



IMPLICATION OF PERFORMANCE RELATED PAY (PRP) MODEL IN STEEL INDUSTRY

Dr.Himanshu Saxena
Associate Professor,
Department of Management,
Apex Institute of Management & Science,
Jaipur, Rajasthan,
India.

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ABSTRACT

Performance Related Pay (PRP) refers to the variable part of pay which is awarded each year (or on any other periodic basis) depending on the performance. Performance Related Pay may be paid to an individual or a team or group. PRP relates to payment linked to a measure of individual, group or organizational performance. PRP could also be expressed with relevant organization performance objectives in several ways. The primary aim of this paper is to assess the implication of PRP in companies. This paper uses secondary data to empirically examine the impact of PRP in Steel Industry. Since Steel Authority of India Ltd. (SAIL) occupies an important place in the public sector undertakings, therefore this undertaking has been selected in order to bring to light the current practices prevailing in the steel industry. This study uses PRP Analysis to test its effectivity and simultaneously aims to assess the applicability of this analysis in the Steel sector.

KEYWORDS: Performance Related Pay, PRP; Performance, Appraisal, Salary, Steel Industry

INTRODUCTION

Performance appraisal is an essential technique to measure the performance of the employees of an organisation and it acts as a benchmark to decide about the career advancement of the employees as well as their monetary and non monetary incentives. The performance appraisal has been referred to as a tool of management and an important part in human resources allocation. Performance appraisal can be defined as an organizational system comprising deliberate processes for determining staff accomplishments to improve staff effectiveness (Cawley,1998). Applications of performance appraisal includes equal employment, promotions, and increased earnings. Primarily performance appraisal has been thought as an overall system for improving the efficiency of an entity.

Performance appraisal could also be expressed as a structured formal interaction between a subordinate and supervisor, that typically takes the shape of a periodic interview (annual or semi-annual), during which the work performance of the subordinate is examined and mentioned. In

Performance Appraisal, there is a mention of distinctive weaknesses and strengths as well as opportunities for improvement and skills development. Appraisal is very essential and of uniform nature, and in the absence of a carefully structured system of appraisal, people tend to judge the work performance of others, including subordinates, naturally, informally and arbitrarily (Dorfman et al, 1986). Performance appraisal has its positive and negative effect on the workers as Performance Appraisal is always perceived by the employees as a tool for testing their effectiveness. Many researchers have indicated that reactions to performance appraisal by employees plays an important role in employees appraisal process because they are very vital for the organizational acceptance and application of the appraisal system (Bernardin & Beatty, 1984)

METHODOLOGY OF PERFORMANCE RELATED PAY (PRP)

Performance is defined as the process of performing a task or a function by the employee.



Performance could be a representation of the employee's inputs and outputs. Performance within the context of public sector enterprises can be defined as the ability to get key resources (cost and quality) and to place these resources to their most effective use. Performance conjointly incorporates the concept of effectively utilizing the resources to realize the required outputs and outcome goals. Performance for the general public sector enterprises (PSE) is sometimes measured in terms of profit since they are business organizations. Performance related pay (PRP) refers to the variable part of pay that is awarded annually (or on the other periodic basis) reckoning on the performance of the employees. PRP could also be paid on an individual or a team. The definition of PRP excludes:

- i) Any automatic pay increase by for instance, grade promotion or service based increments.
- ii) Various types of allowances and reimbursements

PRP relates to payment in context with the performance of individual or team performance. PRP could also be articulated with relevance to organisation performance objectives in several ways. Significantly in recent times, as several public organizations have planned to become additional responsible, there has been an additional stress on targets and performance agreements for individual employees. PRP is one of the aspects of a wider movement towards higher pay flexibility (variable pay), and recognition and reward of a personal effort. It denotes an attempt to base an employee's salary on the precise difficulties of the job (post) and also the level of the responsibilities. PRP depends on a great degree of ex-post analysis of performance on the job measured against predetermined specified and agreed goals for a given amount of assessment and PRP is definitely not a priority based payment associated with the character of job. It is non additive, non cumulative and Performance Related Pay is not a default incentive.

Types of PRP

There are various types of PRP starting from individual to group performance schemes, from those based on the objective performance criteria. PRP is also based on judgemental appraisals and planning is going on in some organisations to implement PRP as occurrence bonus. Discussions are going on in several organisations to incorporate PRP into basic pay. These completely different types of PRP could also be used on their own in accordance with predetermined objectives. Some popular types of PRP are:

1. Piece work: Payment is calculated by considering each unit of output and Piece work is probably the oldest type of performance incentive.
2. Payment by Results: In this approach, bonus earnings rely on measured quantities or

values of output for employees or groups, typically based on work studied time units and covers a good range of bonus schemes

3. Plant or Organization wide Incentives: In Plant or Organization wide Incentives Incentives levels are based on measured quantities or values for the whole organization.
4. Merit based Payment: In Merit based Payment, Payment levels are devised on a general assessment of an employee's contribution to performance.
5. Objectives related payment: They are based on assessment or appraisal of an employee's (or team's) performance against set objectives, typically a part of a performance management system. This is often a reasonably recent development and is growing at a good pace within the non-public and public sector.
6. Competence based incentive: In these types of Incentives, Reward and training are connected to competency frameworks, based on the skills displayed by the employees (e.g. higher cognitive process, leadership, decision making, problem solving, client service, coping with differing views) or achieving certain qualifications.
7. Profit related payment: Bonus or share options are planned according to the organization's profit performance. This is often most prevailing within private sector, wherever share options are usually a very important element of senior management incentive.

Hypothesis: The null hypothesis is that the PRP Model is not effectively applied in steel industry.

Desirability of PRP in SAIL

In SAIL staff used to be paid according to their performance in their service – incremental salary scales and there was hardly any performance for pay incentive available to them. Their salaries used to be solely a composite basis pay and certain allowances (variable) that were admissible depending upon the nature of jobs and duties related working conditions. Some organizations did have a very small part of the salary within the type of production incentives linked indiscriminately to volume of production. However, no part of their salary was related to their on-the-job performance aligned to business priorities. This results in a scenario wherever the employees did not explore their potential fully and did not exert themselves for a better level of on-the-job performance and achievements, therefore depriving the organization of potential productivity gains and development. There is no motivation in Public Sector Enterprises for risk taking and delivering a better level of performance,



because though risk taking is punished if things go in the wrong direction, it was not rewarded duly if there were gains for the organization.

Promotion seems to be the only incentive that employees have to improve their performance. However, since promotional avenues are very few, stagnation creeps in after some years of service and there is very little direct incentive for worker to perform. In this case, PRP comes into picture and can play a positive role by rewarding the employees and thus motivating them for their performance. PRP is set to be a game changer in taking the performance of the employees to a new level. It's a signal of change for the employees and the way of indicating that performance are going to be often assessed and monitored. PRP serves as an extrinsic reward in the form of additional incentive and intrinsic reward through the recognition of effort and achievement. There are some other valuable aspects also of PRP for the organization. Processes and systems needed for PRP implementation act as a catalyst for introducing structure changes like transparent executive performance management system, scientific and systematic goal setting processes, clarification of tasks, role clarity, acquisition of skills, increased team work and inflated flexibility and higher service delivery. In fact, PRP may be considered as a strategic tool within the hands of management to induce lots of method re-engineering in their organizations. It accords organizations a chance to revisit their traditional processes and mechanisms and update them in light of current social, economic and technological advancement. This may eventually

prove to be a bigger advantage of implementing PRP than simply being a tool for allocating extra payment to staff. The advantages of re-engineering will be available to entire organization over a long term. So PRP is a long term asset for the organization. However, the PRP Structure can rewards recent priorities and to implement changes that are presently vital and demanding for the organization. The pace of modification within an organization may be accelerated if the PRP system can be tightly aligned and paired with new structural objectives and priorities. In fact, if the organization identifies a specific area where it has to keep its priority in, it will design its PRP systems consequently to create incentive for workers to induce desired modification. PRP systems should continuously be updated and modified with changes within the organization structure, processes, nature of work, priorities and should be in accordance with the changes in the External setting (economic, social, technological changes etc.) Department of Public Enterprises (DPE), the nodal department that regulates the Central Public Sector Enterprises (CPSE), issued guidelines for implementation of Performance Related pay for executives vide O.M. No. 2 (70)/DPE(WC).

Salient options of DPE guidelines for PRP are summarized below:

- i) PRP directly linked to the profits of Central Public Sector Enterprises (CPSE) and performance of executives.
- ii) Percentage of ceiling of PRP as share of basic pay for different level of executives is shown in the following Table

Table 1 : Variability of PRP with Hierarchy

| Hierarchical Level/Grade | Linkage to % of Basic Pay |
|--------------------------|---------------------------|
| E-0 to E-1 | 40% |
| E-2 to E-3 | 40% |
| E-4 to E-5 | 50% |
| E-6 to E-7 | 60% |
| E-8 to E-9 | 70% |
| Director | 150% |
| CMD | 200% |

- iii) Eligibility levels of PRP also linked to Memorandum of Understanding (MoU) rating is shown in table below:

Table 2: Linkage of PRP with Company Performance

| MOU rating of CPSE | PRP eligibility levels (% of Basic Pay) |
|--------------------|---|
| Excellent | 100% |
| Very Good | 80% |
| Good | 60% |
| Fair | 40% |
| Poor | Nil |

- iv) No PRP for Central Public Sector Enterprises rated as poor. Every CPSE would be required to sign Memorandum of Understanding

(MoU) with its parent Ministry / Deptt. / Holding Company. MoU rating will form the basis of PRP with all the Key Result Areas identified within the



MoU. CPSEs not signing the MoU will not be eligible for PRP.

v) PRP would be based on physical and financial performance. PRP will be deduced from the profits of the organizations. 60% of the Performance Related Pay will be given with the ceiling of 3% of profit before taxes (PBT) and 40% of PRP will be deduced from 10% of incremental profits i.e. increase in profit compared to previous year's profit. The overall PRP will have a ceiling of 5% of the year's PBT which will be available for executives and non-unionized supervisors.

vi) There shall be no incremental profit for the base year because that will be the first year of introduction of PRP and this portion shall be available for the subsequent years.

vii) PRP for the year shall be calculated latest by December of the subsequent year based on the Central Public Sector Enterprises (CPSE) performance as per audited accounts. The planned PRP theme shall begin thereafter.

viii) CPSE has to constitute a Remuneration Committee which should be headed by Independent Director. This Remuneration Committee will decide the performance related pay.

ix) Central Public Sector Enterprises like SAIL, GAIL have to devise Employees Stock Option Plan and around of 10% to 25% of the PRP should be paid as Employees Stock Option Plan.

INTRODUCTION OF PRP IN SAIL

In terms of Department of Public Enterprises (DPE) on Salary Revision of executives that inter-alia contained provision for implementation of Performance related pay for executives, it had been incumbent upon CPSEs to constitute a Remuneration Committee headed by a Director who might decide the annual PRP/variable pay pool and policy for its distribution across executives, inside prescribed limits. A Remuneration Committee headed by the independent Director had been constituted by SAIL Board. The other members of the aforesaid Committee were Director (finance), Director (Personnel) and Managing Director. Subsequently,

| | | | |
|----|---|---|--------------|
| A) | <i>Company Performance</i> | = | 77.5% |
| B) | <i>Plant/ Unit's performance i.e. Annual Production Plan (APP) (fulfillment%) :</i> | | |
| • | Linked to production (Saleable Steel APP fulfillment) = | | 2.5% |
| • | Linked to Specific Energy Consumption = | | 2.5% |
| • | Linked to yield from Crude Steel to Saleable Steel = | | 2.5% |
| • | Linked to Plant's Actual PBT v/s Budgeted PBT = | | 7.5% |
| • | Total = | | 15% |
| C) | <i>Individual's Performance</i> | = | 7.5% |
| | Total A+B+C | = | 100% |

5) Performance Related Pay (PRP) Model

$$PRP = (0.60 * \text{Annual Basic Pay} * \text{MoU Rating} * 77.5\% (\text{Company Performance Factor}) \\ + (2.5\% * \text{Plant's Saleable Steel Annual fulfillment\%}) \\ + (2.5\% * \text{Plant's Specific Energy Consumption Annual fulfillment\%}) \\ + (7.5\% * \text{Plant's Budgeted PBT fulfillment\%})$$

DPE issued guidelines on the subject of Corporate Governance for Central Public Sector Enterprises that stipulates that " every CPSE shall represent a remuneration committee comprising of a minimum of 3 Directors, all of whom ought to be part time Directors (i.e. nominee Directors). The Committee ought to be headed by Independent Director. CPSE won't be eligible for PRP unless the independent administrators are on its Board. Accordingly, in terms of the aforesaid Government pointers on company Governance, Remuneration Committee was re-constituted with the incorporated features and new framework for implementation of PRP for executives in SAIL. Director (Finance) and Director (Personnel) were co-opted as permanent invitees within the conferences for facilitating the method for completion of PRP. The Remuneration Committee finalized the formula for PRP for executives of SAIL keeping in consideration the broad framework for PRP contained in DPEs guidelines on PRP. It also gave opportunity to Steel Executive Federation of India (SEFI), the apex body of association of executives for industry to present their viewpoint on the issue.

FEATURES OF PRP IN SAIL

Salient features of the PRP scheme of SAIL are mentioned below:

1. MoU rating of SAIL had been excellent thereby making the organization eligible for obtaining PRP payment.
2. PRP payment has linkage with Organization's performance (i.e. MoU rating) Plant Performance (Physical and Techno-economic parameters) and Individual performance (appraisal ratings).
3. Methodology for deciding PRP in SAIL mentions a significant linkage with Company's performance, Plant performance, factors and individual performance.
4. Weightage for the above mentioned 3 performance elements are described below:



+ (7.5% * Individual Performance rating) * Grade Incentive * ratio of available to required amount)
 – Adjustment of Performance Related Payments i.e., Incentive/Reward

6) Percentage of PRP linked to Individual Executive appraisal rating is as under:

Table 3: Variability of PRP linked to Individual Performance rating

| Individual Performance rating | O | A | B | C | C- |
|-------------------------------|------|-----|-----|-----|-----|
| % of PRP Payable | 100% | 80% | 60% | 40% | Nil |

Company performance rating as per the MoU rating for the respective year to be taken as performance rating for Chairman and Directors.

Executive Performance Management System (EPMS) has been introduced. The indicative distribution pattern of executives on different grades is shown below.

7) Bell Curve Approach or Forced Distribution has not been enforced strictly. In SAIL, a new

Table 4 : Distribution of Executives under EPMS

| Performance rating | Distribution pattern envisaged under EPMS | Indicative Distribution Pattern |
|--------------------|---|---------------------------------|
| O | 10% | 5% |
| A | 20% | 30% |
| B | 45-55% | 50-55% |
| C | 15-25% | 10-15% |
| C-(Non promotable) | Negligible | Negligible |

8) There is variability in payment linked to hierarchy ranging from 40% of Annual Basic for lowest category of executive to 200% of Annual Basic for CEO. Percentage of ceiling of PRP as percentage of basic pay

for different level of executives (Grade Incentive) as under;

Table 5: Linkage of PRP to Levels

| Grade | % of Annual Basic Pay |
|------------|-----------------------|
| E-0 to E-3 | 40 |
| E-4 to E-5 | 50 |
| E-6 to E-7 | 60 |
| E-8 to E9 | 70 |
| Director | 150 |
| CMD | 200 |

Source: Annual Reports of SAIL

9) Adjustment of amount towards production linked Incentive/Reward paid for respective year was carried out based on grade wise weighted average incentive. The said methodology has helped in maintaining a gradient across grades as also it has

maintained the differentiation that exists on account of monthly incentive schemes between Plant to plant and between works and Non works.

10) Indicative financial of PRP in SAIL are given in following tables

Table 6: Financial Implication of PRP in SAIL

| | |
|---|-----------------|
| PBT for the year | Rs. 11469 crore |
| 3% of PBT | Rs. 345 crore |
| Financial Implication of PRP (Amount Required for PRP) | Rs. 254 crore |
| Payments already made (incentives etc.) | Rs. 67 crore |
| Balance amount available for PRP | Rs. 187 crore |

Source: Annual Reports of SAIL



Analysis of PRP scheme in the Wake of DPE guidelines on PRP for executives in CPSEs, progressive CPSEs with good performance, affordability to pay and having a robust and transparent performance system have implemented scheme of PRP. The said schemes have a common motive i.e. to implant performance orientation and

reward employees based on their performance. The basic essence of schemes in all these undertakings is that Differential performance will earn differential rewards. In the succeeding table, various attributes/parameters of PRP schemes implemented in SAIL and different Organizations and undertakings of the industry are compared.

Table 7 : Comparative Analysis of SAIL and INDUSTRY in PRP

| Attributes | SAIL | INDUSTRY | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|--|---------|----------|-----|------|------|---|-------|-------|----|-------|-------|---|------------|-------|----|------------|-----|--|-----|----------|-----------|----------|-----|-----------|---|-----|-----|---|-----|-----|---|-----|-----|---|-----|----|--|------|------|
| PRP Deciding Authority | Remuneration Committee headed by Independent Director | Remuneration Committee headed by Independent Director | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Basis of PRP | Scheme incorporates linkage with physical and financial performance of Company, Plants and individual executive | Scheme incorporates linkage with Overall Company performance and individual executive's performance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Linkage of PRP with Company's MoU rating | Company's MoU rating was excellent : hence eligibility for PRP % is 100% | Industry's MoU rating for was good: hence eligibility for PRP % is 60% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Differentiation in Payment linked to hierarchy | Level/Grade wise differentiation followed as per guideline. It ranged from a low of 40% of basic at lowest level of executive to 200% for CEO. | Level/Grade wise differentiation followed as per guideline. It ranged from a low of 40% of basic at lowest level of executive to 200% for CEO. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Pool available for PRP | 3% of PBT 3% of PBT 3% of PBT | 3% of PBT 3% of PBT 3% of PBT | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Linkage of EPMS with PRP | <p>Distribution of Executives as per Appraisal ratings obtained under Executive Performance Management System.</p> <p>Distribution was as under</p> <table border="1"> <thead> <tr> <th>Grade</th> <th>Current</th> <th>Previous</th> </tr> </thead> <tbody> <tr> <td>O</td> <td>8.5%</td> <td>8.4%</td> </tr> <tr> <td>A</td> <td>32.0%</td> <td>63.1%</td> </tr> <tr> <td>B</td> <td>54.1%</td> <td>27.8%</td> </tr> <tr> <td>C</td> <td>5.3%</td> <td>0.53%</td> </tr> <tr> <td>C-</td> <td>NIL</td> <td>Nil</td> </tr> </tbody> </table> <p>Forced distribution system is not in place, but the distribution of executives in outstanding category is well within the DPE norms. However, C-numbers are negligible. It forms more or less Bell curve.</p> | Grade | Current | Previous | O | 8.5% | 8.4% | A | 32.0% | 63.1% | B | 54.1% | 27.8% | C | 5.3% | 0.53% | C- | NIL | Nil | <p>Performance rating of individual MAP ratings using MAP normalization process. % Distribution of employees in five categories A,B,C,D, and E will be in relation to Company performance.</p> <table border="1"> <thead> <tr> <th>MAP</th> <th>V. good</th> <th>Excellent</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>15%</td> <td>20%</td> </tr> <tr> <td>B</td> <td>25%</td> <td>30%</td> </tr> <tr> <td>C</td> <td>35%</td> <td>35%</td> </tr> <tr> <td>D</td> <td>15%</td> <td>10%</td> </tr> <tr> <td>E</td> <td>10%</td> <td>5%</td> </tr> <tr> <td></td> <td>100%</td> <td>100%</td> </tr> </tbody> </table> <p>MoU rating Excellent (1.0) and Good(0.6)</p> <p>System of forced ranking is in place. Further, the system of forced ranking of executives has robust linkage with Company's performance in the respective year.</p> | MAP | V. good | Excellent | A | 15% | 20% | B | 25% | 30% | C | 35% | 35% | D | 15% | 10% | E | 10% | 5% | | 100% | 100% |
| Grade | Current | Previous | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| O | 8.5% | 8.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | 32.0% | 63.1% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B | 54.1% | 27.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C | 5.3% | 0.53% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C- | NIL | Nil | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MAP | V. good | Excellent | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | 15% | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B | 25% | 30% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C | 35% | 35% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| D | 15% | 10% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| E | 10% | 5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 100% | 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Linkage to PRP to individuals Appraisal rating | <p>5 Categories and corresponding weightages</p> <table border="1"> <thead> <tr> <th></th> <th></th> </tr> </thead> <tbody> <tr> <td>O</td> <td>100</td> </tr> <tr> <td>A</td> <td>80</td> </tr> <tr> <td>B</td> <td>60</td> </tr> <tr> <td>C</td> <td>40</td> </tr> <tr> <td>C-</td> <td>0</td> </tr> </tbody> </table> | | | O | 100 | A | 80 | B | 60 | C | 40 | C- | 0 | <table border="1"> <thead> <tr> <th>Individual</th> <th>%PRP</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>100% (1.0)</td> </tr> <tr> <td>B</td> <td>90% (0.9)</td> </tr> <tr> <td>C</td> <td>80%(0.8)</td> </tr> <tr> <td>D</td> <td>70%(0.7)</td> </tr> <tr> <td>E*</td> <td>60% (0.6)</td> </tr> </tbody> </table> <p>Nil PRP in case rating in E & pre-normalised MAP score <3</p> | Individual | %PRP | A | 100% (1.0) | B | 90% (0.9) | C | 80%(0.8) | D | 70%(0.7) | E* | 60% (0.6) | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| O | 100 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | 80 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B | 60 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C | 40 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C- | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Individual | %PRP | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | 100% (1.0) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B | 90% (0.9) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C | 80%(0.8) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| D | 70%(0.7) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| E* | 60% (0.6) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Linkage of PRP with Unit/ Differentiation of PRP | Each Plant of SAIL is having different product mix & technology. Therefore, the | PRP linked to performance and not differentiated on basis of differed units. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |



| Attributes | SAIL | INDUSTRY |
|---------------------------------------|--|---|
| based on Inter-Unit/plant performance | performance varies. Company: Plant performance weightage has been kept at 77.5; 15;7.5 | Appraisal carries a weightage of 100% in the formula. |
| PRP formula | 0.6 X Annual Basic X Grade Incentive X (0.775 X Company perf. + 0.15 X Plant Performance Factor + 0.075 X Exec. Performance rating X Ratio of available to Regd. Amount –Monthly Incentive adjustment (Grade wise wt. avg.) | Followed the DPE formula in letter and spirit and has not customized it. |
| Analysis of PRP Formula | Straight line formula of DPE has been customized. Executive performance rating factor split into three components viz., Company performance, Plant Performance and individual performance rating ratio 77.5:15;7.5. Maximum impact of appraisal rating on PRP amount for an individual becomes limited to 7.5%. DPE formula customized in view of different levels of performance of plants in SAIL and integrated operations of Steel Plants and team working. | DPE formula wherein the individual performance rating directly impacts the PRP payment. |

Source: SAIL ANNUAL REPORTS

Testing of Hypothesis:

In a sample of 50 executives from various Steel Manufacturing companies, 16 said PRP Model is applied in their companies. Out of those ,14 said that PRP Model is effective in steel industry.

Amongst those who said that PRP Model is not applied in their companies ,32 said PRP Model is effective in increasing the productivity in steel industry. We represent the data in the form of the given table

Table 8.1: Classification of Data collected

| Particulars | Effective (X) | Not effective(Y) | Total |
|----------------|---------------|------------------|-------|
| Applied(A) | 14 | 2 | 16 |
| Not applied(B) | 32 | 2 | 34 |
| Total | 46 | 4 | 50 |

The null hypothesis is that the PRP Model is not effectively applied in steel industry. The alternate hypothesis is that the PRP Model is effectively applied in steel industry.

about the distribution of populations, non parametric tests like Chi square tests are applied. No assumption about the parametric of the population is made. Karl Pearson of England , a professor of Applied Mathematics ,introduced it in 1900.

Now we apply Chi square test for the above data. When any rigid assumptions could not be made

Table 8.2: Table showing calculations of Observed Frequencies and Expected Frequencies

| Particulars | Observed Frequency(O) | Expected Frequency(E) | O-E | (O-E) ² | (O-E) ² /E |
|-------------|-----------------------|-----------------------|------|--------------------|-----------------------|
| AX | 14 | 14.72 | -.72 | .5184 | .0352 |
| AY | 2 | 1.28 | .72 | .5184 | .405 |
| BX | 32 | 31.28 | .72 | .5184 | .0166 |
| BY | 2 | 2.72 | -.72 | .5184 | .1906 |
| TOTAL | 50 | 50 | | | .6474 |



The calculated value of chi-square value is .6474. The critical value of chi-square at 1 degree of freedom [(r-1)(c-1)] i.e. (2-1)(2-1)=1.1=1] when the level of significance is 5%=3.841.

Since the calculated value is less than critical value, therefore the null hypothesis is accepted and we can conclude that the PRP Model is not effectively applied in steel industry, although PRP Model carries a huge potential of increasing the satisfaction level of employees.

FINDINGS

The finding are as follows:-

1. The Performance Related Pay (PRP) system of SAIL is fair, and follows performance system policies and procedures. This increases the confidence of objectivity into the minds of the employees. This finding might not be applicable for another organization but with our representation of SAIL, every organisation needs adequate performance appraisal.
2. The whole theme of PRP has brought changes in the attitude of employees towards work and the organization as a whole, as a result of the introduction of PRP. These changes are evident in work quality, job specialization, meeting deadlines. All these are noticeable in our research.
3. PRP system should be encouraged as it has been observed that performance appraisal has more positive impacts on employees than negative effects
4. Although most Employees were not oriented and acquainted regarding the PRP system initially as such they did not know what exactly to expect.

CONCLUSION

On analyzing the Performance Related Pay (PRP) Model and programs of Steel Authority of India Ltd., it is concluded that the Management practices are very effective and properly executed in the company Steel Authority of India Ltd, but as far as the other players and sectors are concerned, there's a lot of work to be done for the implementation of PRP. Although PRP Model is not effectively applied in steel industry as a whole, despite the fact that PRP Model carries a huge potential of increasing the satisfaction level of employees. It should be noted that Performance related payment systems, like all systems are organic and should evolve with time, otherwise they are going to become redundant and mismatched to the setting because the context during which they are applied changes rapidly due to the dynamic nature of social, economic and technological changes. If PRP system does not keep up with these modifications they are going to become irrelevant, redundant and should even cause a

downward spiral organizational performance if goals of the organization change. Performance Related Pay (PRP) Model is a game changer and it has also been observed that with the emergence of PRP Model, it has taken the Organization's Policies and employee's motivation to a new level.

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