

Changing role of MoU in managing the performance of HR functions in Indian CPSEs: Challenges and Issues Ahead

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ABSTRACT

Prior to our Independence, there were only a few CPSEs in India, Railways, Ports, Postal services, being a few sectors. With throbbing globalization and cut throat competition existing in all facets of life, especially in the business environment, the Government has realized the need to boost its Public Sector Undertakings so that they can come at par with their private counterparts and compete with them head-to-head. An attempt for achieving the same has been the shift in designing MoUs which also include non-financial parameters to measure the performance of the management of CPSEs. Human Resource Department forms a very crucial yet neglected function of companies especially in PSUs. The recent MoU designs are making an endeavor to remodel the HR function from personnel management to human resource management, from being an administrative, passive & supervisory function to being a proactive & transformative function thereby aiming to break the glass ceiling of monotony and shifting to reinvent and rationalize HR function in CPSEs.

In this paper an attempt is being made to understand the role MoUs play in the Human Resource Management of CPSEs and how MoUs are bringing about changes in the

functioning of the HR vertical. A study of MoU guidelines regarding HRM parameters for the past 10 years is made to determine the change that has been brought about in management of people at CPSEs. Compliance with MoU parameters plays an important part in deciding the overall rating of the CPSE and hence dedicated efforts are put in to achieve them. So initially what starts as forced compliance, gradually starts seeping in the normal functioning of the company. Ultimately, these MoU parameters are providing food for thought to the HR Department and are helping them to move towards recent HR trends and bring about a new face of HR in CPSEs.

INTRODUCTION

An MoU, with reference to a CPSE (Central Public Sector Enterprise) and the Administrative Ministry/Department/Holding CPSE can be understood as a negotiated agreement and contract between these two parties. These negotiated agreements contains targets which are generally decided at the beginning of a new financial year. At the end of the year, the performance of a CPSE is measured and evaluated against these targets. After this evaluation, MoU score is awarded to the CPSE which categories its performance on a pre-determined scale. Thus, MoU acts as a litmus test for determining the behavior of critical key performance indicators of the company.

MoU traces back its origination from the Arjun Sengupta Committee Report, 2005. A major reason for adopting the MoU system of target setting was the general conception of the public that the CPSEs are less efficient than their private counterparts. A well-structured MoU would ensure that accountability, transparency and ownership of actions is maintained between the CPSE, Administrative Ministry and the Public.

Since its genesis, the MoU was very heavily skewed in favour of financial targets as a benchmark for the company's success. Such targets were also welcomed by the CPSEs owing to the fact of their achievement/shortfall was easily justified by way of accounting figures. On the other hand, intangible parameters like HRM and quality improvement needed a lot of efforts to achieve and justify in the normal course of business. As per the recent decision taken by DPE (Department of Public Enterprise), the scope of MoU is all encompassing and hence all the CPSEs (Holding as well as Subsidiaries) are required to sign the MoU. The only difference being that the holding/apex CPSE shall sign the MoU with the concerned Administrative Ministry and the subsidiary CPSE shall sign it with their respective Apex/Holding Company. Only a few exemptions are made in this system, viz., CPSE under liquidation and CPSE which is having no employees or is non-operational. With the advent of the new Government, the focus of the MoU has been shifted from a predominantly number based system to a more balanced system with HRM getting due attention. An attempt is made in this paper to understand the evolution of HRM parameters over the years.

OBJECTIVE OF STUDY:

In the present study, an effort is being made to determine the evolution and changing role of HRM parameters in MoU of the CPSEs with the Administrative Ministry/Department/Holding CPSE

An insight is also drawn towards issues and challenges faced by CPSEs with regards to the HR parameters

LITERATURE REVIEW

The MoU system MoU system has been paramount in documenting and monitoring a CPSE's performance over the year as has been

explained in a research by Mishra & Sarkar (2013). Another research by Madhani (2014) emphasizes how MoU system has helped in bridging the gap between private and public enterprises. Many literature surveys has advocated that the fact that HR practices and company performance indices like productivity and financial performance are intricately linked with one another. A relationship between HRM and organizational performance is also established by Mandip (2012). According to Hart (1996), HR can be a game changer by challenging and disrupting status quo by partnering, supporting and creating a network of highly efficient pool of talent. Although, much work has been done on myriad aspects of Indian MoU system, there seems to be a dearth of literature on the evolution of MoU over the years.

MoU SYSTEM IN THE PAST

As described in Table 1, MoU in the past were very heavily reliant on financial parameters for showcasing their performance over the year. HRM parameters were considered to be soft parameters and were generally chosen to get better score in the performance evaluation of the MoU. Any CPSE which was going through a tough time financially, relied on HRM and other intangible parameters to fare well in the evaluation process. With the increasing expectation of the public as well as of the Government from the CPSEs, a gradual and incremental change has been seen over the years in the way DPE incorporates HRM parameters in finalizing MoUs. In a rather surprising turn of events, MoU guidelines for the year 2017-18 proved to be a landmark in the history of MoUs with the advent of a stricter and more holistic approach towards HRM parameters.

Year	Wt. given to Financial parameters (%)	Wt. given to Non-financial parameters (%)	Major Non-financial parameters	Compulsory non-financial parameters				Project implementation, Capital Expenditure/ Greenfield investments/Joint Ventures, Extent of globalization, sector/enterprise specific parameters	
2008 - 2009	50	50	Quality, Customer Satisfaction (Customer orientation) HRD (Employee training and motivation), R&D for sustained & continuous innovation, Project implementation, Capital Expenditure/ Greenfield investments/Joint Ventures, Extent of globalization, sector/enterprise specific parameters						
					2010 -11	50	50	Quality, Customer Satisfaction (Customer orientation) HRD (Employee training and motivation), R&D for sustained & continuous innovation, Project implementation, Capital Expenditure/ Greenfield investments/Joint Ventures, Extent of globalization, sector/enterprise specific parameters	
2009 - 2010	50	50	Quality, Customer Satisfaction (Customer orientation) HRD (Employee training and motivation), R&D for sustained & continuous innovation,						
					2011 - 2012	50	50	Quality, Customer Satisfaction (Customer orientation) HRD (Employee training and	

			motivation), R&D for sustained & continuous innovation, Project implementati on, Capital Expenditure/ Greenfield investments/J oint Ventures, Extent of globalization, sector/enterpr ise specific parameters				orientation) HRD (Employee training and motivation), R&D for sustained & continuous innovation, Project implementati on, Capital Expenditure/ Greenfield investments/J oint Ventures, Extent of globalization, sector/enterpr ise specific parameters, CSR, Sustainable development	nt	
2012 - 2013	50	50	Quality, Customer Satisfaction (Customer orientation) HRD (Employee training and motivation), R&D for sustained & continuous innovation, Project implementati on, Capital Expenditure/ Greenfield investments/J oint Ventures, Extent of globalization, sector/enterpr ise specific parameters		2015 - 2016	50	50	Growth/size/ activity, profitability, cost and output efficiency, efficiency of asset use	CSR, R&D, Initiatives for growth, Project Managem ent and implementa -tion, Productivit y and internal processes, technology, innovation and quality, HRM, Sector specific parameters
2013 - 2014			Quality, Customer Satisfaction (Customer	CSR, R&D, Sustainable Developme	2016 - 2017	>50	Varia ble but <50	Efficiency Parameters, Marketing efficiency	None. Though the CPSE might be

			ratios, Sector specific targets	able to choose HRM parameter under sector specific parameters and/or under R&D
2017 - 2018	50		Turnover, Operating Profit/Loss, Return on Investment	None. Though the CPSE might be able to choose HRM parameter under sector specific parameters and/or under R&D

Table 1: MoU system in the past

FINDINGS:

From this study, we have got an understanding about the evolution and development of MoU and its guidelines. Following are the findings:

1. HR function, which was earlier given a variable weightage, has been brought into epicentre by making it a mandatory parameter in the recent MoUs.
2. Earlier, the targets given in context of HR parameters used to be vague and qualitative but in recent MoU guidelines, a mandate has been formed to present quantitative targets.
3. With each passing year, MoU is becoming increasingly comprehensive and is based on incremental progress with very little room for maneuvering left for the CPSE. More power is in the hands of the DPE (Department of Public

Enterprise), which, by the virtue of stringent guidelines negotiate very little for setting up of targets.

4. Talent engagement and development is becoming a thrust area for DPE.

5. Except for the year 2016-2017 and 2017-18, HRM parameters found a mention in all the previous and forthcoming years. But, in these two years, HRM parameters can be a part of MoU in form of either R&D or sector specific parameters.

CHALLENGES FACED IN EXECUTION OF MoU:

1. Complexity: MoU is a comprehensive document and it is very difficult to include a very large number of parameters as the aggregate score cannot be exceeded for each category.

2. General Guidelines: The MoU guidelines are issued by DPE and it is a general document applicable to all CPSEs across all the sectors and industries.

3. Goal setting process: Goal setting is more of a negotiation/bargaining process rather than a synergistic process. As a result, many parameters, especially non-financial ones, gets sidelined as compared to major financial parameters. Such negotiation process is generally win lose game.

4. Lack of focus on leading KPIs: Focus is laid on measurable outcomes (KPIs), which are generally lagging indicators. No significant attempt had been made to measure the result of developmental activities of the HR. However, in the recent years, some shift has been witnessed by inclusion of parameter regarding training and development.

WAY AHEAD:

1. Cross functional training should be included as a part of mandatory parameters:

Working in same or similar departments leads to complacency and lethargy amongst employees. To overcome this problem, cross functional trainings should be included to make the employees more agile and less resistive to change.

2. Succession Planning can be introduced to ensure best talent gets to be in the leadership role:

Instead of hiring from outside the organization, a talent pipeline could be generated for leadership positions. This will ensure enough motivation in the employees and the learning curve will be reduced in time as well as efforts. An MoU parameter regarding succession planning might help in ensuring this.

3. Agility and change management training should be a regular part of MoU to ensure flexibility and easy transition into a changed environment:

One very important factor where Public Sector companies lack from their private counterparts is agility. An agile organisation has a unique ability to manoeuvre itself according to the changing business environment without much resistance. Hence, agility development trainings can make PSUs more nimble footed without compromising with the productivity and efficiency.

4. Accountability of middle level management should also be set and monitored:

PSUs, by virtue of their organizational structure, rely heavily on their top management for ascertaining accountability. MoU should be designed in a way to measure and monitor middle level management performance as well.

5. A separate MoU for financial and non-financial parameters can be considered:

A single MoU encompassing a plethora of variables becomes too wide in perspective and scope. Narrowing its scope by designing

separate MoU for financial and non-financial parameters can solve this problem of complexity.

6. HR Competency metrics should be designed and compared in the future to ascertain the improvement in efficiency and quality of HR function:

The MoU guidelines remain silent on the metrics for various parameters. A generalised map of metrics can not only help in standardisation of MoUs, but also smoothen the negotiation process.

7. KPIs should include both lagging and leading KPIs:

Key Performance Indicators can be divided into two categories based on what they are measuring. Leading KPI like, safety practices, are more predictive in nature. These KPIs are measured in process and resultantly, they are more difficult to measure. Lagging KPIs like, number of occupational accidents, are after the event measurement and are essential for measuring growth. These are easier to measure as they are evidence based. Together, both these KPIs measure the performance and indicate the readiness of the company to take on changes. MoU should include not only the lagging indicators or KPI but also leading KPIs to ensure that performance management is both diagnostic and prescriptive in nature.

8. Shift of focus on emerging HR trends:

Trends like big data, HR Analytics, Neuroinclusion, Green HRM could be gradually incorporated in the mandatory parameters so as to increase the competitiveness of the CPSE and bring the level of HR to the global benchmarks.

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