

Institutionalizing Incentive Mechanism in HR Policy of Nepal

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Provision of Incentive Mechanism in HR Policies of Nepal

Human Resource Management is such an area where it regularly monitors, upgrades and solves specific problems, queries of the people involved in this sector. Particularly talking about people in the organizations, i.e. the employees could be in a government sector, private or non-profit making organizations like NGOs, INGOs, each of them have own set of requirements and needs, which tends to change along with time and change in the market.

It has been seen that the incentive mechanism that different organizations uses and to a certain extent varies with each other, aids tremendously to motivate employees to be effective, productive and generate output appropriate to benefit their organizations. Incentive in general is attached with the concept of salary as incentive given for performance is percentage of salary.

Intangible incentive like vacation, holidays (paid), health or medical assistance, bonuses, most incentive provision in organizations in Nepal are actively planned rather than performance based.

Incentive mechanism requires a specific plans and policies under which it can be implemented effectively. These plans and policies is stated in the HR policies For an organization, incentive system is seen moreover in relation to the Performance rendered by its employees.

In general organizations have range of incentives that they give to their employees and they are as follows.

Financial	Non-financial
<ul style="list-style-type: none">• Pay• Other direct financial benefits• Pensions• Illness/health/accident/life insurance• Clothing/accommodation	<ul style="list-style-type: none">• Holiday/vacation• Flexible working hours• Access to/support for training and education• Sabbatical, study leave• Planned career breaks

allowance <ul style="list-style-type: none"> • Travel allowance • Child care allowance • Indirect financial benefits • Subsidized meals/clothing/accommodation • Subsidized transport • Child care subsidy 	<ul style="list-style-type: none"> • Occupational health/counseling • Recreational facilities • Housing Facilities • Car/Vehicle Facilities • Lunch Facilities • Internet Facilities • Sports Facilities inside office
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Whenever incentive system is considered, most people think of monetary benefit. It is considered that providing monetary rewards will help to improve the performance of employees. However individual may have different perceptions on monetary incentives.

For instance, a young and ambitious person who has recently joined the organization, get good feedback from his/her performance appraisal after accomplishing specified task in time. In return, he/she is provided with increment in salary and is satisfied. While, for a person who is at higher position and has spent a long time in the organization, may not be satisfied with such salary increment. He may want recognition, further responsibilities, etc.

Therefore incentives should be aligned with needs of employee's in order to motivate them for better performance.

Human Resource Policies

These are the systems of codified decisions, established by an organization, to support administrative personnel functions, performance management, employee relations and resource planning.

Principles

HR policy of the firm is aimed to support the achievement of organizations mission and objective with integrity and quality. Guiding HR principles of the firm are:

- Recruitment, promotion, development and retention practices based primarily on merit, loyalty, potential, and performance and on diversity that reflects, across the workforce, nature of organization and its work.
- Equal opportunity by employer.
- No discriminate against anyone as per race, caste, tribe, religion, color, gender and geographical grounds are to be made.
- HR policy and practices foster a learning environment.
- HR policy and practices foster a workplace where employees, management, clients are treated with respect.
- Firm's employee relation and practices are implemented so that the workforce perceives them to be applied fairly.
- Policies and practices are stated clearly and in writing and made available to all employees;
- For each employee, an employee file that is accurate, confidential and up to date is maintained and accessible to the employee.

Purpose

HR policies describes three core area:

- SERVICES that the organizations requires from staffs

- Provisions, both clauses and conditions of FACILITIES that staff is entitled to for the services rendered by staff
- Terms and Conditions of the Contract between staff and organizations on expectations, rules and regulations of work and pay, working conditions and behaviours, and procedures of organizations

The specifics of these three depends on:

- The nature, scale and size of the organization
- Prevailing policies, act, laws, rules and regulations of the country where the organization is working such as labor act.

Human Resource Policies needs to be in accordance with the Law of country where the organizations are registered. In Nepal HR Policies needs to follow the following Act.

Labor Act of Nepal

Various provisions in Labor Act that needs to be considered in developing HR policies in Nepal like employment and job security policy, working hours, Health and safety, behavior and penalties, Welfare arrangements policy etc.

Employment and job security policy

- With post classification, Nepali nationals should be provided with appointments
- No child shall be employed in any establishment.
- Except in prescribed circumstances, minors and women may ordinarily be employed for the period from 6 am to 6 p.m.
- Women may be employed like men after making appropriate arrangements on the basis of mutual agreements between the general manager and the employees or workers in question.
- For certain period of time and with specified work, such person may be appointed on a contract basis. All the remuneration, service period and conditions of service are explicitly mentioned in the contract.

- The service of a permanent worker or employee of any establishment shall not be terminated unless the formalities prescribed under this Act are stated.
- In case of retrenchment and reemployment, if it becomes necessary to curtail production or services of an establishment, or to close down the entire establishment or a part thereof for more than three months because of exceptional circumstances, the general manager may lay off all or part of its employees after obtaining the permission of His Majesty's Government through the Labor Department.
- If any worker or employee has worked in any establishment for 240 days during a 12 - month period, or for the entire period of the operation of a seasonal establishment without any interruption, he shall be deemed to have served the establishment for one year without any interruption.
- Public and weekly holidays shall also be taken into account when calculating the 240day period.

Working Hour Policy

No worker shall be engaged to work for more than 8 hours a day or 48 hours a week. Every worker shall be given one day's leave each week.

Health and Safety Policy

The general manager of each establishment shall make arrangements for the health and safety.

- Maintaining the organization in a neat and clean condition every day and the use of disinfectants according to need of the organization
- Adequate ventilation and light, as well as a suitable temperature in workrooms
- No overcrowding of any workroom or place so as to injure the health of workers or employees
- Adequate hygienic water for drinking during the period of work
- Separate modern toilets for male and female workers or employees in easily accessible places
- Announcement of all or any part of the organization as a nonsmoking zone according to the nature of the organization

- Compulsory medical checkups of workers or employees at least once every year etc.

Welfare Arrangement Policy

- **Welfare fund**

Every organization shall set up a welfare fund in the prescribed manner for the benefit and welfare of its workers and employees.

- **Compensation**

If any worker or employee sustains any physical injury, becomes disabled, or dies while working in an establishment, such worker or employee or his family shall be paid compensation as prescribed.

- **Bonus, provident fund, and medical benefits**

The bonus and provident fund benefits and medical benefits to which a worker or employee is entitled shall be as prescribed.

- **Leave**

Public holidays, sick leave, annual leave, maternity leave, bereavement leave, special leave, leave with or without pay, etc.

- **Allowance**

All employees shall receive 1 month's basic salary as "Dashain Bonus" which will be paid in the month preceding Dashain.

Penalties and Appeal policy

Forms of penalties

The general manager may punish any worker or employee for misconduct in the following manner:

- Warning
- Withholding of annual increment in salary
- Suspension

- Dismissal from service

Appeal

Any person who is dissatisfied with punishment awarded may file an appeal as follows within a period of 35 days from the date of receipt of notice of such punishment or order:

- Appeals against orders issued by His Majesty's Government or the Labor Department may be filed with the Appellate Court.
- Appeals in respect of cases in which original action is taken and which are decided of by the Labor Court may be filed with the Appellate Court.
- Appeals against punishment imposed or orders issued by the general manager, or other officers or offices, may be filed with the concerned Labor Court.

Civil Service Act

The HR policies of Government of Nepal are defined through Civil Service Act.

Civil Service act is expedient to make provisions on the constitution, operation and conditions of service of the civil service in order to make the civil service more competent, vigorous, service-oriented and responsible. Civil Service Act provides guidelines for civil employees. There are two class of civil employees Gazetted and Non-Gazetted.

The Ministry of General Administration shall in order to run the administration of the country act as the central body in respect of the constitution, operation and conditions of service of the civil service and the management and operation of the civil employees. In other word the ministry of general administration is human resource department of civil employees which look after all the issues related to civil service employees. Civil Service act behave in three areas for the incentives mechanism of civil employees which are facilities for civil employees, terms and conditions for civil employees and Incentives for civil employees.

Fulfillment of Vacancy of Civil Service Provision

For the fulfillment of vacancy of civil service there are two processes by open competition and by promotion. Under promotion there are again three processes which are by evaluation of competency, by internal competitive examination and by adjustment of promotion by evaluation of work performance and experience.

Fulfillment of Vacancy in Civil Service				
Post	By Open Competition	By Promotion		
		By Evaluation of Competency	By Internal Competitive Examination	By Evaluation of work performance and Experience
Non-Gazetted 5th Class	100%			
Non-Gazetted 4th Class				
Non-Gazetted 3rd Class		100%		
Non-Gazetted 2nd Class	60%	20%	20%	
Non-Gazetted 1st Class	60%	20%		20%
Gazetted 3rd Class	70%	10%	10%	10%
Gazetted 2nd Class	10%	60%	20%	10%
Gazetted 1st Class	10%	60%	20%	10%

In order to make inclusive the civil service, forty-five percent posts of the posts to be fulfilled by open competition shall be set aside and be filled up by having separate competition between the following candidates only, by considering the percentage into cent percent:

- (a) Women -Thirty Three Percent
- (b) *Adiwasi/Janjati* -Twenty Seven Percent
- (c) *Madhesi* -Twenty Two Percent
- (d) *Dalit* - Nine Percent
- (e) Disabled (differently able) - Five Percent
- (f) Backward Area - Four Percent

Facilities for Civil Service Employees

To motivate civil employees for performing effectively and efficiently government of Nepal provides various facilities which are as follows:

- **Salary, Allowance, Dashain Expenses and Other facilities**

A civil employee shall be entitled to salary and allowance from the day of assumption of his/her post. Each civil employee shall receive salary and allowance as well, if any receivable, after completion of each month. The salary and allowance review committee shall, in every three years, review the salary, allowance and other facilities, based on, inter alia, the revenue increase rate, total number of positions and the dear allowance provided based on the price index in the last three years. Government of Nepal may provide for a work performance incentive fund in order to encourage the civil employee based on work performance, work results and achieved results. A civil employee shall receive an amount equivalent to the salary of one month being earned by him/her as the festival expenses each year to celebrate festival as per his/her religion, culture and custom.

- **Special Economic Facility**

If a civil employee dies while in service, his/her near heir shall be provided with a lump sum of One Hundred Fifty Thousand Rupees.

- **Insurance Facility**

The Government of Nepal shall establish a fixed term (Sabadhik) life insurance fund for the civil employee insurance. A sum of Two Hundred Rupees shall be deducted from the monthly salary of each civil employee and deposited in the fund and the Government of Nepal shall add the amount equal thereto and make the Twenty year term life insurance for the insured sum of One Hundred Thousand Rupees. From the amounts deposited in that insurance fund, the insured sum and bonus shall be paid to the employee at the time of his/her retirement.

- **Employee Provident Fund**

An amount at the rate of Ten per cent of the monthly salary of the civil employee shall be deducted, and Government of Nepal shall, adding the amount of One Hundred percent thereof to such amount, deposit the total amount in the Employee Provident Fund.

- **Service Security**

Civil Service Employees have job security as they cannot be dismissed from job unless they perform inappropriately in job such as criminal activity, corruption etc.

- **Leave Facility**

The civil employees shall be entitled to the following leaves, as prescribed:

- a) Casual and Festival Leave
- b) Home Leave
- c) Sick Leave
- d) Maternity Leave
- e) Maternity Care Leave
- f) Obsequies Leave
- g) Study Leave
- h) Extra-ordinary Leave
- i) Unpaid Leave

Terms and Condition of Civil Service Employees

To make civil employees perform their job in the best manner and entitle them with facilities of Nepal government civil service act provides following terms and conditions for civil employees:

- **Retirement Policy**

Civil Service employee who has completed the age of 58 years has to retire from the civil service. Any civil employee who is eligible to receive pension and has completed the age limit of Fifty

years may voluntarily retire from the service. Government of Nepal may, in the following circumstances, retire any civil employee from the service:

- If any civil employee is proved to have provided or attempted to provide secret governmental documents, deeds or information under his/her custody or obtained by him/her in any manner to any unauthorized person or body
- If any civil employee is proved to have committed an irresponsible conduct contrary to the dignity of his/her post, by maintaining undesirable contact with any foreign country, organization or citizen contrary to the national interests.

- **Gratuity Policy**

If any civil employee, who has served for Five years or more but has not completed the period required for pension, retires or leaves service by getting resignation accepted or is removed from the post without being disqualified for government service in the future, he/she shall receive gratuity at the following rate:

- In the case of the civil employee who has served from Five years to Ten years, Half the last month's salary for each year of his/her service
- In the case of a civil employee who has served for more than Ten years up to Fifteen years, the last One month's salary for each year of his/her service
- In the case of a civil employee who has served for more than Fifteen years but less than Twenty years, the last One and Half month's salary for each year of his service.

- **Pension Policy**

A civil employee who has been in government service for a period of Twenty years or more shall be entitled to a monthly pension at the following rate:

Total year of service X amount of the last salary/ 50

Where the salary of the incumbent civil employee is increased, two-third amount of the increment in the basic figure of salary shall also be added to the amount of pension of the retired civil employee of the same post. There are facilities of pension and gratuity to the family

members of civil employees. The widower husband or widow wife of a civil employee shall be entitled, for life, to half the amount of pension receivable by such employee from the date of expiration of the period during which such widower husband or widow wife is entitled to family pension. If any civil employee who has served in the civil service has disappeared and whose whereabouts have not been traced until the prescribed period whether he/she is dead or alive, the amount of gratuity or pension to which such employee is entitled.

Incentives for Civil Employees

To motivate civil employees to perform their job in best manner so that government activities can perform in effective and efficient manner following incentives are provided to civil employees:

- **Promotion Policy**

Promotion is one of the incentives for employees. Promotion policies of civil act are while making promotion to the gazetted post of the other civil services, except the gazetted post of Nepal Judicial Service; it shall be made on the recommendation of the promotion committee.

- Government of Nepal shall, while making promotion to the post of Chief Secretary of the gazetted special class, make promotion by making selection on the basis of seniority and work efficiency from amongst the incumbent Secretaries.
- If any civil employee of the gazetted first class or below than that holding the same post for at least Fifteen years has One month left to get retirement pursuant such employee shall be promoted to one class higher post.
- There shall be a promotion committee as follows to make recommendation for promotion to the other gazetted post of the civil service, except for promotion to the gazetted post of Nepal Judicial Service and for promotion from the non-gazetted post to the gazetted post.
- In order to be a candidate for promotion, one must possess the educational qualifications as prescribed for the post that is One class below the class of the post to which promotion is made and have completed the minimum service period as follows:
 - a) Three years for a non-gazetted post
 - b) Five years for a gazetted post.

- The promotion committee shall recommend a civil employee for promotion based on the total marks secured for the work efficiency. In evaluating the work efficiency of the civil employee, a maximum of 100 marks shall be granted as follows:
 - a) For work performance evaluation -Forty marks
 - b) For seniority - Thirty marks
 - c) For educational qualifications - Twelve marks
 - d) For service in geographical region -Sixteen marks
 - e) For training - Two marks

- The civil employee shall be promoted up to one class, upon having completed the following service period in the following class, and obtained the above educational qualification than prescribed educational qualification at the earlier time of entry or group division or after the entry or group division:
 - a) Non-gazetted Second Class - Ten years
 - b) Non-gazetted First Class - Twelve years
 - c) Gazetted Third Class - Fifteen years
 - d) Gazetted Second Class - Eighteen years

- **Study, Training ,Foreign tour or Study tour Policy**

The concerned Ministry, Commission or Secretariat shall, in order to send the employees under it for study, training or study tour, prepare a description thereon and forward it to the Ministry of General Administration each year. Any civil employee who pursues a study, training or goes on a study tour on the nomination of Government of Nepal must, upon completing such a study, training or study tour, serve in the Ministry or Office where he/she was in service before going on for such study, training or study tour for up to the period as mentioned below in a compulsory manner. Bond is signed for civil employees before going study, training and study tour.

HR policies of Corporate and Non Government Organizations

Corporate and Non-government organizations have their own kind of services and as per that the needs of the companies also differ. Though the service is different, terms and conditions is same as that of Labor Law.

Non-Government Organizations

Services and Term and condition

- Non-government organizations usually employs staffs on a contract basis as per the need of the project and company though it is specified in the Labor Act that any employee employed for one year without interruption has to be made permanent.
- Salaries increment and contract renewal is based on Performance.

Salary increment

Promotions and increment in the salary of the staffs could be carried out on following basis:

- Every staff needs to go through Performance Appraisal on the basis of which they will get promotion or increment in their salary
- The yearly increment in salary will be adjusted according to the inflation index provided by Nepal Rastra Bank (NRB). Subject to availability of funds, the extent of adjustment will be decided by the Board.
- Subject to availability of funds, the salary of the staffs will be increased by taking into account the salary scale of competitive organizations once every 3-5 years as deemed necessary by the Board.
- A staff member promoted to a higher grade will be required to complete satisfactorily a probationary period of three months. A formal review will take place shortly before the end of the probationary period to confirm, extend or terminate the new appointment. A staff member's probationary period on promotion may be extended at the discretion of the Board.

HR policies of Private Company in Nepal

Employee Benefits

Salaries, Wages, and Allowances

Salaries and Allowance are basically defined in most of the private companies in a fixed ration. Though the labor act has defined a fixed amount of minimum salary, private companies have found out an easy way to divide it into salaries and allowances so as to get benefit from other facilities. Labor Act and Civil Service Act define salaries and wages as per the designation and post but usually private companies considers the following factors:

- Past performance and earning capacity of the Company.
- Need and availability of the knowledge and skilled resource.
- Past performance, present capability and future potential of an employee.
- Market trend in the industry/corporate sector.
- Cost of living index.
- Responsibility and accountability of the position.

Training & Development

All newly recruited employees shall be given an induction/training in the company during the first week of the job. The Human Resource & Administration Department and the concerned department head shall jointly design and implement the induction/training program that suits the requirement and job profile of the employee.

During the performance evaluation process the person conducting the review shall also discuss with the employee the future prospects, the career plan and the training/development needs to increase knowledge and skill. All training need shall be identified keeping in mind the business objective, employee's job and career plan. Accordingly, Human Resources & Administration Department shall go through all the reviews and draw out a training plan, which will be "need based". Human Resource & Administration Department shall on an on-going basis co-ordinate

with the respective Department Heads to see that a training program is properly followed. However, a recommendation for training made on a review form does not commit the Company to provide such training.

The training plan shall be part of the Annual Budget and Forecasts. The MD shall approve all training programs.

The Company may require the employees to sign a bond for compulsory service with the Company after attending certain high cost training programs at the Company's expenses.

The minimum period of compulsory service vis-à-vis the training or study period shall be as follows in general:

Training or study period	Compulsory service period
---------------------------------	----------------------------------

- | | |
|-----------------------|---------|
| i) Up to one month: | 1 year |
| ii) Up to 3 months: | 2 year |
| iii) Up to 1 year: | 3 year |
| iv) More than 1 year: | 5 years |

The compulsory service period may be more than specified in the above schedule for special types of training and shall be agreed in advance by the parties.

On returning from the training or study, if the employee does not serve the Company, the employee shall reimburse the full amount of expenditure incurred during and on the training.

Training and Development activities will focus on:

- a) Basic Organization skills
- b) Supervisory skills training
- c) Managerial skills training
- d) On the job training to improve productivity

- e) Training for future organizational and individual development
- f) Technical ability for particular post
- g) Observation/Higher studies

Note: these training and development activities will be conducted solely at mgmt discretions. An employee cannot claim training as a matter of right nor can he/she use the provision of this section to justify his inefficiency. Selection of candidates for training will be made as per the criteria laid down by the mgmt.

Employee Awards / Reward Schemes

Employee who presents an outstanding performance that directly benefits the Company (enhances the image/reputation, brings financial gains, performs to the highest level of standard i.e. takes initiative and is creative) shall be nominated for this award/scheme.

Department heads may nominate their employees every year with a written reason for eligibility, listing out the achievements. Based on the validity of the reasoning, employee shall be awarded with a certificate of appreciation and/or financial reward depending on the nature of the achievement.

Performance Evaluation system

- Performance evaluation forms approved by the board shall be implemented
- The evaluation process should be completed on an annual basis
- The remuneration review will be subject to annual review, or at appropriate times. SPI operates a Pay-for-Performance policy and the result of any remuneration review will take your performance into account.
- Depending upon the company, incentives are provided to the employees on the basis of their performance

Incentive Mechanism for Performance Management

Incentive Mechanism for Performance Management

Human Resource Management (HRM) has become increasingly important in the competitive environment of 21st century to boost efficiency and improvise quality of services delivered by the government to the people. Overall performance, capabilities and loyalty of civil service fundamentally depends on the quality of multiple facets of Human Resource Management (HRM) -recruitment, training and development, utilization and security provision. Efficient and effective Human Resource Management is imperative for plans, policies and project implementation. It is the human resources that activate energies and mobilize other resources.

This paper tries to highlight ineffectiveness of the incentives used in the organization in Nepal. The different performance appraisal system used in India, US and Nepal are scrutinized to realize its importance. There is an attempt to make the reader understand how incentives are shifting towards motivating employees and managing their performance.

Incentive is one of the major parts of HRM (can be financial) which may be conferred in some forms of payment or cash transfers. In the private sectors, financial incentives are generally associated with better performance although perverse impacts can also be observed. Cash awards generally have a higher value where remuneration is low. Non-financial incentives come in many forms such as gifts, rewards, travel packages etc. Some are more tangible than the others since they are visible and/or can be compared to financial benefits. Incentives like flexibility in work, independence of working, recognition of one's work, the possibility of advancement are intangible in financial terms. The value of non-financial material incentives seems to be perceived as a function of psychological processes.

Historical context of Nepal

Nepal, a developing country is surrounded by two economic powerhouses, India and People's Republic of China. The country became visible to the outside world only in 1950s. Nepal introduced budget in 1951 which had foreign major portion. The year 1956 is marked by the debut of first five-year national economic development plan. In the same year The Central Bank and the Public Service Commission were established. The year 1980 marks the development of increments in output, employment and social relations. However, the growth of agricultural and

commercial sector was held steady without much room for development. The authoritarian political regime faced political and social ups and downs during the end of 1970. The political and social Turmoil forced the Monarchy King to declare referendum on political choice between parties-less and multi-party system. The party less system, then known as the Panchayat regime stirred up the fiscal responsibility to get the results of the referendum in its own favor. The consequences lead to the huge deficit in the budget which marked its spot in the trade. Therefore, HR incentives policies are focused on loyalties rather than performance.

The three year period 1982/83 to 1984/85 marked the deficit in the balance of payments in the history of Nepalese economy. In order to get out of it Nepal changed its economic policy from state regulated to market oriented in the mid 1980s. Finally, democracy was established in Nepal in 1990 and changed the economic policy from inward looking and import substituting industrialization policy to outward and export oriented. Nepal intensified the liberal economic policy regime. Nepal changed the economic policy regime from inward looking and import substituting industrialization policy to outward and export orientation. The focus of the shift in policy regime was on economic globalization, liberalization and privatization. Hundreds of private schools and affiliated colleges flourished, private hospitals and nursing home appeared. Private airliners and transport services changed the way travel business operated in cities. Emergence of commercial banks, finance and cooperatives has increased access to credit to entrepreneurs and needy individuals of middle and lower-middle economic group department stores, restaurants, cyber cafés and entertainment business grew in various shapes and size in cities and town. New manufacturing companies evolved focusing on producing food products and beverages, apparelers, garments and shoes, pharmaceuticals and electronic products. However, incentive practice was not been effectively used in HR policies during that period.

Incentive Mechanism in Government Sector

Civil service, army and police are the major agencies of the government. Though they are the major part of the country to regulate; they are following bureaucratic system to function. With a view to develop human resources and meet contemporary challenges of civil service and its management, civil service employees have an opportunity to take part in the training and to pursue further study within and outside the country. They are entitled to have a paid study leave

up to three years to carry out study in the area that is useful and relevant to the civil services. The opportunity to study and training abroad (especially in USA/Europe) are seen as major incentives for civil service employees. In addition to study and training abroad, the incentive provision in government follows:

- Basic salary
- Provident Fund
- Dashian Allowances
- Travelling Allowances (higher allowances for training and study abroad)

Analysis of HR policies (civil service) government in Nepal doesn't focus on performance based system, their incentives are limited to training allowances, and also their basic pay is low in comparison to other private organizations. The loyalty of the employees to the Government is higher than that of private sectors. One part of the reason behind loyalty is further studies (PhD, Masters) unlike in private organizations. Recently in 2010 Government of Nepal introduced performance based incentives mechanism.¹ Few departments of the government sector (finance ministry) are following the policy of performance based incentives.

Incentives Mechanism in Corporate Sector in Nepal

As Nepal's two neighbors', China and India is moving ahead to become global economic powerhouse, Nepal need transform its institutions, not only on the political front but also in organizational front, and change the feudal culture to open culture with work-ethics embedded, to benefit from the rise of these neighbors'. The incentives were activity focus such as commission for sale. The HR policy of companies has been based on HR policies of government constitution. Therefore, performance incentives are not elaborated. Most companies until recently has profit rather than effective performance. This trend is also reflected in the HR policies. Recently as market expanded and competition opened for market share result higher profit companies are starting to elaborate provisions for incentives.

¹ Nepal Portfolio Performance Review NPPR 2010, Ministry of Finance of Government, Nepal

Hence HR policies have not been based on performance management, therefore incentives are still focused on activities and overall profit of the company.

In case of banking sector in Nepal promotions are based on individual performance which is evaluated through performance appraisal. Hence performance appraisal is the medium for the promotion in banking sector of Nepal. Banking sectors have defined clear processes for performance appraisal unlike government companies where appraisal is done through preformatted appraisal form. Performance appraisal has a strong implication on the pay scale in the banking sector. Certain portion of the salary is based on the performance of employee. Management has the discretion to allocate the rate provided to the grades in the banking sector. Promotion cannot be claimed as a matter of right.

One of the big corporate houses in Nepal notes that all the employees shall be considered for an annual increase in the salary. The performance of the employee throughout the year shall be the benchmark. The decision to approve and formulate the increments for the years shall be as per the discretion of the management. The HOD/ Unit Head for unit employees and HOD/HRD for Corporate Office shall give recommendations on the basis of performance appraisal report which upon approval by group CFO will be considered for increments.

Incentives Mechanism in Indian Companies (In India)

It is observed that there is a growth of influence of performance system of India and USA in Nepal due to the globalization. Traditionally governance structures in India are characterized by rule based approaches. Government of India introduced a scheme of performance budgeting. The performance budget is intended to present a meaningful relationship between inputs and outputs, and indicate the correlation between planned programs and their performance in financial and physical terms.

As performance of an organization/agency is dependent on the performance of individual civil servants, over a period, an elaborate mechanism to evaluate the performance of individual government servants has evolved. It involves setting goals at the start of the assessment period, reviews during the period and final assessment against achievement of goals. Finally, performance excellence is decided by a number (grades of 1-10) to be assigned by the reporting

officer. In order to identify the best employees, organizations do a comparative analysis of the performance of the employees. Indian Government agencies do provide incentives on the basis of performance management system. Generally Performance appraisal consider following:

- Performance has been defined prior to the appraisal period.
- Standards & elements of performance are set and clarified to the employee, prior to the appraisal period.
- The opportunity to improve must be given to the individual, before categorizing his/her performance.
- The circumstances including resource and other constraints also need to be taken into account while appraising performance.
- The employer has the right to demand performance and ensure accountabilities.

Incentive mechanism of Indian Company in Nepal

The incentive system of Indian based company which is operating in Nepal is based on performance management. The performance management is strongly based on performance appraisal which is evaluated annually. Performance appraisal of the company includes the strength and weakness of the employee which is being sort out by the immediate supervisor and if the employee needs training to improve his performance the training session will be conducted immediately. Thus the employee performance will be evaluated before training and after training. It believes that all the employees must live with social and economic dignity and freedom, regardless of nationality, gender, race, economic status or religion in the management of its businesses and operations. Analyzing its policies, all the financial incentives, PF, travelling allowances, Dashain bonus, accidental insurance, welfare funds were elaborated clearly in their HR policies. The policies were up to date and circulated among all the employees. Hence each employee was aware about their entitled rights and benefits.

Incentive mechanism of US Company (In US)

Incentive in USA is based on performance management system. Most U.S. paid employees have adopted performance appraisal models in which best-to-worst ranking methods are used to identify poor performers, who are then given a period of time to improve. The Variable Cash

Incentive Program (VCIP) is a performance-based cash incentive program that allows employees to share in business success. All regular employees, full-time or part-time, salaried or hourly participating wholly owned subsidiaries are eligible to participate in VCIP.

The VCIP helps align employee compensation with the company's success on critical performance measures. These performance measures capture performance of the company as a whole (50 percent weighting), the business unit (50 percent weighting) and individual employees (supervisor's discretion).

VCIP measures performance results by calculating the following:

- Return on Capital Employed
- Total Shareholder Return
- Income and Cash Contribution per Barrel of Oil Equivalent
- Health, Safety and Environment (HSE) metrics

This variable bonus incentive program motivates and rewards employees to achieve business results by increasing their awareness of and accountability for the company's objectives. It also provides variability and differentiation in compensation based on group and individual performance.

Performance management system was developed and evolved in USA. Recently USA companies has adopted Incentive mechanism that is more than individual incentives for individual performance moreover they are more than individual incentives to VCIP.

Performance Appraisal System of US Company in Nepal

A US based International Development Company which was introduced in Nepal since 1990 notes in its HR Policy that performance appraisal is used for the adjustment in employees salary but not for promotion unlike other us companies in US. As incentives it also use merit increases, other cost of living adjustments, trainings e.t.c. Annual salary increases to reward good performance by giving "Deserving Employees" annual merit increases at the completion of the annual performance evaluation process. Other Cost of Living Adjustments are made as periodic

adjustments to salary based on quantifiable economic indicators, designed to alleviate some of the burdens of high rates of inflation. It has a policy to promote and encourage training and the professional advancement of all staff members hired with the appropriate qualifications and skills for their assignment either by providing the time for training during work hours, by giving monetary assistance, or both.

Conclusion

Government in Nepal is still following old-fashioned organizational traditions where performance based system are almost inexistent. On the contrary, other countries are using them effectively. However, despite the comparably lower pay scales and unchanged incentives with the private sectors, the loyalty of government employees has been remarkable, yet due to the absence in performance appraisal, they lag behind to identify and encourage the potentials of the staff members. Performance appraisal system has become an important HRM function to differentiate workers from non-workers. The differentiation in compensation based on group and individual performance is required to discourage groupism and boost individual performance.

Way Forward

- HR policies should incorporate performance appraisal of the employees with elaboration.
- Incentives should be provided to the employees based on individual performance with the use of different performance based appraisal system. Performers should be provided with higher incentives to motivate them towards collective objective.
- Proper appraisal system should be institutionalized for proper allocation of incentives.

In the government as well as private sector performance pay system has been stagnant to individual performance pay whereas the performance management in other developing countries has gone beyond the pay for performance. VCIP could be one of the prime examples of pay for performance.