities. Industrialisation had become a necessity for the country to grow in post-independence era. Public sector undertakings (PSU) started developing and with the fast growing world, the growth of PSUs had become indispensable for India to keep up with the pace of the rest of the world. The Indian economy was performing low in the late 1980s and early 1990s. In 1991 it witnessed a double-digit rate of inflation, decelerated industrial production, fiscal indiscipline, a very high ratio of borrowing to GNP and a dismally low level of foreign exchange reserves. A number of reforms were made in the public sector, in trade and exchange policy, in the banking sector, and foreign investment was liberalized (Budhwar, 2001, Venkata Ratnam, 1995). One such initiative by the government introduced during the late 1980's was the Memorandum of Understanding (MoU) system.

The Public Enterprise (PE) Survey (1988 – 89) presented to parliament on 15<sup>th</sup> March, 1990 spelt out the purpose and mechanism of MoU, in the following words: “In order to improve the performance of the public sector, government took a policy initiative by introducing the concept of Memorandum of Understanding (MoU).” MoU

is an instrument which defines clearly the relationship of the PSU with the government and clarifies the respective roles of the PSUs as well as the government, to achieve better performance. PSUs in India are classified differently under the category of Central Public Sector Enterprises, (CPSEs), Public Sector Banks, (PSBs) and State Level Public Enterprises, (SLPEs). The MoU guidelines issued are different for each classification of PSUs and respective industrial sectors. The paper is focused on performance management system (PMS) at CPSEs by implementation of the MoU system.

There are numerous HR processes involved in the operation of an organisation. Though the MoU is not a core HR process as it holistically addresses the governmental issues in ensuring performance of the CPSEs yet, the MoU system is largely a process based approach with high involvement of employees as a part of the system. The MoU system was introduced considering a number of issues faced by the organisations. Earlier the opportunities at CPSEs were considered as the most relaxing 9:00 am to 5:00 pm jobs with near absence of performance based focus along with high security. This attitude among people increased the behaviour of non-performance among workforce as they did not face any compulsion of performance. Performers continued to perform, as these set of people were ready to work and contribute to organisational performance. Nonperformers remained to non-performance and believed that there are performers in the organisations who would work to achieve organisational performance. This scenario

still existed until recently the high emphasis on the implementation of guidelines framed as a part of the MoU system initiated changes in the operations of the CPSEs and ensured performance by individual employees - individually or as a part of groups.

Performance is monitored by a control system. MoU is a control system for organisational performance. Researchers argue that over-emphasis on control may be counter-productive (Roberts, et al. 2005). On the other hand Munene, et al. (2003) found out that in extreme counter-productive climate, employees do what is minimal or default whenever they have an opportunity while others either quit the job or stay but sacrifice quality for quantity. Thus, the MoU system emphasizes on achieving the negotiated and agreed objectives rather than interfering in the day-to-day affairs.

The paper is based on the fact that HR processes are nothing but initiatives involved by the people and for the people to achieve the organisation's goals. The assumption underpinning the conceptual framework of the paper is that people are the organisation's key resource and organisational performance largely depends on them. Therefore, an appropriate range of policies and processes developed for and implemented by people effectively will make a substantial impact on firm's performance.

The objectives of the paper are:

- To elaborate the performance focus through implementation of MoU system in Indian CPSEs
- To describe the MoU system in India
- To discuss the concept of MoU system as a HR process based approach
- To explain the role of MoU system in establishing individual performance.
- To discuss a model for initiating MoU system as a part of performance based focus.

The paper elaborates the concept of MoU system and its implementation approach in Indian CPSEs. The paper uses secondary data to identify the relation between the organisational performance and its employees. The paper provides a new thought on the concept of MoU as an HR process which enhances individual performance.

## NEED FOR PERFORMANCE BASED FOCUS IN INDIAN CPSES

The overall poor performance of the public sector in India has been a concern to the Government for long. Lack of goal clarity, leadership, authority, transparency, and accountability has been identified as an important factor contributing to the performance of the public sector. The fact that public sector organisations have high competition from the private

sector organisation has compelled the government to design a mechanism that enhances the performance of the CPSEs.

A large number of CPSEs did not have an appropriate instrument to evaluate performance of the public sector with complex social and financial objectives. Employees are mostly evaluated on the grounds of Annual Confidential Reports (ACR) or Annual Appraisal Reports (AAR) in many CPSEs. These reports merely contained updation of education of the employee during the year, conduct, and attendance. Performance appraisal systems in CPSEs have been subjective and religiously followed as a year-end practice. The ACR / AAR were not transparent which leads to biasness. This acted as the base for undergoing a Memorandum of Understanding (MoU), followed by evaluation of MoU performance. Leadership, autonomy, and accountability must go together in the management of the public sector and this is the crux of the MoU policy. The MoU system attempts to bring changes in the quality of management of the public sector. The concept of MoU is based on the principle of management by results and objectives, rather than by controls and procedures and has been used worldwide in the management of public sector enterprises.

Many CPSEs in India have been experiencing the pleasant task and tension of a two-fold increase in the demand for their products and services. The advent of MoU system in India has also compelled firms to move into a new drive of performance based workplace. Consequently, the emphasis has shifted to the ultimate and inevitable goal of productivity improvement. Productivity improvement can only be there if the employees are focused to the goal of productivity and can perform well; as per the needs and expectation of the organisation. The individual and organisational performance expectation should complement each other as it plays a major role in the achievement of organisational performance. Nagarkatti (1968) has highlighted the fact that despite the well-developed governance system in almost all the ministries of the Indian Central Government, the level of performance is low, which can be attributed to the lack of motivation among employees due to which the final delivery suffers.

Numerous researches have also proven that there is a large difference between the employee performance expectations of the private and public sector organisations. Researches by Amba-Rao, et al. (2000) and Sharma (1992) have shown significant differences in the pattern of HR practices of private and public-sector organisations. Literature provides valuable insight on the difference between the HR procedures of public and private sector organisations. Sharma (1992) has highlighted that less money is spent on employees in Indian public sector organisations along with lesser opportunity to be trained and only few employees are trained in comparison to private sector organisations. Amba-Rao, et al. (2000)

have highlighted that Indian private sector firms provide significantly less feedback on performance appraisal results than Indian PSUs that tends to be more hierarchical. Bordia and Blau (1998) have explained how private sector firms are more likely to compensate their employees on the basis of performance and competencies.

Mankidy (1995) and Tayeb (1987) have highlighted the fact that managers in Indian public-sector organisations take fewer decisions in conjunction with their subordinates.

The above facts support the obstacles to individual performance and reveal the scope for new initiatives to attract and retain right people ensuring performance in Indian PSUs.

## THE MOU SYSTEM IN INDIA

MoU is a device used to improve the performance of CPSEs. The concept of MoU is very simple. Trivedi (1990) has explained MoU as the freely negotiated performance agreement between government, acting as an owner of the public enterprise, and the public enterprise itself. A MoU system intends to specify the intention, obligation and responsibilities of the two parties.

In this system the government as the owner, formally commits the management of its enterprise to secure a particular level of performance during a period, as agreed upon in advance. The philosophical foundation of the MoU system is – ‘What gets measured gets done’ (Trivedi, 1995). The approach is to define the ‘Rules of the game’ and ‘Boundaries of operation’ in advance. The objective of the MoU system is to simultaneously increase autonomy and accountability.

The MoU system in India is based on the performance contracting approach. There are two distinct varieties of performance contracting approach: French Contracting System and Signaling System. The French contracting system as defined by Cadic (1979), is a priori to a posteriori controls. The result in a French contracting system is a high quantity and low quality of governmental control over public enterprises (Jones, 1985; Ramamurty, 1986). On the other hand the Signaling system emphasizes on sending appropriate signals to the managers to guide them in making decisions in the national interest and reward them for doing so. Jones (1981), Jones and Trivedi (1983), Mehdi (1984), and Nawab (1985) have elaborated that the signaling system consists of 3 subsystems: Performance Information system, Performance Evaluation System and Performance Incentive System. The MoU system in CPSEs prevalent since 1986 was revamped in 1989, and it moved closer to the ‘signaling system’ of the Pakistani and the Korean models as developed by Prof. Leroy P. Jones. The genesis of MoU can be traced to the *Report of the Committee to Review policy for Public Enterprises*, headed by Dr. Arjun Sengupta. MoU was one of its major recommendations that was accepted in 1986 and

the first set of 4 MoUs was signed in 1987- 88. Based on the report of National Council for Applied Economic Research (NCAER) the new methodology for setting up performance targets has come into force since financial year 2004-05. The number increased to 159 CPSEs who had signed MOU with the Government for the year 2010-11 (PE survey, 2010-11).

## Structure of MoU

As described in the Department of Public Enterprise (DPE), Government of India (GoI), equal weights (50%) are assigned to both ‘financial’ and ‘non-financial’ parameters, which is on the lines of the ‘balanced score card’ approach of performance evaluation. The ‘non-financial parameters’ are further sub-divided into ‘dynamic parameters’, ‘enterprise-specific parameters’ and ‘sector-specific parameters’, whereas the ‘static/financial’ parameters generally relate to profit, size, and productivity, the ‘dynamic’ parameters refer to project implementation, investment in R&D, and extent of globalisation etc. Similarly, while the ‘sector-specific’ parameters refer to macro-economic factors like change in demand and supply, price fluctuations, variation in interest rates etc. beyond the control of the management, the ‘enterprise-specific’ parameters relate to issues such as safety and pollution etc.

As per *DPE guidelines* issued for drafting MoUs to be signed between CPSEs and administrative Ministries for the year 2010-11, Corporate Social Responsibility (CSR), R&D & Sustainable Development were included in non-financial parameters with a mandatory 5% weightage each. The choice of individual non-financial parameters constituting 50% of weightage is left to the combined wisdom of the CPSE’s, Administrative Ministry and the Task Force. All parameters are designed to be SMART (i.e. Specific, Measurable, Attainable, Result-oriented, Tangible) and objectively verifiable. The guidelines issued are subject to changes for the year 2013-14.

Process of Performance Management System for CPSE’s in India involves eight basic steps initiating with defining the vision/ mission of the Public Enterprise. The steps involved are Performance Planning, Identifying KPA’s weightage and measures, Selection of competency attributes depending on level & type of activity, Joint review of performance (Mid Year Review), Documentation of Mid Year Review discussions, Documentation of changes in KPA’s if any during the Mid year Review, Annual Assessment, Review by reviewing officer, Normalisation and Bell Curve approach, Feedback and communication of scores and Counseling and Individual Development plan. Performance evaluation at the end of the year indicates the extent to which the mutually agreed targets between the CPSEs and the administrative ministries were achieved. The methodology of performance management system has, however, undergone several

changes over the years.

### MoU as an HRM Process

Ferris, et al., (1999) have elaborated the strategic perspective on HRM as the association between the overall set of HRM practices with the organisation, the performance and competitive advantage. The resource-based views of Becker and Gerhart, (1996); Lado and Wilson, (1994) and Wright, et al. (1994) elaborate on how the HRM practices contribute to firm performance by leveraging human capital, discretionary effort, and desired attitudes and behaviours. The content approach focuses on individual practices and policies intended to achieve a particular objective. The content approach of the HRM system refers to the set of practices adopted largely driven by the strategic goals and values of the organisation. Proponents of the process based approach highlights the importance of the psychological processes through which employees attach meanings to HRM practices. The HR practices may result in different individual or organisational outcomes if employees find it difficult to attach only one kind of meaning.

The MoU system is mainly based on process approach as the performance of CPSE signed in MoU is adjudged on financial parameters as well as non financial parameters. The non- financial parameters are based on the various areas like Research and Development, Human Resource Development, Strategic Planning, CSR and Sustainable development. There are various guidelines issued by the DPE for fulfilling the criteria of the scoring under MoU. The guidelines builds base for employee involvement and implementation of people practices which enhances performances of organisations. The MoU system is based on the notion that sustained organisational success will be achieved through a strategic and integrated approach to improving the performance and developing the capabilities of individuals and wider teams as suggested by (Armstrong and Baron, 2005).

The people based practices are solely related to the HRM processes like recruitment and selection, employee safety, training and development, career management and employee satisfaction, encouraging for research and development, involvement of employees for corporate social development. Fischer, et al. (1997) concluded that performance appraisal should be used as an employee development tool to identify areas of skill and ability deficiency, to improve the focus for training and development, as the possession of appropriate skills and abilities are key elements in improving individual performance. Some CPSEs like NTPC, ONGC, HAL etc. have their own exclusive training institutes to encourage learning and development. Milkovich and Wigdor (1991) have explained that transparency in systems, autonomy to perform, openness and fairness in appraisals actually

helps the employees in developing trust in the appraisal system. Number of CPSEs have introduced competency and KPI (Key performance indicators) based PMS system. Lowery and Petty (1995) have worked on researches that demonstrate the importance of linking HR systems especially the performance-related pay (PRP) with the strategic annual plans. The HR guidelines issued by GoI also emphasizes on the implementation of Performance related pay and performance related incentives. Companies like ONGC have implemented the PRP system with great success. The first performance linked incentive scheme was implemented by NTPC as 'Project Construction Incentive Scheme' for its Barh Plant. Through this NTPC proved that productivity rises when all direct and indirect employees are integrated in an incentive scheme. Under the plan, each employee's performance incentive was linked to the project achievements. The maximum limit under the scheme was capped at 25 % of employee's annual fixed salary (CPSE report, n.d.).

The MoU system is based on all the above mentioned practices and ensures high involvement of employees in each process contributing to the enhancement of overall performance of the organisation. The contract system as shown in Figure 2 describes that the organisational performance target is percolated down to individual / team target and is mutually accepted by both the parties (the target assignee and the employee). A mid- year review is conducted to ensure that the employees are performing as per the set expectations and also provide an opportunity to share feedback incase of any performance discrepancy. The MoU system provides opportunity to the CPSEs to implement people practices that are best suited in individual organisations and not just as a 'Best practices in HRM'. Performance is the ultimate focus of a MoU system and ensures a systematic performance management system in place which is grounded by reality and propelled by the vision of future.

### METHODOLOGY

Secondary data have been collected from 10 Indian CPSEs. The annual reports of five Maha Ratna and five Nav Ratna companies were studied for the period of 2007 -12. The Public Enterprises surveys for the period of 2001 – 2011 were also studied to understand the impact of MoU on performance. A 'Ratna' company is prestigious title provided by DPE to the PSU's which gives them greater autonomy to compete in the global market. The PSU have been classified under Maha Ratna, Nav Ratna and Mini Ratna I & II on the basis of their annual performance over the years. Qualitative data were gathered from the top officials of the organisations studied .

### Organisations Studied

- Coal India Ltd. (CIL)
- Oil and Natural Gas Corporation Ltd. (ONGC)
- Steel Authority of India Ltd. (SAIL)
- Indian Oil Corporation Ltd. (IOCL)
- National Thermal Power Corporation Ltd. (NTPC)
- Oil India Ltd. (OIL)
- National Mineral Development Corporation (NMDC)
- Bharat Petroleum Corporation Ltd. (BPCL)
- Neyveli Lignite Corporation Ltd. (NLC)
- Gas Authority of India Ltd. (GAIL)

### Performance Management Through the Mou System—The Performance Model

The concept of Performance management system is build upon two propositions as suggested by (Armstrong and Baron 2009).

- When people (individuals and teams) know and understand what is expected of them, and have taken part in forming these expectations, they will use their best endeavors to meet them.
- The capacity to meet expectations depends on the levels of capability that can be achieved by individuals and teams, the level of support they are given by management, and the processes, systems, and resources made available to them by the organisations.

Dessler (2005) and Williams (2002) have described the performance management system as a strategic, integrated process which incorporates goal-setting, performance appraisal and development into a unified and coherent

framework with the specific aim of aligning individual performance goals with the organisation’s wider objectives. Performance management system is concerned with how employees work, how employees are managed and developed to improve their performance, and how to maximize employee contribution to the organisation. Shaw and Atkinson (2006) have discussed the reasons behind organisations adopting performance management systems (PMS) and elaborate the challenges they face in achieving their goal: the improvement of individual and organisational performance.

Armstrong and Baron (1998) have explained that the primary objective of performance management is to improve business performance by raising each individual development and improving performance by raising each individual’s effectiveness. For any performance management system to be in place Purcell, et al (2003), explained the ‘big idea’ consists of a ‘clear vision and a set of integrated values’. Walton (1985) emphasized on the importance of commitment and mutuality through the HRM model which is composed of policies that promote mutuality – mutual goals, mutual influence, mutual respect, mutual rewards, and mutual responsibility. The theory is that policies of mutuality will elicit commitment, which in turn will yield both better economic performance and greater human development. Huselid (1995) has explained that productivity is influenced by employee motivation; financial performance is influenced by employee skills, motivation and organisational structures. Marchant (1999) has addressed the individual level of analysis in organisational behaviour. Her research links elements of motivation and ability, which determine individual performance, to the HR practices of performance management and reward and recognition systems.

Figure 1: Process of performance target setting

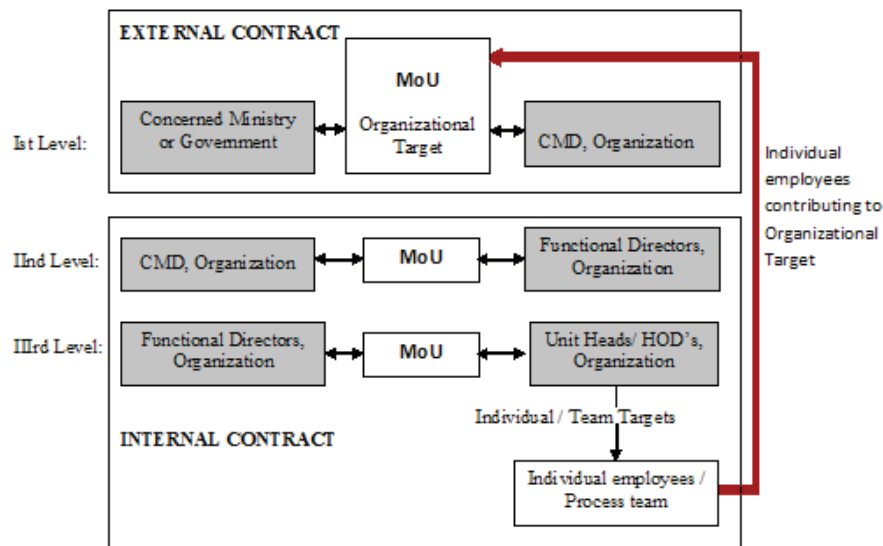
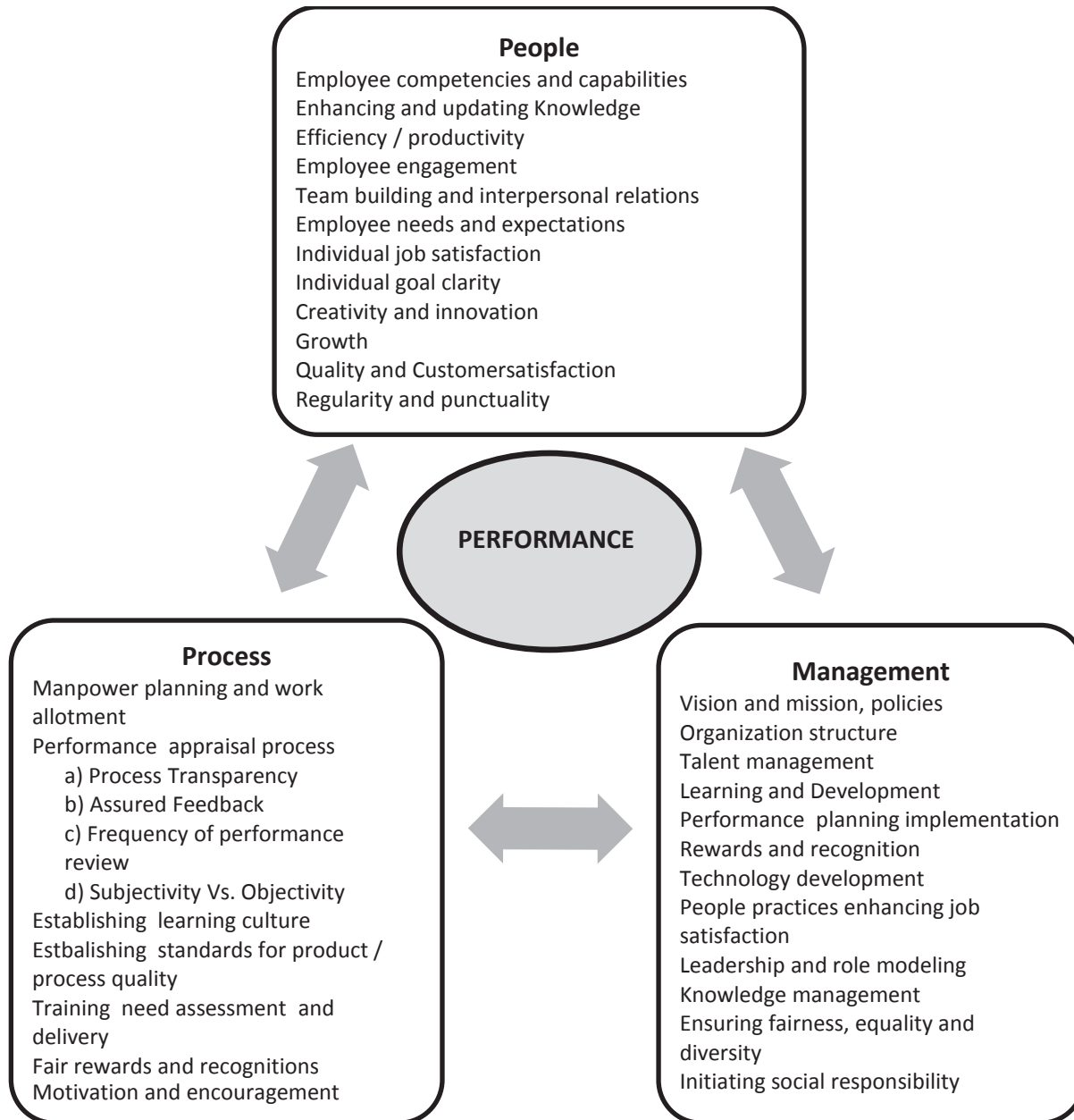


Figure 2: People – Process – Management (PMP) Performance Model for MoU system



In Korea, a high degree of linkage is developed between the employee's targets and appraisals with the business goals of the government machinery (OECD Report, 2005). The Indian government studied different models and ensured clarity about their short-term and long-term targets and focused on enabling CPSEs to accomplish the same. With the need to make a change and establish a performance based culture, India introduced the MoU system to establish a performance management system among CPSE's which is characterized by more of guidelines based approach. The MoU system is nothing but a contract between government and the CPSE for ensuring performance of the CPSE as a whole (As shown in Figure 1.). The contract is signed externally by the

concerned ministry and the Chairman and Managing Director (CMD) of the CPSE. This contract is further percolated downwards internally to every department and it's Head of the department (HOD). A contract exists between the HOD and every individual or team as a part of the departments. The contract acts as the base in establishing a transparent mechanism of clarifying performance expectations from individuals as well as team.

Previous works by Arthur, (1990, 1992, 1994) elaborate that firms with a high commitment strategy had significantly higher levels of both productivity and quality than those with a control strategy. *The MoU system though controlling in nature at governmental / ministerial level, ensures*

**Table 1: Practices emphasizing on performance enhancement- The MoU way**

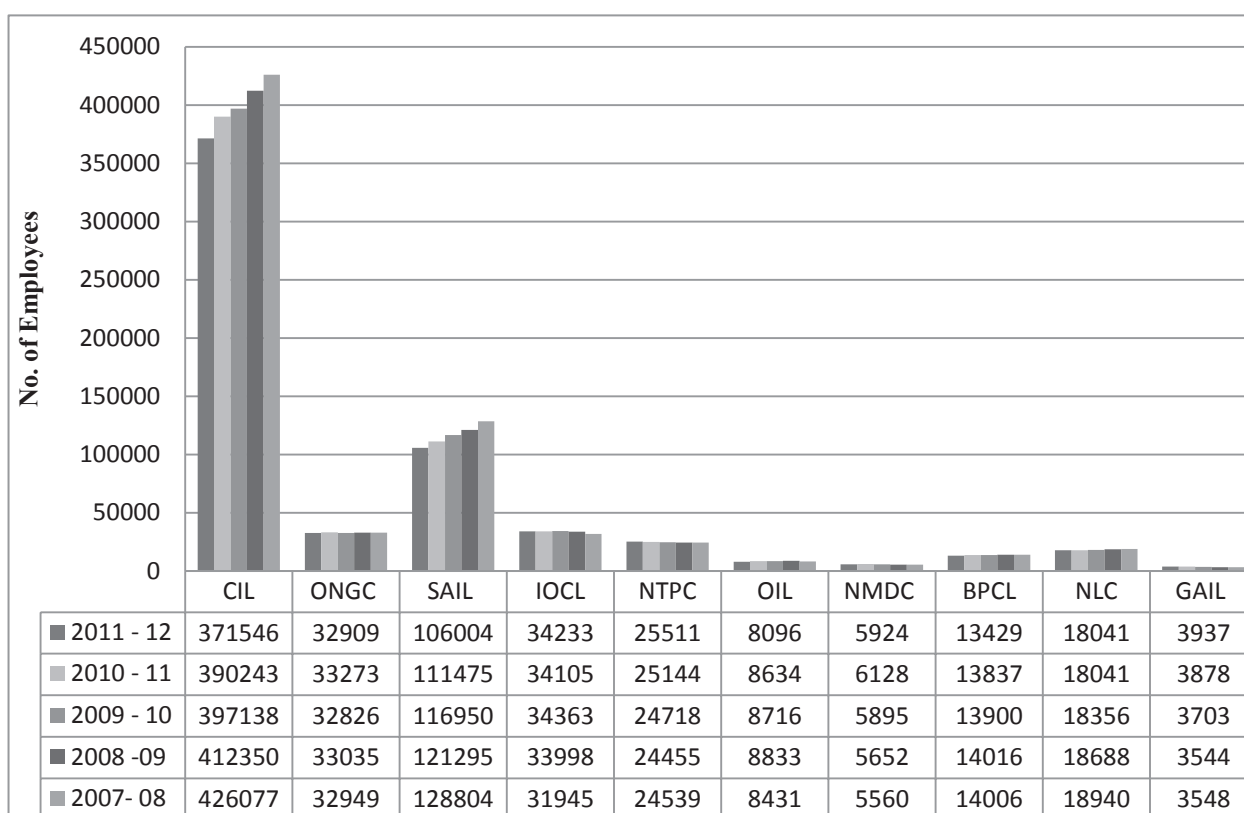
| S No. | Practices emphasizing on individual performance   | The HR / CSR / R & D/ Sustainability guidelines (upto 2012 – 13) as a part of the MoU emphasizes on :  | HR Performance model for MoU system |
|-------|---|--|-------------------------------------|
| 1     | Organisational goal clarity- <i>Aligned To Company's Strategy,</i>  | Developing HR vision, mission and values   | Management                          |
| 2     | Human Resource Planning - <i>Human Resource Utilization</i>   | Short and long term Manpower planning  | Process                             |
| 3     | Recruitment and Selection   | Recruitment and Talent sourcing strategy, Job description, work allotment  | Process , People                    |
| 4     | Training and Development - <i>Assess Capabilities and Competence. Support Development of Individuals</i>  | Devise development and learning strategy (Identifying skill requirement technical and behavioural)<br>Training, executive education, coaching, mentoring, developmental assignments, rotational assignments, action learning, e- learning, individual development plan | Process , People                    |
| 5     | Performance management system - <i>Fairness &amp; Transparency, Continuous Process of Identifying, measuring and developing Human Performance</i> | Performance Management System – using any tool like assessment center, 360 degree feedback or psychometric tests   | Process , People                    |
| 6     | Employee engagement and growth- <i>Involvement Organisational Pride, Flexibility, Synchronize Individual's Growth with Organisational Growth</i>  | Career Management and Employee engagement system   | Management, people                  |
| 7     | Compensation system- <i>Motivation &amp; Fair rewarding</i>   | Compensation and reward system (Performance related Pay)   | Management                          |
| 8     | Leadership- <i>Prepare Leadership Pipeline, Managerial excellence, Empowering</i>   | Developing leadership pipeline and succession planning<br>Identification of critical leadership position<br>Determination of leadership criteria   | Management                          |
| 9     | Involvement in social responsibility - <i>Commitment &amp; sense of social responsibility</i><br>Commitment for stakeholders                      | Involvement in corporate social responsibility   | Management, People                  |
| 10    | Organisation culture  | Organisational Climate survey  | Management                          |
| 11    | Safety  | Employee safety  | Management                          |

*commitment based practices at organisational and employee level.* Bowen and Ostroff (2004) have explained that a strong HRM system comprises of three features: distinctiveness, consistency, and consensus. The MoU system ensures the three features as it is a unique system which has been continuously in operation since 1986 though it has underwent numerous changes. The MoU system is also based on mutual consensus between the parties involved. The MoU system is based on establishing a connection between the individual employee target and the organisational target. The system also ensures people strategy as a part of fulfillment of

guidelines issued for 2010 – 11 as shown in Table 1.

A PPM model as shown in Figure 2, has been prepared emphasizing on the cohesiveness and interdependency between the three elements in achieving the organisational performance. Three elements are People, Process and Management. Each element includes various initiatives which are integral for performance. Each element is interrelated as management has a responsibility towards the process and operation as well as towards its employees. Management needs to set targets and design mechanisms

Graph 1: Total employees during the period of 2007 – 2012.



to involve people in obtaining desired results. The people processes in organisation ensure employee ease at workplace and fulfillment of management objectives. People element ensures smooth processes and fulfillment of management objectives. A number of performance based management practices ensure accountability and commitment. Accountability and commitment leads to individual performances contributing to organisational performance. A number of such practices are as shown in Table 1. The relation between the guidelines issued under the MoU system and areas ensuring individual commitment and accountability are as shown in Table 1.

## DATA ANALYSIS

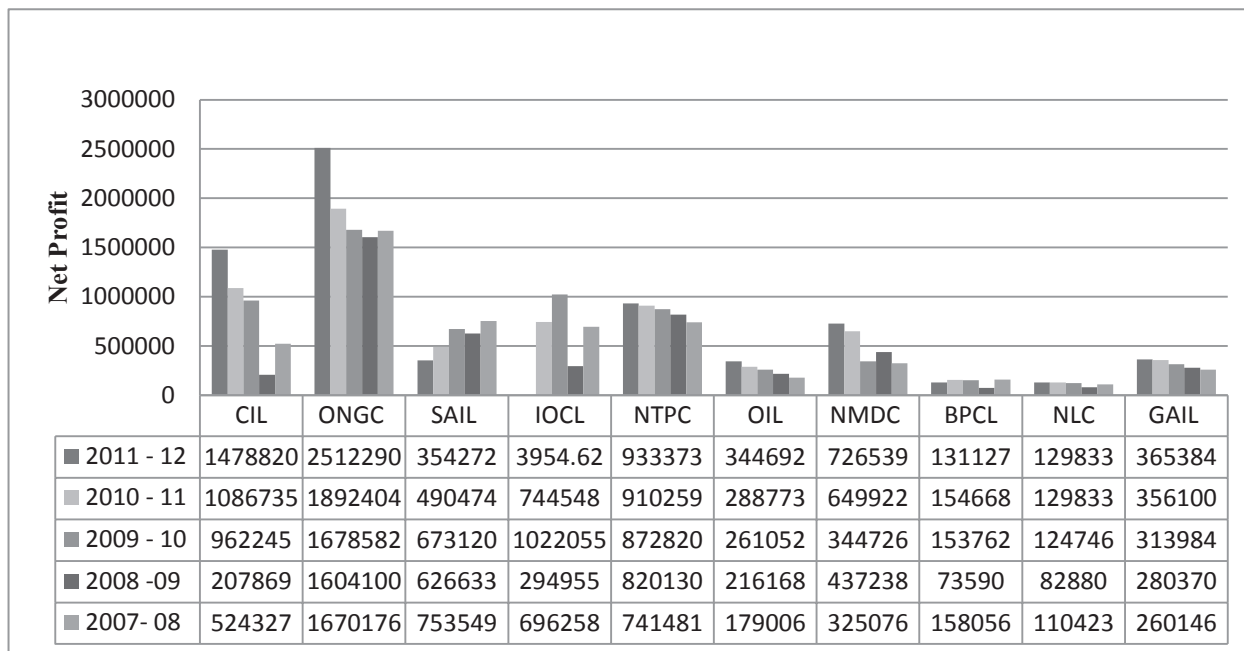
The *DPE survey data* reveals the fact that

- Most organisations had higher profit even with the less number of employees consecutively each year during the period of 2007 – 2011.
- Many organisations faced a lower profit during the period of 2008 – 09.
- Loss making CPSEs decreased from 109 (2001–02) to 62 (2010 -11)

- Profit making CPSEs increased from 120 (2001-02) to 158 (2010 -11).
- The total number of MoU signing CPSE's has increased from 102 (2005-06) to 159 (2010-11).
- The Environment Performance Index (EPI) score 60.3 with 120 ranking in 2008 out of a total of 148 countries and EPI score 95 with 125 ranking in 2012 out of a total of 132 countries.

The decrease in number of loss making CPSEs and increase in profit making CPSEs during the period of 2001 – 2010 have revealed that there has been large impact on the organisational performance. Though, the Indian CPSE's have shown increase profit yet, India is under-performing in many of the indicators related to environmental performance and protection of natural eco-system. The EPI score and ranking in 2012 unveils the fact the companies are not performing with regards to environmental sustainability. The sustainability and CSR guidelines were issued for 2010 – 2011 MoU. The shared data is upto the period of 2010 – 11 due to constraints of data availability.

Graph 1 shows that CIL, ONGC, SAIL, OIL, BPCL and NLC have downsized total number of employees. IOCL, NTPC and GAIL have slightly increased their manpower since 2007 –08 to 2011 – 12.

**Graph 2: Net Profit (in lakhs) during the period of 2007 – 2012.****Table2: Revenue per employee**

| Year Companies | 2011 - 12 | 2010 - 11 | 2009 - 10 | 2008 - 09 | 2007 - 08 | Increase / Decrease |
|----------------|-----------|-----------|-----------|-----------|-----------|---------------------|
| <b>CIL</b>     | 3.98      | 2.78      | 2.42      | 0.50      | 1.23      | ↑                   |
| <b>ONGC</b>    | 76.34     | 56.88     | 51.14     | 48.56     | 50.69     | ↑                   |
| <b>SAIL</b>    | 3.34      | 4.40      | 5.76      | 5.17      | 5.85      | ↓                   |
| <b>IOCL</b>    | 0.12      | 21.83     | 29.74     | 8.68      | 21.80     | ↓                   |
| <b>NTPC</b>    | 36.59     | 36.20     | 35.31     | 33.54     | 30.22     | ↑                   |
| <b>OIL</b>     | 42.58     | 33.45     | 29.95     | 24.47     | 21.23     | ↑                   |
| <b>NMDC</b>    | 122.64    | 106.06    | 58.48     | 77.36     | 58.47     | ↑                   |
| <b>BPCL</b>    | 9.76      | 11.18     | 11.06     | 5.25      | 11.28     | ↓                   |
| <b>NLC</b>     | 7.20      | 7.20      | 6.80      | 4.43      | 5.83      | ↑                   |
| <b>GAIL</b>    | 92.81     | 91.83     | 84.79     | 79.11     | 73.32     | ↑                   |

Graph 2 elaborates the net profit of each organisation. Companies like CIL, ONGC, NTPC, NMDC, OIL, NLC, and GAIL show that there is rise in profit every year for the period of 2007 – 2012. Yet a number of companies have experienced a decrease in profit during the year of 2008 – 2009. The global recession during the period of 2008 – 2009 affected a large number of companies leading to low performance compared to previous years.

## FINDINGS

Table 2 compares revenue per employee over the period of 2007 to 2012. The table clarifies that most of the organisations

show an increase in employee productivity over the years except for the companies SAIL, IOCL and BPCL.

We can make a clear understanding that the organisations studied display an increase in revenue per employee on implementation of MoU system over the years. Even though there are companies which has indicated falling revenue per employee does not totally have continuous fall and its operation have been influenced due to market changes.

## CONCLUSION

The new trend in management emphasizes that HR processes

have shifted from a cost centric to profit centric approach. The Indian MoU system is a profit centric approach which sets mutually acceptable performance targets at the beginning of the year and measures it at the mid and year end. MoUs have helped CPSEs in focusing on key targets which has enabled them to plan for results consistent with corporate objectives. The system ensures individual goals are in relation to the organisational goals. It also ensures willing involvement of employees as a part of HR processes as they are given performance related pay and incentives. The secondary data analysis of the sample organisations during the period of 2007 - 12 reveals the facts that MoU system has strong influence in ensuring organisational performance and organisational performance can be achieved only by the performance contribution of the individual employees. The focus of the CPSEs should be on optimizing individual performance and job performance which, when appropriately implemented, will translate into improved organisational performance.

The *key highlights* are:

- The MoU system is a tool enhancing organisational performance.
- The MoU system is a HR process based approach which ensures individual involvement in the performance management system.
- An MoU system though primarily a government / ministry based approach ensures performance from different sectors at large yet, it encourages performance from individual organisation without governmental / ministerial interference through various individual initiatives and guidelines extended by DPE.

Lately the Maha Ratna, Nav Ratna and Mini Ratna CPSEs have been interpreting the MoU system as per guidelines. The importance of implementation of PRP has played a large role, yet, there are number of other CPSEs which requires to take a lot of effort in establishing performance management system as per the MoU.

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