

Monitoring and Evaluation of Performance

Evaluation is the appraisal of the performance of the PE against the targets set out in the PC at the end of the period of each contract, which is usually one year. Monitoring is the periodical follow-up of the performance during the period of the contract, with a view to ensuring that the PE performance is on course and to provide some mid-course corrections, if necessary.

Evaluation

Evaluation of performance is the main purpose for setting up a PC system. As discussed in Chapter One, PEs generally perform under conditions that distort their financial performance if the Annual Accounts alone are used. The PC system, therefore, attempts to supplement the Annual Accounts by providing detailed information such as the degree to which the PE has been successful in achieving set targets and how successful each PE has been in relation to other PEs. The PC system, therefore, provides a means for computing the performance of PEs on a scoring scale which permits the evaluation of results in terms of a maximum achievable score. The composite score tells government and the management of PE at a glance the level of relative achievement of all the PEs under the PC system. This composite score, then, can be used to distribute rewards (in the form of bonus or other non-financial awards) or penalties. Just as the final project/loss figure is the 'bottom-line' in financial accounts, the composite score is the bottom-line of the PC system.

Computing a composite score

Chapter Four provides a description of the contents of PCs. All PCs should contain a clear enumeration of all the criteria of performance, the relative weights attached to the criteria and the target levels for each criteria on a three-point or a five-point scale. The methods of computing the composite score in each case are described below.

In a three-point scale scoring system with, let us say, only three criteria, the PC will contain a statement as follows:

NO	CRITERIA	UNIT	WEIGHT	SCORE		
				1.0	0.8	0.25
1	Production	thousand (tonnes)	0.3	»22	20	«15
2	Profit	million (currency units)	0.5	»25	20	«18
3	Project implementation	million (currency units)	0.2	»30	25	«20

Let us consider the example of a PE with the following performance:

Production: 26,000 tonnes
Profit: 12 million currency units
Project implementation: 260 million currency units

The score will be calculated in a simple system as follows:

Let us take a simple procedure wherein the values in between the score value are not given any consideration. In other words, if the actual production lies anywhere between 20,000 tonnes and 22,000 tonnes, the score will be only 0.8 (or 80 per cent). only when it exceeds 22,000 tonnes will the score value jump to 1.00 (or 100 per cent).

In the case above, in production the achievement of 26,000 tonnes is above the score target for 1.0. So the score would be 1.0. The score value is $1.0 \times \text{weightage} = 1.0 \times 0.3 = 0.3$. For profit, the score is 0.25 as the achievement is below the score target of 18 million for minimum score.

The score value is 0.25×0.5 (weightage) = 0.125 . For project implementation the score is 0.8 as the actual is between 250 and 300 million. The score value is $0.8 \times 0.2 = 0.160$. The composite score = $0.3 + 0.125 + 0.160 = 0.585$.

In other words, the enterprise has obtained 58.5 per cent marks in overall performance. It maybe remembered that in the scale adopted, the minimum mark an enterprise can get is 25 per cent and not 0 per cent.

In this method, the scores are discrete and jump at certain stages. One could also make the scores move gradually between two score values as in a number line. For example, the production score can be placed on a number line as below:

Score	0.25	0.8	1.0
	15,000	20,000	22,000

Any value between the points may be read off the number line. It may be noted that the movement between two points may not be on the same scale. This can also be handled arithmetically. We will illustrate it with a five-point scale scoring system.

The example of the five-point scale scoring system given in Chapter Four is as follows:

NO	CRITERIA	UNIT	WEIGHT	TARGET	SCORES				
					1	2	3	4	5
1	Production	000 tonnes	0.3	25	28	25	20	16	12
2	Profit	million tonnes	0.5	20	24	20	16	12	8
3	Project implementation	million units	0.2	200	240	200	160	120	80

Note: The scores in this are quite different from the scores in the three-point scale. This is just to give another illustration.

Also note that no percentage scores are given. The scores are discrete numbers from 1 to 5. The highest score possible is 1 and the lowest score is 5.

Score value can be calculated accurately as follows (as in a number line): first, identify the higher and lower score targets in between which the actual value lies.

Then the score is:

$$\frac{\text{Higher score} - \text{Actual score}}{\text{Higher score} - \text{Lower score}} + \text{Higher Score Value}$$

In the above illustration for production, the actual value is 26,000 tonnes; it lies between the values 28 and 25. Then the score is:

$$\frac{28 - 26}{28 - 25} + 1$$

$$\frac{2}{3} + 1 = 1.66 \text{ (score value)}$$

It is easy to see that the score 1.66 could have been easily obtained on a number line.

The score multiplied by the weight will give the score value. In this case, since weightage is 0.3, the score value for production is $1.66 \times 0.3 = \underline{0.498}$.

Similarly, we can illustrate the "profit" criterion. Actual profit is 12 million. It is just on score 4. But the weightage for profit is 0.5. Therefore, the score value for profit is $4 \times 0.5 = \underline{2.0}$.

Now for project implementation. The actual value of 260 million currency units is above the value for score 1.0. But its weightage is 0.2. Therefore, the score value for project implementation is $1.0 \times 0.2 = \underline{0.2}$.

The composite score then is $(0.498) + 2.0 + 0.2 = \underline{2.698}$

In this method, the enterprise would have score 2.0 if it achieved all the targets agreed to in the PC. It would get 1.0, if it exceeded, by a specified amount, all targets. The composite score of 2.698 indicates that the overall performance is between 'very good' and 'good'.

Reaching an agreement on the number of criteria to evaluate the performance and weights which are assigned to each of the criteria is difficult. This is important because criteria selected may not be considered of equal importance by government and PE. One could say that profitability is the most important criterion in a corporate entity. In fact, India started with a low of 20 per cent weightage for profitability and it has now been increased to 50 per cent weightage in the current year. Other criteria such as production, market share, employment etc. are also difficult to assign weightage. The task invariably lead to long arguments on all sides. For example, the market share may be given very high weightage by one party to the agreement, while others may consider profitability to be of greater importance and should therefore attract higher weightage. Needless to say, assignment of score values is more difficult. The important thing is that an agreement should be

reached on the relative weightages and score and be accepted by the company and by government.

With an increase in the number of criteria and the score values to be assigned to each criterion, the objectivity and accuracy of the composite score may be affected.

BOX 5.1: Guidelines for Selecting Performance Criteria

The selection of a proper performance criterion is as important as the selection of an appropriate measure. For instance, there is very little point in measuring R&D performance in terms of funds utilised unless a nexus between the two has already been established. Further, it is desirable that:

- Performance criteria, like corporate objectives, should be limited.
- There should be a congruence between objectives and performance criteria.
- There should not be any duplication in the selection of performance criteria.
- Selected performance criteria should be measurable and their evaluation method pre-determined and laid down in the MOU.

SOURCE: Suresh Kumar, op.cit, p.6

Monitoring

The arrangements whereby public enterprises which are brought under the PC system are subjected to reviews during the period between the signing of the contract and the end of the contract period has generated some heated debates. Some of the PEs have argued that once the government and the enterprise have reached an agreement as to the performance that is expected of the PE, the government should wait until the end of that period to see whether the PE has been able to achieve the targets. Any review, say, on a half-yearly basis will certainly affect the autonomy given to the enterprise management. If the enterprise is made to accept some instructions at the time of the reviews, it will certainly hamper their managerial freedom. On the other hand, a review on a quarterly or a half-yearly basis may give the PE the alibi that whatever happened was with the knowledge of the government, that the suggestions given by the government to meet the different problems were implemented and therefore the PE chief executive and the management cannot be held responsible for the non- achievement of the targets.

In spite of the controversy, the generally accepted view is that the PE performance should be subjected to at least a half-yearly review or better, quarterly review. If the problems of the PE are not heard by the government periodically, and certain suggestions for modifications of government policy and programmes are not undertaken in the course of the year, the whole year could be wasted and the PE

performance may be poor due to circumstances which could have been remedied through such a review. The consensus therefore is that there should be a review, which should be properly managed, so as to contribute to the overall effectiveness of the PC system.

BOX 5.2: Performance Evaluation in the Gambia

Performance evaluation is undertaken on a quarterly as well as an annual basis. The quarterly evaluation is undertaken with the objective of monitoring as well as identifying the variances so that corrective measures can be taken and performance can be improved. The annual evaluation is undertaken to judge the management's performance during the year as compared to agreed targets and to decide on the level of incentive, i.e. bonus or sanctions, to be awarded/applied. The process of the annual evaluation commences immediately after the enterprise submits to NIB its annual report and audited accounts. The enterprise also submits to NIB its own assessment of its performance.

On receipt of the annual report and audited accounts of an enterprise NIB undertakes its own evaluation. For quantitative targets the annual audited accounts are used as the source of information. NIB examines and evaluates each performance indicator and scores them. The scores of all indicators achieved are totalled and compared with total targeted scores and accordingly, recommendations about the incentives (i.e. bonus payment or sanctions) are made. The evaluation is finalised and recommendations (i.e. bonus or sanctions) to be imposed are submitted to The Office of The President in a report from NIB. In the report, the management's assessment of performance is also included.

Source: M.B.Njie, op.cit. p.12

It is well known that, while fixing the targets for the PE under the PC system, both the government and the PE make certain assumptions about the macro-economic environment that would prevail during the year. For example, the international recession in developed countries, or the currency exchange value of the home country vis-a-vis other currencies and the rate of inflation within the country, would have been assumed at certain levels. But in reality, these things may change considerably in the course of the year. It then becomes necessary for both PE and government to examine these factors and give their views as to what would be the impact of the new macro-economic factors on the performance of the public enterprise and the achievement of PC targets. Such a development may in fact call for a special review meeting.

The MIS should be based on a good understanding of the particular enterprises and the information requirements of all stakeholders. If the questions often asked in parliament relating to PE or the various queries raised by the administrative

department of the ministry are carefully analysed, one can identify the issues that are critical to the performance of the PE in question. The information relating to these issues should be regularly reported to government who can convey the information to the Minister or the Parliament without additional reference to the PE.

Needless to say, the MIS designed for monitoring and evaluation would be different from the MIS for normal decision-making for management of the PE. The important element is that an MIS should be comprehensive but not too elaborate. Any enterprise would maintain certain data on production, sales, cash, etc. The MIS should be so designed that these are reported on in a monthly pro forma and sent to various supervisory agencies. If there are any abnormalities relating to the details sent, the government could call a review meeting to discuss such abnormalities.

On the whole, the general practice is to institute at least a bi-annual review of performance that could make possible mid-term corrections. It is the practice in certain countries to have a quarterly review. Whichever arrangement is adopted, it would be helpful to develop other methods of securing prompt and reliable information from the PEs.

The question then is, should the review be conducted by the same agency which does the performance contracting or by a different agency? It is now common that, in most of the cases, the review is done by the ministry which oversees the work of the PE, though the contract of the PE may be signed by a superior agency or even the President of the country. If the review leads to identification of certain external factors which have hampered the work of the public enterprise and there is need for renegotiating the target agreed on earlier, the procedure to follow will have to be repeated.