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Today, management education in the global context is passing through a critical phase from infancy to maturity. The world of entrepreneurs in varied sectors is demanding high quality and promising professionals with the capability of ascertaining the business opportunities and challenges as to take advantage of a situation and overcome crisis.

The Nepalese Management Review, a management and development journal, is serving to the academician and practitioners through its publication of research based articles, book reviews and contemporary issues emerging in the field of management since 1979. The journal is published by the Central Department of Management (CDM), Tribhuvan University.

The basic objective of the publication of the Nepalese Management Review is to explore the academic worths of management scholars that may work as an input to the practical managers in identifying problems, formulating policies and gaining effectiveness and efficiency in the work performance. The journal also intends to provide a critical and creative brainstorming forum exclusively to the scholars of the management field. We promise to incorporate research reports, book reviews, management problems and research based articles in the journal subject to the standard met as per the benchmark of the Journal.

The journal is the outcome of efforts and cooperation made by different persons foremost of them being the article contributors. We would like to appreciate the CDM for the financial assistance provided to bring this journal in this shape.

Opinions expressed in the articles appeared in this issue are those of the authors and, thus, do not necessarily reflect the views or policies of Central Department of Management, Tribhuvan University.

We appreciate the effort of the Tribhuvan University Press in bringing the present form of this Journal.

We hope that inspiration and encouragement from the readers will continue to keep the Journal alive and develop. We are also looking forward to receiving your comments and suggestions for further improvement in the future.

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Employer Branding in Nepalese Enterprises

Dr. Radhe Shyam Pradhan*
Bharat Singh Thapa**

Abstract

This study aims at examining the use of employers’ brand concept in Nepalese enterprises, which is so important to adopt as it represents the core value of an organization. It also analyses the importance and challenge associated with effective employer branding strategy to be adopted by Nepalese enterprises. By administering a structured questionnaire to 102 respondents from 22 different types of enterprises, it is found that no value has been attached to employer brand concept yet in Nepal. However, most of the enterprises have already commenced work on developing their employer brand strategy and they are quite sure of building an image of employer of choice through employer branding programs. It is also confirmed that a good employer brand ensures attraction and retention of good people in the organization. Therefore, Nepalese organizations are suggested to invest in employer branding.

Key Words: Employer Branding, Employer Brand, Nepalese Enterprises

I. Introduction

The modern day business world is full of competition and it is likely to increase much more due to liberalization, privatization and globalization policy adopted by almost all the countries. The primary source of long-term competitive advantage for a business firm or an industry is its people. Human resource has to be handled with great care in this era of cut-throat competition. Companies are always on the lookout for a talented employee pool for achieving and sustaining the competitive advantage in the long run. However, there seems a large gap between the demand and supply of future business leaders and competent employees. It could be due to the lack of experiential learning and lack of awareness among potential employees. Again, this is particularly important for the developing countries like Nepal, where skilled manpower go abroad mostly for the employment. Hence, it is an uphill task for employers to attract the right kind of workforce.

The term ‘employer brand’ appears to have first been coined by Ambler and
Barrow (1996) to denote an organization’s reputation as an employer, who defined it as the package of functional, economic and psychological benefits provided by employment, and identified with the employing company. Employer branding is central to the concept in HR Marketing. It defines the personality of a company as a preferred employer (Minchington, 2010). Employer branding has been described as the ‘sum of a company’s efforts to communicate to existing and prospective staff that it is a desirable place to work’ (Lloyd, 2002). It is all about building and sustaining employment propositions that are compelling and different. Employment branding is therefore concerned with building an image in the minds of the potential labour market that the company, above all others, is a ‘great place to work’ (Ewing et al., 2002).

Generally, a brand is the set of expectations, memories, stories and relationships that, taken together, account for a consumer’s decision to choose one product or service over another. American Marketing Association defines a brand as a name, term, sign, symbol, or design, or combination of them which is intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors. Branding was originally used to differentiate tangible products, but over the years it has been applied to differentiating people, places and firms (Peters, 1999). The term employer branding suggests the differentiation of a firm’s characteristics as an employer from those of its competitors. The employment brand highlights the unique aspects of the firm’s employment offerings or environment. Ambler and Barrow (1996) define the employer brand in terms of benefits, calling it “the package of functional, economic and psychological benefits provided by employment, and identified with the employing company.” These definitions indicate that employer branding involves promoting, both within and outside the firm, a clear view of what makes a firm different and desirable as an employer.

The employer brand is the most powerful tool for attracting, engaging and retaining the right talent/culture fit that will help leaders grow their organization. Like any brand, employer brand is about perception (Bondarouk et al., 2012). There is a proven relationship between excellence in key components of employer branding and the level of market premium organizations enjoy. Harris (2010) considers the main components of employer branding are employee engagement, employee communication, training and development, and external reputation. Similarly, Ewing et al. (2002) classify existing approaches to employment branding by identifying three basic types of employment advertising strategy, and provide numerous examples of each. According to human resources consultants Hewitt Associates, there are five steps to developing a strong employer brand: (i) understand your organization, (ii) create a ‘compelling brand promise’ for employees that mirrors the brand promise for customers, (iii) develop standards to measure the fulfillment of the brand promise, (iv) ‘ruthlessly align’ all people practices to support and reinforce the brand promise, and (v) execute and measure.

The remainder of the paper is organized as such: Section II provides the statement of the problem; Section III provides the
objectives of the study; Section IV discusses the data and methodology; Section V analyses the data, provides results and makes a discussion on the results; and Section VI summarizes and concludes the study.

II. Statement of Problem

Today’s most successful companies are those with the best human capital, not just the best products (Minchington, 2010). In the course of identifying, acquiring and retaining best people, advertising may become a critical tool. Increasingly, it is likely to be used to create employment brands (Sherry, 2000). Employer branding is called the hottest strategy in employment. It is an international concept referring to the work with making the identity clear as employer. The result is the companies’ image as employer, both internally and externally. Moreover, it is posited that companies with strong employer brands can potentially reduce the cost of employee acquisition, improve employee relations, increase employee retention and even offer lower salaries for comparable staff to firms with weaker employer brands (Ritson, 2002). Strategic work with a company’s employer brand should be focused at common images found externally and internally. In order to develop a strong employer brand, it is necessary to demonstrate what is specific about the organization and its culture. However, awareness of possibly existing differences and likeness in attribute within certain groups makes strategic work more efficient. In developing economies, this employer branding concept is very common amongst the employer, but, it is hardly found researched in the emerging countries like Nepal. Therefore, this study focuses on identifying the stages of the development of the use of employer branding concept in Nepalese enterprises. According to Minchington (2009), only 16 percent of companies have developed a clear strategy for their employer brand whilst 31 percent have a strategy but it can be developed further. Companies with a clear strategy include: Africa (31 percent), Asia (15 percent), Australia (13 percent), Europe/UK (17 percent), New Zealand (18 percent), UAE (12 percent), USA/Canada (17 percent). However, there is increasing investment in employer branding initiatives. This represents a significant increase in focus on the importance of employer branding in attracting, engaging and retaining talent. Similarly, Dawn and Biswas (2010) assert that increasing focus on competitive advantage is leading many Indian firms to rethink their employer branding. A powerful employer branding has the capacity to attract and retain talent and represent quality to its customers, with the goal of gaining global recognition in a sustainable manner. Increasingly, Indian corporations are becoming intentionally strategic to utilize the employer brand to attract and retain talent for the expansion and growth.

In any organization, skilled and competent employees are hard to attract and difficult to retain and it has become critical to business success (Sutherland, Torricelli, & Karg, 2002). The employer branding is used for corporate identity and reputation which communicates its image to current and potential employees. Though the worldwide economic
downturn after financial crisis of 2007/08 has resulted in massive layoffs around the world, the ability to attract and retain talented employees continues to be a major challenge for organizations. This is more so due to several environmental factors such as ageing populations, declining fertility rates, migration and mobility, security and safety etc. In Nepal, migration and mobility are the major factors that led to this challenge. The demand for competent work force is increasing. It is becoming more difficult for companies to get competent staff. It is particularly important for employers to attract competent human resource as the trend of going abroad for employment is increasing day by day. Therefore, this study attempts to investigate the extent to which the employers of Nepal are aware of employer branding concept.

III. Objectives

The major objective of this study is to examine the use of employer branding in Nepalese enterprises. However, the specific objectives are as follows:

- To identify the employer branding activities in Nepalese enterprises
- To understand the level of development of employer branding in Nepalese enterprises
- To determine the factors affecting employer branding in the context of Nepal
- To evaluate the perception of employees on the status and importance of employer branding
- To find out effective means for promoting employer’s branding in Nepal

IV. Data and Methodology

In order to examine the state of employer branding in Nepal, the survey was conducted during the year 2012 and data were collected by administering the structured questionnaire. The responses were collected via an online survey and by visiting different enterprises in Kathmandu Valley. A total of 102 questionnaires were collected, 20 from public and 82 from private sector enterprises. They include Manufacturing (16), Telecommunication (23), Hotel (11), Education & Consultancy (12), Airlines (3) and Hydropower (3). The enterprises classified by the sector are as follows:

Public Sector Organizations (20):
- Nepal Bank Ltd.
- Rastriya Banijya Bank
- Nepal Telecom Ltd.
- Agriculture Development Bank Ltd.
- Nepal Electricity Authority
- Nepal Airlines Corporation

Private Sector Organizations (82):
- Everest Bank Ltd.
- Kist Bank Ltd.
- Mount Mission Cooperative
- Himalayan Bank Ltd.
- NMB Bank Ltd.
- Manjushree Finance
- Apex College
- Kathmandu Alpha Beta Pvt. Ltd.
- Kathmandu Don Bosco College
- Liberty College
- Ncell Nepal Pvt. Ltd.
- Surya Nepal Pvt. Ltd.
The survey consisted of closed ended and one open end questions (Annex I). These questions included multiple choice, rank and five - points Likert scale.

In this paper, employer branding has been taken as the process of building an identifiable and unique employer identity, and the employer brand as a concept of the firm that differentiates it from its competitors. To examine the perception of employees in status and importance of employer branding, the following hypotheses were developed and tested.

1. The perception toward the status and importance of employer branding is dependent on the nature of organization respondents are working with.

2. The perception toward the status and importance of employer branding is dependent on the types of organization respondents are working with.

3. The perception toward the status and importance of employer branding is dependent on the size of organization respondents are working with.

4. The perception toward the status and importance of employer branding is dependent on the position of employees in the organization.

V. Results and Discussion

Respondents Profile

Table 1(a) to 1(g) show the respondent’s profile. Most of the respondents were from private sector (80 percent) and non-financial (67 percent) organizations. About 70 percent of them were female respondents. The majority of respondents were Managers (51 percent) followed by Assistant Managers (35 percent), Directors (9 percent) and CEO/Managing Directors (5 percent). Thus, the respondents to the survey mainly consisted of higher level executives.

Likewise, 17 percent of responding enterprises had more than 1000 employees while 22 percent of the enterprises had 501-1000 employees. Companies with 101-500 employees comprised of 44 percent while companies with less than 100 employees comprised of 19 percent of total enterprises surveyed.

Similarly, the respondents come from different age groups. The age of the respondents to the survey ranged from 20 years to 64 years. The majority of respondents (about 42 percent) were in 30-39 years aged group while 32 percent were in 20-29 year age group. About 20 percent were in the age group of 40-49 years.
Table 1(c): Gender of Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number of respondents</th>
<th>Percentage</th>
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<tbody>
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<td>Female</td>
<td>39</td>
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</tr>
<tr>
<td>Male</td>
<td>63</td>
<td>62</td>
</tr>
<tr>
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<td>102</td>
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Table 1(d): Level/Position of Respondents

<table>
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<th>Position</th>
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</tr>
<tr>
<td>Manager</td>
<td>52</td>
<td>51</td>
</tr>
<tr>
<td>Director</td>
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<td>9</td>
</tr>
<tr>
<td>CEO</td>
<td>5</td>
<td>5</td>
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<tr>
<td>Chairman</td>
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Table 1(e): Age of Respondents

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<th>Age Group</th>
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<td>32</td>
</tr>
<tr>
<td>30-39</td>
<td>43</td>
<td>42</td>
</tr>
<tr>
<td>40-49</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>50-59</td>
<td>4</td>
<td>4</td>
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<tr>
<td>60 And Above</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Total</td>
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Table 1(f): Number of Employees in the Organization

<table>
<thead>
<tr>
<th>No. of Employees</th>
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<th>Percentage</th>
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<tr>
<td>1-10</td>
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<td>2</td>
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<tr>
<td>11-50</td>
<td>4</td>
<td>4</td>
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<tr>
<td>51-100</td>
<td>13</td>
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<tr>
<td>101-200</td>
<td>15</td>
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<td>201-300</td>
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<td>301-500</td>
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<tr>
<td>501-1000</td>
<td>22</td>
<td>22</td>
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<tr>
<td>1001 and above</td>
<td>17</td>
<td>17</td>
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<tr>
<td>Total</td>
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Table 1(g): Working Experience (in Years) of Respondents with the Present Organization

<table>
<thead>
<tr>
<th>Work Experience (In Years)</th>
<th>Number of respondents</th>
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<tr>
<td>Less than 1</td>
<td>6</td>
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</tr>
<tr>
<td>1-2</td>
<td>12</td>
<td>12</td>
</tr>
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<td>11</td>
<td>11</td>
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<td>3-5</td>
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<td>10-20</td>
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<tr>
<td>20 and above</td>
<td>1</td>
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<tr>
<td>Total</td>
<td>102</td>
<td>100</td>
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</table>

The majority of the respondents to the survey, about 37 percent had worked in the company for 5-10 years while 26 percent had worked for 2-3 years. Only 8 percent employees responded that they worked for more than 10 years in their present organization.

**Employer Branding Status in Nepalese Organizations**

**Employer Branding Strategy**

The survey findings revealed that there is a great deal of work required in employer branding strategy development (Table 2 and Figure 1). Surprisingly, only three percent of companies have developed a clear strategy for their employer branding while 30 percent have some kind of strategy which can be developed further. Most importantly, 55 percent of companies have already commenced work on developing their employer brand strategy. A small percentage of respondents (11 percent) opined that their company does not have any employer branding strategy.
Table 2: Availability of EB Strategy

<table>
<thead>
<tr>
<th>Response</th>
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<th>Percentage</th>
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<tr>
<td>Yes, clear</td>
<td>3</td>
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<tr>
<td>Yes, but further development needed</td>
<td>31</td>
<td>30</td>
</tr>
<tr>
<td>No, but working on it</td>
<td>56</td>
<td>55</td>
</tr>
<tr>
<td>No, not developed yet</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
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<td>100</td>
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</tbody>
</table>

Figure 1: Availability of EB Strategy

- Yes, clear
- Yes, but further development needed
- No, but working on it
- No, not developed yet

11% 3% 31% 55%

Table 3: Importance of EB

<table>
<thead>
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<th>Option</th>
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<th>Percentage</th>
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<tr>
<td>Very Important</td>
<td>78</td>
<td>76</td>
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<tr>
<td>Important</td>
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<td>24</td>
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<tr>
<td>Don’t Know</td>
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<tr>
<td>Not Important</td>
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<tr>
<td>Not at All</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
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</table>

Responsibility of Employer Branding

The survey results show that the majority of the respondents viewed that both CEO and HR managers are responsible for employer branding (29 percent). However, 25 percent of respondents opined that both HR manager and marketing managers are responsible for employer branding. In 18 percent of the cases, HR manager is responsible for managing employer branding. Similarly, CEOs are responsible in 12 percent of the enterprises while board of directors are responsible for 8 percent of the enterprises surveyed. The general managers are usually not responsible for employer branding. This finding supports the previous finding of Minchington (2009).

Table 4: Responsible Person/Position for EB

<table>
<thead>
<tr>
<th>Person/Position</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Board of Director</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>General Manager</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>HR Manager</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Both CEO and HR Manager</td>
<td>30</td>
<td>29</td>
</tr>
<tr>
<td>Both HR and Marketing Manager</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Marketing Manager</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>100</td>
</tr>
</tbody>
</table>

Importance of Employer Branding

While looking at the opinion on the importance of employer branding in the organization, none of the respondents denied on its importance. Table 3 shows that 76 percent of the respondents reported that employer branding is very important and rest of the respondents also agree with its importance. Interestingly, none of the respondents were against its importance.
Employer Branding Initiatives

From a list of 13 employer’s branding activities (Figure 3), respondents were asked which activities they are currently undertaking to enhance their employer branding. Providing orientation program on employer branding among staff (95 percent) is the main activity being undertaken by companies. The next most common activities include induction program (80 percent), career website development (71 percent), customer research (58 percent), employer brand positioning (33 percent), defining employer value proposition (32 percent), applicant tracking system (31 percent), and audit of current employer brand (30 percent). The lowest rating items include focused group discussions with employees (1 percent), competitor analysis on employer branding (15 percent) and promoting employer branding among consumer (20 percent).
Promoting Employer Branding

The internet has changed the way people communicate these days. The medium provides an opportunity to communicate in mass at a fraction of the cost of traditional methods such as face to face, mail, fax, etc. This is also supported in this survey as indicated by the result presented in Table 5. Career website is ranked first followed by online social networking sites, graduate programs, trainings & development and performance appraisal. However, company events, newspaper job ads and company brochures are taken as the least important means for promoting employer branding.

<table>
<thead>
<tr>
<th>Table 5: Means for Promoting EB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Promotional Means</strong></td>
</tr>
<tr>
<td>Career Website</td>
</tr>
<tr>
<td>Online social networking sites</td>
</tr>
<tr>
<td>Graduate programs</td>
</tr>
<tr>
<td>Training &amp; development programs</td>
</tr>
<tr>
<td>Performance appraisal</td>
</tr>
<tr>
<td>Blogs</td>
</tr>
<tr>
<td>Employee referral program</td>
</tr>
<tr>
<td>On campus activities</td>
</tr>
<tr>
<td>Trade shows</td>
</tr>
<tr>
<td>Career fairs</td>
</tr>
<tr>
<td>Induction process</td>
</tr>
<tr>
<td>Sponsorship</td>
</tr>
<tr>
<td>Company events e.g. AGM, product launches</td>
</tr>
<tr>
<td>Newspaper job ads</td>
</tr>
<tr>
<td>Company brochures</td>
</tr>
</tbody>
</table>

Benefits from Employer Branding Programs

Table 6 shows that recognition as an employer of choice is the main benefit that respondents think from employer branding programs. It is followed by decrease in staff turnover and easier to attract candidates. However, higher job acceptance rate, setting a standard and framework for all HR activities and increase in number of unsolicited resumes are lowest ranked benefits of employer branding programs.

<table>
<thead>
<tr>
<th>Table 6: Benefits from EB Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefits</strong></td>
</tr>
<tr>
<td>Recognition as an employer of choice</td>
</tr>
<tr>
<td>Decrease in staff turnover</td>
</tr>
<tr>
<td>Ease in attracting candidates</td>
</tr>
<tr>
<td>Decreased time-to-fill</td>
</tr>
<tr>
<td>Reduced recruitment costs</td>
</tr>
<tr>
<td>Increased internal hire rate</td>
</tr>
<tr>
<td>Higher job acceptance rate</td>
</tr>
<tr>
<td>Setting a standard and framework for all HR activity</td>
</tr>
<tr>
<td>Increase in number of unsolicited resumes</td>
</tr>
</tbody>
</table>

Challenges to Develop Employer Branding Programs

Senior leadership involvement is the biggest challenge facing the companies in managing their employer branding.
program as shown in Table 7. Obtaining an adequate budget also rates highly as a barrier to managing an employer branding. Other challenges which rate highly include CEO involvement, coordinating employer brand messages across different departments and being creative and innovative to distinguish employment offering. Communicating key employer branding messages to potential recruiters and customers rated least challenging force in carrying out employer branding programs. According to Minchington (2010), the greatest challenge encountered in managing an employer branding program is obtaining adequate budget in Africa, Australia and USA/Canada while in Asia, Europe/UK and New Zealand being creative and innovative to distinguish employment offering is major challenge.

### Table 7: Challenges for Carrying out EB Programs

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Average Points</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior leadership engagement</td>
<td>2.5</td>
<td>1</td>
</tr>
<tr>
<td>Obtaining an adequate budget</td>
<td>3.75</td>
<td>2</td>
</tr>
<tr>
<td>CEO engagement</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Co-ordinating EB messages across different departments</td>
<td>4.5</td>
<td>4</td>
</tr>
<tr>
<td>Being creative and innovative to distinguish employment offering</td>
<td>6.25</td>
<td>5</td>
</tr>
<tr>
<td>Communicating key EB messages to suppliers/contractors</td>
<td>5.5</td>
<td>6</td>
</tr>
<tr>
<td>Commissioning the services of an outside firm to develop/evolve EB</td>
<td>5.75</td>
<td>7</td>
</tr>
<tr>
<td>Communicating key EB messages to potential recruits</td>
<td>6.75</td>
<td>8</td>
</tr>
<tr>
<td>Communicating key EB messages to customers</td>
<td>6</td>
<td>9</td>
</tr>
</tbody>
</table>

### Employer Evaluating Criteria

Based on the findings presented in Table 8, it can be observed that employees evaluate the employers based mostly on the working environment, leadership team and support for the growth. However, location and size of factory/office are not so important as they are ranked last in the survey.

### Table 8: Employer Evaluating Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Average Points</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a good working environment physically and spiritually</td>
<td>2.25</td>
<td>1</td>
</tr>
<tr>
<td>Have a good leadership team</td>
<td>2.75</td>
<td>2</td>
</tr>
<tr>
<td>Support for employees’ training/development and growth</td>
<td>3.75</td>
<td>3</td>
</tr>
<tr>
<td>Pay good salary, bonuses and good benefits</td>
<td>4.5</td>
<td>4</td>
</tr>
<tr>
<td>Must be a multi-national/global company</td>
<td>4.5</td>
<td>5</td>
</tr>
<tr>
<td>Have a good office at Grade A Office Building</td>
<td>5.25</td>
<td>6</td>
</tr>
<tr>
<td>Have a big factory/facility</td>
<td>6.25</td>
<td>7</td>
</tr>
<tr>
<td>Must be a big company with a large number of employees</td>
<td>6.75</td>
<td>8</td>
</tr>
</tbody>
</table>

### Status and Importance of Employer Branding

Table 9 shows that majority of the Nepalese organizations do not attach value to employer branding and so it is not popular at all. Even colleges and universities do not teach this concept. Nevertheless, respondents think that it is worth spending in developing employer branding by Nepalese organizations. It is also felt that training programs on employer branding are quite useful and
essential. The Cronbach’s Alpha of this scale is 0.758. Generally, scales are regarded as reliable for commercial purposes if the alpha coefficient exceeds 0.7 (e.g. Carman 1990), so the findings of this scale can be accepted for measuring status and importance of employer branding.

### Table 9: Status and Importance of Employer Branding

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The majority of Nepalese organizations do not attach value to EB.</td>
<td>3.54</td>
<td>1.16</td>
</tr>
<tr>
<td>EB is not practiced much by Nepalese organizations.</td>
<td>3.87</td>
<td>0.84</td>
</tr>
<tr>
<td>EB is something which is worth spending by the Nepalese organizations.</td>
<td>4.02</td>
<td>1.38</td>
</tr>
<tr>
<td>EB is yet to become popular in Nepalese organizations.</td>
<td>4.1</td>
<td>1.06</td>
</tr>
<tr>
<td>EB branding is not taught in colleges and universities.</td>
<td>3.93</td>
<td>1.18</td>
</tr>
<tr>
<td>Some training program on EB would be quite useful.</td>
<td>4.13</td>
<td>1.35</td>
</tr>
<tr>
<td><strong>Total Summated Value</strong></td>
<td><strong>3.93</strong></td>
<td><strong>0.79</strong></td>
</tr>
</tbody>
</table>

### Perceptual Analysis

From the results of hypothesis testing (Table 10), it can be concluded that the perception toward the status and importance of employer branding is dependent on the nature, type and size of organization, and position of employees in the organization. However, it is independent of the gender.

### Table 10: Results of Hypothesis Testing

<table>
<thead>
<tr>
<th>Test Hypothesis</th>
<th>Chi-Square (P-Value)</th>
<th>Accept / Reject H01</th>
</tr>
</thead>
<tbody>
<tr>
<td>H01: The perception toward the status and importance of employer branding is independent of nature of organization.</td>
<td>0.002 (17.49)</td>
<td>Reject</td>
</tr>
<tr>
<td>H02: The perception toward the status and importance of employer branding is independent of types of organization.</td>
<td>0.0611 (8.99)</td>
<td>Reject</td>
</tr>
<tr>
<td>H03: The perception toward the status and importance of employer branding is independent of size of organization.</td>
<td>0.000 (79.29)</td>
<td>Reject</td>
</tr>
<tr>
<td>H04: The perception toward the status and importance of employer branding is independent of gender.</td>
<td>0.168 (6.45)</td>
<td>Accept</td>
</tr>
<tr>
<td>H05: The perception toward the status and importance of employer branding is independent of position.</td>
<td>0.014 (25.27)</td>
<td>Reject</td>
</tr>
</tbody>
</table>

### VI. Summary and Conclusion

This study uses descriptive approach to identify the status, importance and challenges to employer branding in Nepalese enterprises. Structured questionnaire are used to identify opinions and insights of 102 respondents from 22 organizations and it is found
that the concept of employer branding is emerging and getting popular rapidly among Nepalese enterprises. Though clear strategy for employer branding is lacking, most of the enterprises have already commenced work on developing their employer brand strategy. Not a single respondent denies on its importance in becoming employer of the choice. Currently, there are very few programs such as orientation and career website, already initiated to promote employer branding while graduate programs and trainings are also felt equally important. There are lots of benefits of employer branding programs but senior leadership engagement and inadequate budgets are the major challenges that organizations are facing in managing these programs. These findings are similar to previous findings of Minchington (2010).

There are some implications of this study to Nepalese organizations. First, there is a need for conducting training programs on employer branding as it is practiced less and new concept in Nepal. Second, employers should focus on the working environment, leadership style and support for the growth of employees to become employer of choice. Third, use of the internet is felt effective tool to promote employer branding in Nepal. Most importantly, employer branding ensures that the best human resource stay with the organization for the longer period of time which in turns reduces turnover costs and carry on its operations smoothly.

References
Significance of Cultural Tourism in Nepal

Dr. Kamal Maiya Pradhan*

1. Introduction

Nepal is a small country with different varieties. This country is famous for its unity in diversity, in language and lifestyle, caste and religious. Although there are different religions like Hindu, Buddhism, Christian, Muslims etc live in Nepal, there is no discrimination among them. Every religion is prevailing with equal respect. Different religious sites can be found here like The Pashupati Nath temple the greatest deity of Hindu, Swayambhu stupa and Boddha Nath stupa of Buddism, different Mosques of Islamism and churches of Christianity etc. Nepalese are religious people. So, they have strong faith on divine Power.

Cultural Tourism or Culture Tourism is the subset of tourism concerned with a country or region's culture, especially its arts. It generally focuses on traditional communities who have diverse customs, unique form of art and distinct social practice, which basically distinguishes it from other types/forms of culture. Cultural tourism includes tourism in urban areas, particularly historic or large cities and their cultural facilities such as museums and theatres. It can also include tourism in rural areas showcasing the traditions of indigenous cultural communities (i.e. festivals, rituals), and their values and lifestyle. It is generally agreed that cultural tourists spend substantially more than standard tourist do.

2. Tourism history

The concept of tourism management in Nepal was developed in 1957 with the set up of 'Tourist Office' in the Department of Industry following the establishment of a Tourist Development Board under the same Department in 1956. In 1959 the office is upgraded to department level. Under the Tourism Act of 1964 an advisory committee for tourism was formed in 1968, which in 1969 is replaced by the Nepal Tourism Development Committee. With these two institutions, the nucleus of the management of tourism activities has begun with the committee functioning as policy-making and the Department as operating agency.

In order to develop tourism in a planned way, the first Master Plan for Tourism listed proposals to be carried out during a ten year period from 1972. A separate Ministry of Tourism is set up in 1977. In 1978 a high level Tourism Co-ordination Committee was formed to co-ordinate promotion and development activities and to review the Master Plan for Tourism. Thus, Tourism Planning in Nepal over the last 40 years has been instrumental not only

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for the rational and selective expansion of tourism, but also for the nation to become directly involved in a harmonious development process as guided by 1972 Master Plan.

With a view to set up Nepal as a premier tourist destination, the country has launched promotional campaigns such as Visit Nepal Year in 1998, Destination Nepal Year in 2002 – 2004, Pokhara Visit Year in 2007, Nepal Tourism Year in 2011 and Lumbini Tourism Year in 2012.

3. Current situation
Government has formulated new Tourism Policy 2065 (2009) with an intention to reinforce Nepal as an attractive, beautiful and safe destination in the international arena. The policy has aimed to increase employment opportunity for livelihood; increasing productivity and living standards of general public; and increased economic growth along with contribution to the revenues, by augmenting the magnitude of tourism activities and tourism enterprises such as airlines, hotels, travels and tours. The policy has also emphasized on cultural tourism including other types of tourism. Government of Nepal has placed tourism on high priority in this new tourism policy to mainstream it with national development.

MoCTCA developed Tourism Vision 2020 to guide overall tourism development and promotion. In the context of growing expectation of the people, GoN has intended to develop tourism aiming two million annual arrivals by 2020, augmenting economic opportunities with an increased employment in tourism sector to one million. Six objectives with their related strategies together with immediate and long-term actions are set in Vision 2020.

A separate study has been done, to make the tourism industry a national priority industry, and was submitted to the prime minister on 30th March 2012 (Chaitra 17, 2068) by a high level committee, coordinated by Secretary Leela Mani Pauydal, Prime Minister’s Office, with representation from various ministries, including MoCTCA, CAAN, NTB, HAN, and two tourism experts from the private sector. This report, in line with the Tourism Policy 2065 and Vision 2020, recommends tourism be a national priority industry, and lists immediate, mid-term and long-term incentives and facilities to be provided by GoN.

The document recognises that the private sector are key drivers in the development, promotion and marketing of tourism activities, and GoN merely complements as facilitator.

4. Tourism Trends
Tourism arrivals will exceed 1000,000 in 2013. From January to July 2012 air arrivals have increased by a healthy growth of 18.5%. Total international arrivals in Nepal for 2011 were 736,215 persons with an increase of 22.1% over 2010 and 44% increase from 2009 (509,956). Arrivals in 2010 registered 18% growth (602,867 visitors) over 2009. This can be considered a positive response to Nepal Tourism Year (NTY2011) in terms of visitor growth.

Nepal has a considerable mix in arrivals, although Asia accounts for just over half
(56%) of all international visitors in 2011. India traditionally contributes the largest share of arrivals, due to its geographic proximity and strong cultural ties. The Indian market share, however, has declined from its 1999 peak of one third of total arrivals (33.4%) to 20.3% in 2011. With almost 150,000 arrivals in 2011 (all by air as land arrivals are not recorded), India remains a major generating market for Nepal.

Other main source markets for Nepal in 2011 in order of size are China (61,917), Sri Lanka (59,884), USA (42,875), UK (39,091), and Thailand (33,541). Most Sri Lankans (97%) and Thais (82%) are arriving by land to visit Lumbini with short stay and generally low spend patterns. International tourism receipts are also recovering and topped $1 trillion in 2011 and Nepal’s neighbors are amongst the fastest growing spenders: China (38%) and India (32%). Other top spending markets with substantial Buddhist populations include South Korea, Japan and Thailand (UNWTO 2012)

About 75% of all visitors to Nepal enter by air to Kathmandu, currently the only international airport in the country. The average length of stay in 2011 is 13.12 days, up 3.6% compared to the previous year.

5. Impact on the national economy

The total revenue from tourism was reported as $369 million in 2011, up 12% from the previous year. However, the average income per visitor per day in 2011 dropped to $38.20, the lowest level since 2000.

Tourism is recognized by GoN as an economic pillar to help reduce poverty. Representing 5.9% of foreign exchange earnings it contributed 1.8% to GDP in the fiscal year 2010/11. 120,000 people are directly employed in tourism sector (Economic Survey 2011/2012). Since the 1970s, local communities in popular trekking areas have come to rely on tourism to supplement their livelihoods from trade and agriculture.

Tourism clearly provides direct and indirect employment, although there are few reliable records, especially for indirect employment and unskilled sectors such as rural porters and local guides. GoN national statistics for employment estimate 1.25 indirect jobs are created for every one direct job.

Out of 31,611 trained personnel who have gone through the Nepal Academy of Tourism and Hotel Management (NATHM), trained staff in hotels comprises 6,733 people or 21.30% of the total tourism workforce.

Out of the total 817 tourist-standard hotels nationwide, over 60% are in Kathmandu Valley. This would indicate that tourism benefits are confined to small pockets, and only a limited number of people have been able to reap direct benefits.

6. India and China are driving growth in arrivals

Recent strong increases in tourism arrivals to Nepal have been driven by growth from India and China followed by Sri Lanka. Together they account for 37% of all arrivals in 2011 (Table 1). Longer stay nationalities are Nepal’s traditionally strong markets from USA UK, Thailand, Germany and France. Japan and South Korea complete Nepal’s top ten markets, with Australia and Bangladesh making the top dozen.
India is an important target market for Nepal due to cultural similarities, proximity and ease of visa regulations. However of the 12,988,000 outbound Indians in 2010, only 149,504 visited Nepal (by air). The market share has also been declining since 2005 when India represented 26% of all visitors. Indians by air accounted for 20.3% of the total market share in 2011, although in terms of numbers the 149,504 visitors represented an increase of 24% over 2010.

Table 1: Top generating market to Nepal 2004 to 2011 with market share

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>90,736</td>
<td>95,685</td>
<td>93,722</td>
<td>96,010</td>
<td>91,117</td>
<td>3,884</td>
<td>120,898</td>
<td>149,504</td>
<td>20.30%</td>
</tr>
<tr>
<td>China</td>
<td>12,733</td>
<td>21,092</td>
<td>16,800</td>
<td>27,339</td>
<td>35,166</td>
<td>32,272</td>
<td>46,360</td>
<td>61,917</td>
<td>8.40%</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>16,124</td>
<td>18,770</td>
<td>27,413</td>
<td>49,947</td>
<td>37,817</td>
<td>36,362</td>
<td>45,531</td>
<td>59,884</td>
<td>8.10%</td>
</tr>
<tr>
<td>USA</td>
<td>20,680</td>
<td>18,539</td>
<td>19,833</td>
<td>29,783</td>
<td>30,076</td>
<td>32,043</td>
<td>36,425</td>
<td>42,875</td>
<td>5.80%</td>
</tr>
<tr>
<td>UK</td>
<td>24,667</td>
<td>25,151</td>
<td>22,708</td>
<td>32,367</td>
<td>33,658</td>
<td>35,382</td>
<td>35,991</td>
<td>39,091</td>
<td>5.30%</td>
</tr>
<tr>
<td>Thailand</td>
<td>14,680</td>
<td>13,614</td>
<td>13,744</td>
<td>20,018</td>
<td>18,689</td>
<td>27,397</td>
<td>21,526</td>
<td>33,541</td>
<td>4.60%</td>
</tr>
<tr>
<td>Germany</td>
<td>16,025</td>
<td>14,345</td>
<td>14,361</td>
<td>21,323</td>
<td>18,552</td>
<td>19,246</td>
<td>22,583</td>
<td>27,472</td>
<td>3.70%</td>
</tr>
<tr>
<td>France</td>
<td>18,938</td>
<td>14,108</td>
<td>14,835</td>
<td>20,250</td>
<td>22,402</td>
<td>22,154</td>
<td>24,550</td>
<td>26,720</td>
<td>3.60%</td>
</tr>
<tr>
<td>Japan</td>
<td>24,231</td>
<td>18,239</td>
<td>22,242</td>
<td>27,058</td>
<td>23,383</td>
<td>22,445</td>
<td>23,332</td>
<td>26,283</td>
<td>3.60%</td>
</tr>
<tr>
<td>South Korea</td>
<td>10,654</td>
<td>10,121</td>
<td>12,917</td>
<td>20,475</td>
<td>18,883</td>
<td>16,145</td>
<td>20,320</td>
<td>24,488</td>
<td>3.30%</td>
</tr>
<tr>
<td>Australia</td>
<td>9,671</td>
<td>7,093</td>
<td>8,231</td>
<td>12,369</td>
<td>13,846</td>
<td>15,461</td>
<td>16,243</td>
<td>19,824</td>
<td>2.70%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>14,640</td>
<td>19,206</td>
<td>16,474</td>
<td>24,012</td>
<td>20,067</td>
<td>15,385</td>
<td>16,470</td>
<td>17,563</td>
<td>2.40%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>11,160</td>
<td>8,947</td>
<td>7,207</td>
<td>10,589</td>
<td>10,900</td>
<td>11,147</td>
<td>13,471</td>
<td>16,836</td>
<td>2.30%</td>
</tr>
<tr>
<td>Spain</td>
<td>11,792</td>
<td>8,896</td>
<td>10,377</td>
<td>15,672</td>
<td>13,851</td>
<td>13,006</td>
<td>13,712</td>
<td>16,037</td>
<td>2.20%</td>
</tr>
<tr>
<td>Total Arrivals</td>
<td>385,297</td>
<td>375,398</td>
<td>383,926</td>
<td>526,705</td>
<td>500,277</td>
<td>509,956</td>
<td>602,867</td>
<td>736,215</td>
<td></td>
</tr>
</tbody>
</table>


Sri Lankans represent 8.1% with 59,884 arrivals in 2011 (MoCTCA 2011), the third highest market share after India and China. Sri Lanka has been showing a strong interest in Nepal due to its Buddhist culture. However, length of stay in Nepal is limited due to the packaged pilgrimage trips organized mainly by Indian tour operators.

Visitor arrivals from Japan represent high value markets but have been mainly flat since 2008 (23,383). However, Japan arrivals to Nepal increased to 26,283 in 2011. Their faltering economy and the high cost of marketing in Japan have been barriers. Japan’s ageing population will have more leisure time, and a long-term growth rate of 7% per annum is projected to 2020, by which time Nepal will be attracting 94,000 visitors from Japan (Basnet 2009).

The UK has long been one of Nepal’s best performing source markets, with an average annual rate of 4% over the period 1986–2000. In 2011 UK visitors represented 5.3% of market share (39,091 arrivals), overtaking Germany (3.7%), France (3.6%), The Netherlands (2.3%), Austria (0.5%), and Italy (1.7%).

By 2020, Nepal’s high value tourist generating markets (UK, Japan, France, German-speaking Europe, Benelux, North America, Australia and New Zealand) are projected to be providing one third of all visitors, increasing from 130,000 visitors to almost half a million (Basnet 2009).
Developing markets

Developing markets for Nepal include China, South Korea, Malaysia, Singapore and Thailand, and markets of Europe such as Spain, Italy and Scandinavia.

Out of a total of 57,386,000 outbound tourists in 2010 from China, Nepal received 46,360 tourists from that market. Growth rates from a low market base indicate that China is likely to be the main driver of growth for Nepal’s tourism. In 2011, this figure increased to 61,917, an increase of 25.1% over the same period in 2010. This figure is expected to increase to 212,000 (14% of Nepal’s total share) by 2020 (Basnet 2009).

Tourists from South Korea are also expected to rise substantially. In 2010 and 2011, there was an improvement in arrivals with 20,320 and 24,488 respectively, an increase of 17% over the period 2010 and a total market share of 3.2% in 2011. It has been expected that there will a continuous growth of 7%, resulting in 50,000 visitors by 2020. From South East Asia, Malaysians, Singaporeans and Thais are expected to increase steadily to 2020.

Other European countries such as Spain, Italy, Sweden and Finland are expected to grow at a rate of 4% to 6% (Travers 2004).

It should be noted that projections are vulnerable to economic conditions, political developments within and outside Nepal, and access issues.

7. Five-star hotels in Nepal have remained the same since 2006

Kathmandu’s starred hotels achieved an average 66% room occupancy in 2011, higher than the national average occupancy 62%, with three night average length of stay.

The total number of hotels in Kathmandu Valley and outside Kathmandu has decreased from 439 and 449 in 2001, to 335 and 272 hotels in 2006 respectively, reflecting the period political conflict in the country (Table 2). With the revival of tourism following the peace agreement in 2006, the total number of hotels has recovered to 422 and 314 in 2009. However this was still 4% lower in Kathmandu Valley and 30% lower outside Kathmandu than in 2001 when Nepal had only (MoCTCA).

### Table 2: Hotel rooms available in Kathmandu Valley and outside Kathmandu 2001 to 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Kathmandu</th>
<th>Outside Kathmandu</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>439</td>
<td>449</td>
<td>888</td>
</tr>
<tr>
<td>2002</td>
<td>436</td>
<td>440</td>
<td>876</td>
</tr>
<tr>
<td>2003</td>
<td>433</td>
<td>438</td>
<td>871</td>
</tr>
<tr>
<td>2004</td>
<td>430</td>
<td>432</td>
<td>862</td>
</tr>
<tr>
<td>2005</td>
<td>427</td>
<td>428</td>
<td>855</td>
</tr>
<tr>
<td>2006</td>
<td>424</td>
<td>426</td>
<td>850</td>
</tr>
<tr>
<td>2007</td>
<td>421</td>
<td>425</td>
<td>846</td>
</tr>
<tr>
<td>2008</td>
<td>418</td>
<td>423</td>
<td>841</td>
</tr>
<tr>
<td>2009</td>
<td>415</td>
<td>420</td>
<td>835</td>
</tr>
</tbody>
</table>

NB: No data available for outside Kathmandu from 2009
Investment in hotels in Kathmandu has gradually increased to a total of 464 in 2010 and 503 properties in 2011. However most of the growth is in the low end of the market. The Valley’s eight five-star hotels with 1,539 rooms are unchanged since 2006. Today, a total of 10,752 hotel rooms in the Kathmandu Valley cater for some 800,000 visitors, in contrast to 2001 when 2,024 hotel rooms provided for 360,000 arrivals. When only three – four - and five-star hotels are considered, there were 2,325 rooms in 2011, an increase of only 37 rooms from 2001 (MoCTCA). With improved bookings in recent years, some of the Kathmandu five-star hotels are planning refurbishments, and the Radisson is adding 105 rooms in a new extension.

Table 3 shows the current five-star hotels in Nepal. In addition to lack of expansion, the only branded properties run by a corporate manager are Crown Plaza and Hyatt. International brands that have withdrawn their presence from Nepal for various reasons over the years include Kempinsky, Meridien, Oberoi, Sheraton and Taj.

Table 3: Five-star hotels in Nepal 2012

<table>
<thead>
<tr>
<th>Name</th>
<th>Rooms</th>
<th>Ownership &amp; management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Hotel de l’ Annapurna</td>
<td>Suites: 4  Delux: 81  Standard: 66</td>
<td>Private  Formerly Taj Hotels</td>
</tr>
<tr>
<td>2 Everest Hotel</td>
<td>Suites: 6  Delux: 70  Standard: 84</td>
<td>Private  Formerly Sheraton</td>
</tr>
<tr>
<td>3 Hyatt Regency Kathmandu</td>
<td>Suites: 12  Delux: 27  Standard: 251</td>
<td>Public Private Partnership</td>
</tr>
<tr>
<td>4 Radisson</td>
<td>Suites: 33  Delux: 20  Standard: 107</td>
<td>Private</td>
</tr>
<tr>
<td>5 Shangri-La Hotel</td>
<td>Suites: 7  Delux: 22  Standard: 71</td>
<td>Private</td>
</tr>
<tr>
<td>6 Malla Hotel</td>
<td>Suites: 10  Delux: 35  Standard: 53</td>
<td>Private</td>
</tr>
<tr>
<td>8 Hotel Yak and Yeti</td>
<td>Suites: 19  Delux: 101  Standard: 105</td>
<td>Private</td>
</tr>
</tbody>
</table>

Source: Hotel Association of Nepal 2012
In 2011, Pokhara had 8,773 rooms in 245 star standard hotel rooms, with 40% occupancy rates (MoCTCA). However Hotel Association Nepal (HAN) western region estimated that there are a total of about 600 hotels in Pokhara Valley in 2012 (Nagarik Daily, 2 May 2012). Room rates range from about $10 to $200 per night. Pokhara has attracted over $4 million investment in 2011 in the wake of increasing arrivals with 46 newly established hotels during 2011 and 2012 (Pokhara Tourism Office). With the increase in numbers of foreign visitors, the number of domestic tourists visiting Pokhara has also increased significantly in recent years. The location and style of Pokhara's sole five-star property, the Fulbari Resort, attracts Indian and Asian groups.

8. Cultural tourism: What it means in Nepal?

Nepal Environmental Trekking believes that tourism should be based on the mosaic of places, traditions, art forms, celebrations and experiences that portray this nation and its people, reflecting the diversity and character of the Nepal. Whether through a visit to a museum, an art festival, a heritage area, a performance or a historic building, authentic cultural attractions educate, elevate and entertain travelers nationwide. Their guides and porters respect local culture and traditions, use home-stays, locally owned hotels and lodges or campsites as much as possible to support the local livelihood.

In Nepal, the typical Nepali costume of women is Gunnau Cholo, Dhoti and Patuka and the Nepali costume of men is Daura Suruwal and Dhaka topi. But except it there also can be other costumes like Bakhu, Lehnga, haku patasi, kactihad etc. It also represents the culture of the specific society. The rituals and language of one society may or may not be similar to other according to the human race.

There are many typical dance in every society like kauda dance related with Magar, Ghatu dance is related with Gurung. Dhimal dance is related with Dhamal etc. like wise festival also differ from one caste and religion to other like Dashain, Tihar, teej etc is celebrated by Chhetri, Bhraman and Hindu and Fagu, Maghi etc celebrated by Maithali, Bhojpur and Losahar celebrated by Tamang and Sherpa. Some festivals like Dashain and Tihar are celebrated by many religions like Hindu and Buddhist but they celebrate it according to their rules and norms. While celebrating their festivals every people meet their relatives near and dear ones.

There are several social and cultural beliefs and customs in Nepal like respecting elders, regarding the guest, loving younger, helping poor etc. This belief has made Nepali people helpful, peaceful and popular. Many cultural heritage of Nepal included in the world heritage list like Pasupati Nath, Swayambhu, Patan Darbar, Changunarayan, Lumbini, Bhaktapur Darbar, Bouddha Nath, Hanumandhoka Darbar, which has become property of the whole human race. So in a year thousand foreigners come to our company to visit culture heritage. Similarly some of the tourists come to Nepal to observe the lifestyle and peaceful environment created by Nepal and its culture. It has helped Nepal to gain
The profit our company earns by selling tour and trekking packages to the guests is shared and invested for the preservation of culture and heritages and awareness of the local community.

7. Conclusion

To sum up, there is a need to shift to cultural tourism in Nepal. Culture, nature and adventure have historically played a dominant role in Nepal’s market positioning. The motivation for tourists to visit Nepal would appear to have changed over the years. In 2011, MoCTCA reports that 8.7% of visitors came for pilgrimage (which was 37.1% less than 2010) followed by trekking and mountaineering (11.7%), and holiday (4.1%). However, the new category of “travel/visit” introduced in 2011 and accounting for 54% of all arrivals has rendered the specific purpose of visit trends as inconclusive. Other inconsistencies are discussed below.

The holiday / pleasure share has declined gradually from the majority (61%) in 1991 to 4.1% in 2011. Likewise, pilgrimage is reported to account for 20% arrivals in 2010 with the strongest increase of 97% over 2009, but in 2011 an inexplicable drop to only 9%. Neither trend is consistent with industry perceptions or LDT growth.

Discrepancies are more glaring with the 86,260 trekkers and mountaineers reported in 2011. This category appears to have dropped dramatically by purpose of visit to 12% share in 2011 from 26% in 2009 (MoCTCA). However, as many as 147,000 trekkers can be counted when highland national parks and mountain areas visitors are considered, a number more in line with trek industry feedback. Annapurna Conservation Area reported 83,562 non SAARC foreigners in 2011, (although it is possible to visit ACAP without trekking), Sagarmatha national park 34,645, Langtang national park 13,838, other “controlled areas” 10,715 and 4,255 climbers as part of mountaineering expeditions (MoCTCA).

Indians arriving by air are predominantly holiday/ pleasure and business visitors. Pilgrimage is an important motivator for Buddhist visitors from Sri Lanka, Myanmar, Thailand, South Korea, Japan, China, and Vietnam.

USA, UK, Germany, France, Netherlands, Spanish, Swiss and Italian tourists have holiday or pleasure as their major motivator to visit Nepal, followed by trekking and mountaineering.

Nepal has yet to show up on the list of top destinations for high-end Chinese, Indian, Western European and US markets. Although wealthy travelers from those markets do visit Nepal, the country itself ranks below other destinations popular with wealthy travelers – particularly those from Asia. For instance, the top holiday destinations for China outbound travel in 2010 were Korea, Thailand, Japan, Singapore and Malaysia. Top long haul destinations in 2010 were the US, France, Russia, Germany and Italy. Wealthy Chinese travelers, especially those under 45 years of age, are becoming more interested in authentic experiences of culture, nature and adventure, seek out international brand hotels and rely heavily on official travel agents, travel clubs and official travel websites (Essential China...
Similar preferences can be observed with wealthy Indian and other Asian markets.

To capture a greater share of wealthy travelers, Nepal will need to focus cultural and natural attractions to appeal to quality travelers, but is missing a critical mass of higher-standard accommodation, activities and shopping experiences that will catch the eye of wealthy Asian visitors.

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Inflation Impact on Salary Tax Rate Structure in Nepal

Karna Bir Poudyal, Ph.D

Abstract

The purpose of this paper is to examine inflation impact on salary tax rate structure in Nepal. The salary tax rate structure has adopted progressive tax rate. The use of progressive income tax may accomplish the goal of reducing high incomes, but high income do not represent a serious threat to economic and social stability. The article attempts to analyze effective tax rate and income tax relief and also shows that extra tax charged after deflating income and deflated value of tax based on overall consumer prices of 2062/63. The adjustment for inflation is made by taking consumer price index in 2067/68, and compared it with base year 2062/63 value of Rs.152.5, However, the analysis of the study shows that personal exemption limit should be increased with the increase in consumer price and vice-versa. New tax rate structure has been proposed to satisfy the double objective of economic growth and social justice.

Key words: Inflation impact, Salary/progressive tax rate structure, income, investment, Social justice, Economic growth, Personal/individual Exemption limit, Effective tax rate, withholding tax, flat rate, individual/couple tax payers, standard deductions, taxable income, tax liability, income tax relief, income slabs, consumer price index, Base year, Nepal Income tax Act

1. Introduction

The tax structure of a developing economy should be so designed that it is not only instrument in mobilizing savings but also in affecting the cause to invest. Many countries like the UK and the USA provide a slightly lower rate of tax on earned income than investment income on equity base. But under the present tax system in Nepal, an individual with investment income (such as income from business or profession) pays tax at the same rate as is applicable to individual with earned income (such as income from salary). Income from salary is taxed on the basis of progressive tax rate structure. The social justice can be achieved through progressive tax rate. If the income tax rate is very high, the taxpayer cannot bear the burden of tax. Some economists argue that a progressive income tax system incorporates the concept of ability to pay very well by forcing large income earners to pay heavy taxes. The use of progressive income tax may accomplish the goal of reducing high incomes, but high incomes do not represent a serious threat to...
economic and social stability. The concept of ability to pay is impossible to measure satisfactorily and there is no consensus on, how sharply progressive tax rate should be to reflect perceived differences in ability to pay. Some argue that the poor have no ability that the personal exemption and the standard deductions are not adequate and if it is desired that income levels reflect ability to pay, the poor should, in fact, receive a payment— a ‘negative’ income tax. On the other hand, if income tax rate is low, the objective of the income tax cannot be achieved. This is why, the income tax rate has been changed frequently.

A strong case can be made for using a salary tax in which benefits are strongly tied to contributions. In this case, the tax payers’ views the tax as a contribution to a retirement or insurance plan, in which we realize a return comparable to our contribution. With the personal income tax, not all income is taxed, certain types of incomes are exempted, such as personal exemption limit in terms of family or individual allowance and employee fringe benefits. In addition, each individual is granted allowances such as personal exemption, for family members and deductions of certain types of expenditures such as donation paid to exempt organization, contribution to recognized provident fund and citizen investment trust above a certain level. The amount of income after subtraction of the allowances is called the taxable income. Moreover, exemption limit for non-resident was withdrawn from 1974–75.

Nowadays, Tax rates for single individuals and couples have a progressive three tier structure. First, a basic exemption threshold is taxed at the rate of 1%, representing the taxpayers’ basic living amounts. Second, after the exemption threshold a middle part of the taxable income is taxed at the rate of 15%. Third, the part of income exceeding a certain upper limit or ceiling of income is taxed at the highest rate of 25%. The amounts of the basic exemption threshold, the middle part of the income and the upper limit vary depending on whether the taxpayer is taxed as a single individual or a couple.

2. Objectives and Methodology of the study

The main objectives of this study are :

a) To analyse an impact of the inflation on personal exemption limit of a salaried tax payers.

b) To analyse the inflation impact on the progressive tax rate structure of income earned from remuneration, and

c) To recommend the exemption limit and tax rate structure keeping in view the objective of economic growth with social justice.

The salary tax rate structure pertinent to the base year 2062/63 is selected for this study. The reason why this year was chosen is because of the consumer price index prepared and published in Economic survey by the Government of Nepal, Ministry of Finance, which has the base year of 2062/63, is employed in this study with a view to making adjustment of inflation. This is compared with progressive tax rate structure suitable to salaried tax payers for the year 2067/68. The adjustment for inflation is done
taking consumer price index in 2067/68, and compared it with base year 2062/63 value of 152.5

3. Analysis of changes in tax rate structure

The analysis here is started assuming that there has been no inflation during the period of 2062-63 to 2067-68 (Shrawan-Ashad). Barring the inflation effects the analysis that how the changes in the rate of tax structure started up during the period have influenced individual tax payers is done here. Tables 1, 2 and 3 demonstrate this analysis. A thoughtful study of income tax rate structure pertinent to 2062-63 income year shows that the component of progression in tax rate structure was more as compared to income tax structure presently applicable. The tax rate relevant to the lowest income slab was 15% in 2062-63 and this was the same tax rate for 2067-68. It would be interesting to note that the marginal rate of income tax relevant to the lowest slab was only 6.43 in the fiscal year 2062-63 while in 2067-68, the marginal tax rate pertinent to the lowest slab was 5.77 times increase. In the name of simplification, the government of Nepal has so far neglected the basic principles of progression in income tax structure. The concept of capacity to pay tax has not been considered. This is clearly against the dual objectives of economic growth and social justice. The system encouraged tax payers from low income group to work less and thereby misuse the interest of society by subscribing to the growth of dualistic economy. Neglecting the effects of inflation and comparing the consequences of the modifications in the tax rate structure during the period of study. It is found that high income groups have also been granted a relief of 53.85 percent or more than this in tax liability. Hence, the government granted relief in income tax liabilities to individual assesses is really on homogeneous base.

<table>
<thead>
<tr>
<th>Income Slab (Rs.)</th>
<th>Cumulative income (Rs.)</th>
<th>Tax Rate (percentage)</th>
<th>Tax Amount (Rs.)</th>
<th>Effective Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Rs.100000</td>
<td>100000</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Next Rs.75000</td>
<td>175000</td>
<td>15%</td>
<td>Rs.11250</td>
<td>6.43</td>
</tr>
<tr>
<td>Above Rs.175000</td>
<td>–</td>
<td>25%</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Source: *Self calculation from data taken from Government of Nepal, Finance Act 2062-63*

<table>
<thead>
<tr>
<th>Income Slab (Rs.)</th>
<th>Cumulative income (Rs.)</th>
<th>Tax Rate (percentage)</th>
<th>Tax Amount (Rs.)</th>
<th>Effective Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Rs.160000</td>
<td>160000</td>
<td>1%</td>
<td>1600</td>
<td>1%</td>
</tr>
<tr>
<td>Next Rs.100000</td>
<td>260000</td>
<td>15%</td>
<td>15000</td>
<td>5.77</td>
</tr>
<tr>
<td>Above 260,000</td>
<td>–</td>
<td>25%</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Source: *Self Calculation from data taken from Government of Nepal, Finance Act 2067-68*
Table–3 : Impact of changes on the Tax Rate Structure under steady value of Money supposition

<table>
<thead>
<tr>
<th>Income Amount (Rs.)</th>
<th>Tax as per Fy 2062/63</th>
<th>Tax as per Fy 2067/68</th>
<th>Difference Tax saving</th>
<th>Relief (in%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>160000</td>
<td>9000</td>
<td>1600</td>
<td>7400</td>
<td>82.22</td>
</tr>
<tr>
<td>260000</td>
<td>32500</td>
<td>15000</td>
<td>17500</td>
<td>53.85</td>
</tr>
</tbody>
</table>

Source: Self computation based on Table 1 and table 2

Note: Col.2 and Col.3 are calculated from tax rate applicable to F.y.2062/63 and 2067/68 after deducting exemption limit of Rs.100000 and 160000 respectively.

Table–4 : Extra tax charged after deflating income and deflated value of tax based on overall consumer prices 2062/63 = Rs.152.5

<table>
<thead>
<tr>
<th>Money income (Rs.)</th>
<th>Tax amount on Money income as per 2067/68 prices</th>
<th>Deflated tax calculated from col.2 based on CPI=Rs.152.5</th>
<th>Deflated income calculated from col.1 based on CPI=Rs.152.5</th>
<th>Tax on deflated income as per 2062/63</th>
<th>Difference on col.3–5</th>
<th>Extra pay off tax in col.6/col.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>160000</td>
<td>1600</td>
<td>1049</td>
<td>104918</td>
<td>737.7</td>
<td>311.3</td>
<td>29.68</td>
</tr>
<tr>
<td>260000</td>
<td>15000</td>
<td>9836</td>
<td>170492</td>
<td>10573.8</td>
<td>(737.8)</td>
<td>(7.50)</td>
</tr>
</tbody>
</table>

Source: Self computation from table 3

Note: Col.5 is calculated from the tax rate applicable to F.y.2062/63 after deducting exemption limit of Rs.100000.

According to the capacity to pay principle, those who have low capacity to pay tax should be given more relief from the tax burden. It is because, the money has more value for those who accumulate less money. This fundamental reality has again been neglected.

4. Analysis of inflation impact

The fundamental exemption limit was Rs. One lakh in the income year 2062-63. It was lifted to Rs.160000 in the fiscal year 2067-68 and continued to be the same, taking the overall consumer price with base year 2062-63 as started earlier being 152.5 in Ashad 2067-68. It simply means that the basic exemption limit should be Rs.152500 (i.e. Rs.100000×1.525) without charging 1% security Tax. Table 4 was prepared by deflating money of income year 2067/68 with consumer price of Ashad end 2067-68, that is, 152.5. First of all, tax on money income was completed in the context of tax rate applicable for 2067-68 fiscal year. Then, calculation of income tax on real income was done on the support of tax rates of 2062-63 financial year. Table 4 reveals that had there been no inflation during the study period and no modification in tax rate structure, how much income tax would have been paid by
the tax payers. Besides, it is deflated the income tax based on the rates of 2067-68 income year computed on money income. In the last column, the difference between computed values of income tax in terms of deflated value based on the present tax rate structure and that based on 2062-63 tax rate structure are shown. The last column exhibits interesting facts. It discloses that the present tax rate structure renders wholly unreasonable due to inflation. Tax payers obsessing a total taxable income up to Rs.160000 are paying extra income tax of 29.68 percent.

This is a need of urgent review of present tax rate structure for the purpose of close examination of inflation impact on the tax payers especially from low income group.

The proposed tax rate structure based on certain assumptions are as follows:

a) Basic income tax exemption limit should be connected to price level changes.

b) Ratio between the lowest tax-rate and the highest tax rate should be fixed at around 1:1.5

c) Different slabs of income should be based on current money income.

d) Individual income tax payers should be permitted to have adequate motivation to earn more and slowly more from lower slabs to higher slabs.

e) Maximum rate of income tax should not exceed a limit of 25 percent.

If the above facts are believable, it is our desire that the proposed tax structure will satisfy criterion of economic growth with social justice.

5. Proposed Tax-Rate Structure

On the basis in the preceding section, the following tax-rate structure for the attention of the government is recommended.

<table>
<thead>
<tr>
<th>Income Slab (Rs.)</th>
<th>Cumulative income (Rs.)</th>
<th>Tax Rate</th>
<th>Tax Amount</th>
<th>Effective Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>152500</td>
<td>152500</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>100000</td>
<td>252500</td>
<td>10%</td>
<td>10000</td>
<td>3.96</td>
</tr>
<tr>
<td>200000</td>
<td>452500</td>
<td>15%</td>
<td>30000</td>
<td>6.63</td>
</tr>
<tr>
<td>Above 452500</td>
<td>–</td>
<td>25%</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Source: Self proposed

The proposed tax rate structure will satisfy the double objective of economic growth and social justice, since individual tax payers in lower class will have adequate post tax
disposable income with them to satisfy the demand for basic needs and enjoys better standard of living. This will encourage the process of economic development by increasing demand for such goods and will save the economy, from declining danger of recession on account of lack of demand due to fall in purchasing power of money. The problem of industrial sickness will also get some reprieve where it is on account of falling demand. Individuals falling in different income slabs will have a will to earn more on account of moderate progression in tax rates. The proposed tax rate structure will bring about a better compliance by most of the tax payers because incentive for tax evasion will come down essentially. People in higher income category will also have adequate encouragement to go in for savings and investments even after satisfying with the needs of comforts in their lives. The cost of income tax administration will come down conformably due to fall in the number of tax payers by raising of exemption limit. They will have more time and energy left to perceive cases for tax evasion.

It will be interesting to analyze the impact of our proposals an average rate of tax. The series of average tax rate in 2062-63 ranged from 6.43 percent. Our proposed tax rate structure will have an average tax rate ranging from 3.96 percent to 6.63 percent. We have proposed relief to lower income group (upto 252500) tax payers in term of average rate of tax because they have been burdened disproportionately high income tax when inflation adjusted figures are considered. High income tax of this group of tax payers has led to huge tax evasion also. There is some justification for raising upper limit of tax rate from 10 percent to 25 percent on income over Rs.260000. Because higher income categories people have enjoyed under tax relief when we consider the impact of inflation. They have capacity to pay more tax. Therefore, tax rate structure will become more just, equitable, growth oriented and less inclined to tax evasion. Assuming that income exceeding Rs.260000 appears to have higher incidence of taxation. It is evident from the fact, money income of Rs.260000 equals to Rs.170492 at 2062-63 prices. Since an income of Rs.260000 of 2062-63 equals to Rs.396500 at 2067-68 prices. Higher income tax should not be imposed on individuals with an annual income of 260000 instead it is suggested that Rs.452500 and above income should be selected for such tax. It is evidenced from the above that current tax rate structure benefits more to the rich people rather than lower income group in the country. Tax paying capacity should be issued after making an objective study of inflation impact. Therefore, the existing tax policy is recommended to change at earliest.

Any tax policy should be conductive to the economic development, equity and social justice. Progressive tax policy is widely regarded as a means to reduce the poverty from the society. It is therefore, a country like Nepal should have progressive tax policy otherwise, it is no doubt that the increased gap between haves and have nots will further widened in our society.

6. Summary and Conclusion
This study attempts to examine inflation impact on progressive tax rate structure applicable to salaried tax payers in Nepal.
The objective is to examine the exemption limit and tax rate structure keeping in view the aim of economic growth with social justice. To achieve the objective, this study uses the consumer price index published in Economic Survey (Government of Nepal) with a view to make adjustment of inflation. This is compared with income tax structure suitable to individual tax payer for the fiscal year 2067/68. The adjustment for inflation is made by taking consumer price index in 2067/68, and compared it with base year 2062/63 value of 152.5. Under the income tax Act of Nepal, taxable income is divided into different bands which are subject to progressive tax rates. The first slice of income is known as the basic allowance (exemption limit) has been exempt from the tax. These tax rates were raised from the very beginning to maintain vertical equity and generate additional revenue. Under the individual income tax, income brackets, basic allowances, standard expenses etc, have been expressed in money terms and these amounts have been either not adjusted at all or only partially adjusted for inflation as a result, they have been eroded in real terms over the years due to inflation. Therefore, adjustment in exemption limit have not been closely linked with inflation, the level of exemption limit has been eroded over the years. The situation is more serious in the case of other amounts where no inflation adjustments have been made at all. The consequence is that those previously exempts are now subject to tax and those who were already in the tax net have moved up into higher tax brackets without any increase in their real income. Moreover, this study reveals that individual tax rate should be reduced and the exemption limit of income tax should be revised upward. It is clear that individual tax rate and exemption limit should be such which enables the government to collect more tax for its revenue and provide incentives to invest in productive sectors in Nepal.

References
5. GoN, Ministry of Justice and Parliamentary Affairs, Income Tax Rules 2059
An Empirical Study of Customers Satisfaction in the Nepalese Commercial Banks

Dr. Sanjay Kumar Shrestha*

Abstract

An empirical study has been undertaken encompassing six Nepalese commercial banks to assess their non-financial performance from the perspectives of the customers’ satisfaction. In general, customers’ satisfaction in all the 6 sampled banks has been found relatively well. Foreign joint venture banks have outperformed the native joint venture banks in terms of customers’ satisfaction. Of all the banks, SCBL was best in delivering customers’ satisfaction, followed by NABIL and HBL. All the Nepalese banks NIBL, RBBL, and NBL have been moderate in satisfying their customers. The differences among the sample banks in terms of customers’ satisfaction are less significant.

Most of the researches are undertaken to assess the financial performances of the selected organizations. Contrary to this, the present research has been undertaken to assess the non-financial performance the selected organizations, i.e. Nepalese commercial banks. Keeping in mind the nature of research, an exploratory cum descriptive research methodology has been used. The existing 32 Nepalese commercial banks constitute the population and 6 of them have been judgmentally selected as samples: 3 national banks, i.e. Nepal Bank Ltd. (NBL), Rastriya Baniya Bank Ltd. (RBBL), Nepal Investment Bank Ltd. (NIBL), and 3 foreign joint venture banks, i.e. Himalayan Bank Ltd. (HBL), Nabil Bank Ltd. (NABIL), and Standard Chartered Bank Ltd. (SCBL). The samples include both highly efficient and least efficient organizations in terms of net worth & profit so that comparison is possible.

Since, non-financial performance is qualitative in nature, only primary sources have been used to collect data in this study. The non-financial performance of the banks can be measured by assessing the satisfaction levels of the stakeholders of the banks. In this research only one major stakeholder has been selected: customers of the banks. Their satisfaction levels have been assessed using structured questionnaire method. Likert’s 5 scale model has been used to rank their responses: (5) Very Much (4)

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Much (3) Moderate (2) Less (1) Least. More specifically, a set of 3-page-questionnaire, containing 23 questions was designed in the 6 areas of customer satisfaction and distributed to the different customers at different branches of the banks. The customers of only within Kathmandu valley were approached for convenience purpose. Appropriate statistical tools, like averages, standard deviation, co-efficient of variation, Microsoft Office Package, and SPSS program have been extensively used in the research. The research findings are as follow:

Non-Financial Performance in Terms of Customer-Satisfaction (NFP-CS)

In this section, an attempt has been made to analyze different variables that have bearing on customers’ satisfaction. A separate set of questionnaires containing 23 questions was distributed to 24 customers of each of the banks and their responses were collected and have been analyzed in this section. More specifically, the followings are the 6 sub components of customers’ satisfaction:

1. Degree of Customers Need Satisfaction (NS-3)
2. Degree of Innovativeness (Inno-3)
3. Degree of Communication (Comm-3)
4. Degree of Belongingness & Loyalty (Loyl-3)
5. Degree of Customer Motivation (Moti-3)
6. Degree of Service Quality (Servi-3)

(1) Degree of Customers Need Satisfaction (NS-3)

An attempt has been made to assess the overall need & expectation satisfaction of the customers by means of the banks’ service quality & performance. It includes the care demonstrated by one bank to the customers vis-à-vis the other banks. 4 questions (q.124-q127) were asked to the 24 customers of each of the 6 banks and their responses have been averaged and presented in table 1.

Table no. 1

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name of the Banks</th>
<th>NS-3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nepal Bank Ltd. (NBL)</td>
<td>2.93</td>
</tr>
<tr>
<td>2</td>
<td>Rastriya Baniya Bank Ltd. (RBBL)</td>
<td>3.27</td>
</tr>
<tr>
<td>3</td>
<td>Nepal Investment Bank Ltd. (NIBL)</td>
<td>3.47</td>
</tr>
<tr>
<td>4</td>
<td>Himalayan Bank Ltd. (HBL)</td>
<td>3.81</td>
</tr>
<tr>
<td>5</td>
<td>Nabil Bank Ltd. (NABIL)</td>
<td>3.81</td>
</tr>
<tr>
<td>6</td>
<td>Standard Chartered Bank Ltd. (SCBL)</td>
<td>4.01</td>
</tr>
</tbody>
</table>

Mean 3.55
Coefficient of Variation (CV) 11.38%

NS-3 has ranged between 2.93 (NBL) and 4.01 (SCBL). SCBL (4.01) is the best performer in terms of NS3 value. NABIL (3.81) and HBL (3.81) have also been able to better satisfy customers’ needs as their NS-3 values have approximated 4. NIBL (3.47), RBBL (3.27), and NBL (2.93) seem to have moderately satisfied customers’ needs as their NS-3 values have approximated 3. The overall performance of all the banks is much satisfactory as the combined mean value has approximated 4 (i.e. 3.55). There has been very less differences among the
sample banks in terms of NS-3 as the CV is low, i.e. 11.38%.

(2) Degree of Innovativeness (Inno-3)

In this sub section, the banks’ degree of innovativeness has been measured. More specifically, how much the banks are innovative in terms of changes and improvements (e.g. in strategies, policies, rules etc.) and how they have impacted on customers’ satisfaction. 3 related questions (q.128-q. 130) were asked to the 24 customers of the each of the 6 banks and their responses have been averaged and presented in table 2.

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name of the Banks</th>
<th>Inno-3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nepal Bank Ltd. (NBL)</td>
<td>2.64</td>
</tr>
<tr>
<td>2</td>
<td>Rastriya Banijya Bank Ltd. (RBBL)</td>
<td>3.33</td>
</tr>
<tr>
<td>3</td>
<td>Nepal Investment Bank Ltd. (NIBL)</td>
<td>3.36</td>
</tr>
<tr>
<td>4</td>
<td>Himalayan Bank Ltd. (HBL)</td>
<td>3.64</td>
</tr>
<tr>
<td>5</td>
<td>Nabil Bank Ltd. (NABIL)</td>
<td>3.56</td>
</tr>
<tr>
<td>6</td>
<td>Standard Chartered Bank Ltd. (SCBL)</td>
<td>4.00</td>
</tr>
<tr>
<td>Mean</td>
<td></td>
<td>3.42</td>
</tr>
<tr>
<td>Coefficient of Variation (CV)</td>
<td></td>
<td>13.23%</td>
</tr>
</tbody>
</table>

Inno-3 value has ranged between 2.64 (NBL) and 4.00 (SCBL). SCBL (4.00) has been found to be the most innovative of all the banks. HBL (3.64) and NABIL (3.56) have been found more innovative in satisfying their customers as their Inno-3 values have approximated 4. Customers of NIBL (3.36), RBBL 3.33), and NBL (2.64) are moderately happy in terms of innovativeness as their Inno-3 values have approximated 3. The overall innovativeness of the banks is moderately satisfactory as the combined mean of Inno3-value has approximated 3 (i.e. 3.42). The difference among the banks in term of Inno3-value is not much as indicated by the lower CV, i.e. 13.23%.

(3) Degree of Communication (Comm-3)

In this sub section, the banks’ degree of communication to customers has been measured. More specifically, how much the banks are successful in communicating their policies, rules, and responding to customers’ requests, complaints, & needs. 2 related questions (q.131-q.132) were asked to the 24 customers of the each of the 6 banks and their responses have been averaged and presented in table 3.

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name of the Banks</th>
<th>Comm-3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nepal Bank Ltd. (NBL)</td>
<td>2.56</td>
</tr>
<tr>
<td>2</td>
<td>Rastriya Banijya Bank Ltd. (RBBL)</td>
<td>3.13</td>
</tr>
<tr>
<td>3</td>
<td>Nepal Investment Bank Ltd. (NIBL)</td>
<td>2.94</td>
</tr>
<tr>
<td>4</td>
<td>Himalayan Bank Ltd. (HBL)</td>
<td>3.54</td>
</tr>
<tr>
<td>5</td>
<td>Nabil Bank Ltd. (NABIL)</td>
<td>3.31</td>
</tr>
<tr>
<td>6</td>
<td>Standard Chartered Bank Ltd. (SCBL)</td>
<td>3.79</td>
</tr>
<tr>
<td>Mean</td>
<td></td>
<td>3.21</td>
</tr>
<tr>
<td>Coefficient of Variation (CV)</td>
<td></td>
<td>13.62%</td>
</tr>
</tbody>
</table>

Comm-3 value has ranged between 2.56 (NBL) and 3.79 (SCBL). The customers of SCBL (3.79) and HBL (3.54) are much happy with the communication of the bank as their Comm-3 values have approximated 4. Customers of NABIL (3.31), RBBL (3.13), NIBL (2.94), and NBL (2.56) are moderately happy in terms of communication as their Comm-3 values have approximated 3. The overall communication of the banks is
moderately satisfactory as the combined mean of Comm-3-value has approximated 3 (i.e. 3.21). The difference among the banks in term of Comm-3 is not much as indicated by the lower CV, i.e. 13.62%.

(4) Degree of Belongingness & Loyalty (Loyl-3)

In this sub section, an attempt has been made to assess the belongingness & loyalty of customers to the banks. More specifically, how comfortable & satisfied the customers are with the banks’ physical settings, employees, and brand name so as to continue their membership with the banks in the future. For this, 6 questions (q.133-q.138) were asked to the 24 respondents of each of the 6 banks and their responses have been averaged and presented in table 4.

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name of the Banks</th>
<th>Loyl-3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nepal Bank Ltd. (NBL)</td>
<td>2.74</td>
</tr>
<tr>
<td>2</td>
<td>Rastriya Banijya Bank Ltd. (RBBL)</td>
<td>3.31</td>
</tr>
<tr>
<td>3</td>
<td>Nepal Investment Bank Ltd. (NIBL)</td>
<td>3.43</td>
</tr>
<tr>
<td>4</td>
<td>Himalayan Bank Ltd. (HBL)</td>
<td>3.86</td>
</tr>
<tr>
<td>5</td>
<td>Nabil Bank Ltd. (NABIL)</td>
<td>3.60</td>
</tr>
<tr>
<td>6</td>
<td>Standard Chartered Bank Ltd. (SCBL)</td>
<td>4.04</td>
</tr>
<tr>
<td>Mean</td>
<td></td>
<td>3.50</td>
</tr>
</tbody>
</table>

| Coefficient of Variation (CV) | 13.10% |

Loyl-3 has ranged between 2.74 (NBL) and 4.04 (SCBL), SCBL (4.04), HBL (3.86), and NABIL (3.60) have been much successful in turning their customers loyal as their Loyl-3 values have approximated 4. NIBL (3.43), RBBL (3.31), and NBL (2.74) seem to have been moderately successful in turning their customers loyal as their Loyl-3 values have approximated 3. The overall performance of all the banks in terms of customer-loyalty is much successful as the combined mean has averaged 4 (i.e. 3.50). Differences among the selected banks in terms of customer-loyalty performance are insignificant as the CV is low, i.e. 13.10%.

(5) Degree of Customer Motivation (Moti-3)

How much the customers of the banks are motivated by the bank & its interest rate so that they would recommend the banks to their friends & relatives. To find the answer, 2 questions (q.139-q.140) were asked among the 24 employees of each of the 6 banks and their responses have been averaged in table 5.

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name of the Banks</th>
<th>Moti-3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nepal Bank Ltd. (NBL)</td>
<td>2.10</td>
</tr>
<tr>
<td>2</td>
<td>Rastriya Banijya Bank Ltd. (RBBL)</td>
<td>2.85</td>
</tr>
<tr>
<td>3</td>
<td>Nepal Investment Bank Ltd. (NIBL)</td>
<td>3.19</td>
</tr>
<tr>
<td>4</td>
<td>Himalayan Bank Ltd. (HBL)</td>
<td>3.52</td>
</tr>
<tr>
<td>5</td>
<td>Nabil Bank Ltd. (NABIL)</td>
<td>3.38</td>
</tr>
<tr>
<td>6</td>
<td>Standard Chartered Bank Ltd. (SCBL)</td>
<td>3.56</td>
</tr>
<tr>
<td>Mean</td>
<td></td>
<td>3.10</td>
</tr>
</tbody>
</table>

| Coefficient of Variation (CV) | 17.89% |

Moti-3 has ranged between 2.10 (NBL) and 3.56 (SCBL). SCBL (3.56) and HBL (3.52) seem to have motivated their customers much as their Moti-3 values have approximated 4. NABIL (3.38), NIBL (3.19), and RBBL (2.85) seem to have moderately
motivated their customers as their Moti-3 values have approximated 3. NBL (2.10) seems to have motivated its customers less as its Moti-3 value has approximated 2 (i.e. 2.10). The overall performance of the banks in terms of customers’ motivation is moderate as indicated by the combined mean Moti-3 value, i.e. 3.10. The slightly higher CV (i.e. 17.89%) indicates that the performance of the banks regarding Moti-3 differs slightly more as compared to previous variables.

(6) Degree of Service Quality (Servi-3)

This measures the service quality of each of the banks in terms of the customers’ perception. More specifically, service quality is the image & impression that each of the banks has created in the minds of customers in terms of banks’ professionalism, technical competencies, problem handling, reliability, banking services, and relationship. To assess this, 6 questions (q.141-q.146) were asked to the 24 customers of each of the 6 banks. Their responses have been averaged and presented in table 6.

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name of the Banks</th>
<th>(Servi-3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nepal Bank Ltd. (NBL)</td>
<td>2.76</td>
</tr>
<tr>
<td>2</td>
<td>Rastriya Baniya Bank Ltd. (RBBL)</td>
<td>3.41</td>
</tr>
<tr>
<td>3</td>
<td>Nepal Investment Bank Ltd. (NIBL)</td>
<td>3.69</td>
</tr>
<tr>
<td>4</td>
<td>Himalayan Bank Ltd. (HBL)</td>
<td>3.82</td>
</tr>
<tr>
<td>5</td>
<td>Nabil Bank Ltd. (NABIL)</td>
<td>3.79</td>
</tr>
<tr>
<td>6</td>
<td>Standard Chartered Bank Ltd. (SCBL)</td>
<td>4.13</td>
</tr>
<tr>
<td>Mean</td>
<td></td>
<td>3.60</td>
</tr>
<tr>
<td>CV</td>
<td></td>
<td>13.12%</td>
</tr>
</tbody>
</table>

Servi-3 has ranged between 2.76 (NBL) and 4.13 (SCBL). SCBL (4.13), HBL (3.82), NABIL (3.79), and NIBL (3.69) seem to have been much satisfactory in terms their service quality as their Servi-3 values have approximated 4. RBBL (3.41) and NBL (2.76) seem to be moderately satisfying their customers as their Servi-3 values have approximated 3. The overall performance of the banks is much satisfactory which is indicated by the combined mean Servi-3 value, which has approximated 4 (i.e. 3.60). The lower CV (i.e. 13.12%) indicates that the banks differ less in terms of Servi-3.

Non-Financial Performance in terms of Customers’ Satisfaction (NFP-CS)

So far, different sub components of customers’ satisfaction have been analyzed. In this section, an attempt has been made to assess the overall customers’ satisfaction keeping in mind all the components. A questionnaire containing 23 questions were distributed to 24 employees of each of the banks and their responses have been collected and categorized in table 7.

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name of the Banks</th>
<th>NFP-CS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nepal Bank Ltd. (NBL)</td>
<td>2.70</td>
</tr>
<tr>
<td>2</td>
<td>Rastriya Baniya Bank Ltd. (RBBL)</td>
<td>3.28</td>
</tr>
<tr>
<td>3</td>
<td>Nepal Investment Bank Ltd. (NIBL)</td>
<td>3.43</td>
</tr>
<tr>
<td>4</td>
<td>Himalayan Bank Ltd. (HBL)</td>
<td>3.76</td>
</tr>
<tr>
<td>5</td>
<td>Nabil Bank Ltd. (NABIL)</td>
<td>3.64</td>
</tr>
<tr>
<td>6</td>
<td>Standard Chartered Bank Ltd. (SCBL)</td>
<td>3.99</td>
</tr>
<tr>
<td>Mean</td>
<td></td>
<td>3.47</td>
</tr>
<tr>
<td>CV</td>
<td></td>
<td>12.99%</td>
</tr>
</tbody>
</table>
NFP-CS has ranged between 2.70 (NBL) and 4.00 (SCBL). SCBL (3.99), HBL (3.76) and NABIL (3.64) seem to be much successful in much satisfying their customers as their NFP-CS values have approximated 4. NIBL (3.43), RBBL (3.28), and NBL (2.70) seem to be moderate in satisfying their customers as their NFP-CS values have approximated 3. The overall performance of all the banks in terms of CS is moderate as their combined mean of NFP-CS has approximated 3 (i.e. 3.47). The differences among the banks in terms of NFP-CS are less pronounced as indicated by the lower CV (i.e. 13%). To sum up, it can be concluded that non-financial performance of all the banks in terms of customers’ satisfaction is moderately sound.

Recommendation for further research:
This study has analyzed only one component of corporate performance in terms of customers’ satisfaction. The other dimensions have not been included such as employees’ satisfaction, CSR, financial performance and other variables affecting these dependent variables. Future researchers are suggested to conduct an extensive study encompassing these components too. Moreover, larger samples should be taken encompassing various industries over an extended period of time to substantiate the present findings.

References
Opportunities and Challenges of E-Marketing in Nepal

Dr. Bhoj Raj Aryal*

Abstracts

Internet began to advance in popularity among the general public in 1994. In 2000 a great number of business companies in the United States and Western Europe represented their services in the World Wide Web. In context with Nepal, Internet got off to a later start than in most of the developing nations. A survey of tourism and export-related companies showed only 49 percent of the companies had e-mail addresses and many fewer Web pages. Currently there are 2098640 Face book Monthly Active Users (MAU) in the Nepal, which makes 64 in the ranking of all Face book Statistics by Country. There are ample opportunities to do business through e-commerce in Nepal. Around 7 percent Nepalese population is connected with social networks. Almost them are educated and professionals. Banking activities, airlines services, transports, and other service areas has adopted with e-business in Nepal. Due to lack of cyber law, Nepalese business has been lost millions of dollars. Still 12 hours load shedding has became barriers on software development and its export.

Key words: NIIT, Internet, Social media, world wide web, business to business, AMU

Marketing Today

Marketing today has become an integral part of people’s lives. When new media rose, the functions of traditional marketing channels shortened. As early as 1993 it was just as a tool used for emailing & data transfer. At the beginning of the century, social life was mostly local. It was followed by a period in which commodities were produced on a mass scale. Marketing is about identifying and meeting human and social needs. One of the good definition of marketing is “meeting needs Profitably”. It means marketing is now more concern about customers needs and secondly expects profits. ‘Marketing is an organizational function and a set process of creating, communicating and delivering values to customers and for managing customers relationships in ways that benefit the organization and its stakeholders’(Philip Kotler, 2009)

Consumer Marketing operated on mass marketing principles and business primarily concerned itself with how to build the best sales force. At the end of the century, there is an emerging global

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culture. The major driver of these changes is technology. Technological change has moved steadily back focusing on the individual. These changes shape the possibility and conduct of business. But, the methods of marketing have changed and improved and we have become a lot more efficient at telling our stories and getting our marketing message out there. With the induction of internet, communication among people has become very fast and easy. E-marketing has made it necessary for every type of organization whether small or big, to change their ways of transacting business. E-marketing is the product of the blend of modern communication technology and the age old marketing principles that humans have always applied. Very simply put, e-marketing or electronic marketing refers to the application of marketing principles and techniques via electronic media and more specifically the internet.

**E-marketing**

Internet began to advance in popularity among the general public in 1994, it took approximately four years to develop the security protocols (for example, HTTP) and DSL which allowed rapid access and a persistent connection to the Internet. In 2000 a great number of business companies in the United States and Western Europe represented their services in the World Wide Web. At this time the meaning of the word ecommerce was changed. People began to define the term ecommerce as the process of purchasing of available goods and services over the Internet using secure connections and electronic payment services. Although the dot-com collapse in 2000 led to unfortunate results and many of ecommerce companies disappeared, the “brick and mortar” retailers recognized the advantages of electronic commerce and began to add such capabilities to their web sites. By the end of 2001, the largest form of ecommerce, Business-to-Business (B2B) model, had around $700 billion in transactions.

‘A key part of B2B marketing is associated with managing the relationship that can develop between organizations and the people who represent them. Managing customers, therefore, is vitally important, and one task is to identify and manage those key customers that are important to the success of the organization’ (Baines, Fill and Page; PP: 490; 2013). ‘E-mail marketing is so effective because it connect you with potential clients in a place that they check constantly—their inbox. Used correctly, e-mail marketing can move prospects down the sales funnel automatically’ (Thomas Lorrie:173). ‘The Direct Marketing Association estimated spending on e-mail marketing (in the United States) will increase from $600 million to $700 million in 2009’ (www.e-mail-marketing-report.com/basics/why.htm).

**Internet in Nepal**

In context with Nepal, Internet got off to a later start than in most of the developing nations, with initial UUCP connectivity in 1994, the licensing of ISPs in 1997, and VSAT licenses in 1999. Today there are nine operating ISPs with about 9,000 accounts. Roughly 30 percent of those are commercial, but there are fewer than 100 leased lines and fixed wireless connections, and many accounts are
UUCP e-mail only. Nepal's late start with the Internet has left little business activity. A survey of tourism and export-related companies showed only 49 percent of the companies had e-mail addresses and many fewer Web pages (ITU, 2000). Looking at the Web sites that do exist, one sees further evidence of Nepal's late start on the Internet. Nepalnews.com was the pioneers of e-marketing industry and was followed by ads and Google ads.

### Face Book Statistics in Nepal

<table>
<thead>
<tr>
<th>Particular</th>
<th>Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Face book Users</td>
<td>20,98,640</td>
</tr>
<tr>
<td>Position in the list</td>
<td>64</td>
</tr>
<tr>
<td>Penetration of the population</td>
<td>7.25 %</td>
</tr>
<tr>
<td>Penetration of online population</td>
<td>88.33 %</td>
</tr>
</tbody>
</table>


The above table shows that the face book users in Nepal. Face book monitoring helps to improve business. Currently there are 2098640 Face book Monthly Active Users (MAU) in the Nepal, which makes 64 in the ranking of all Face book Statistics by Country.

### Number of the firms

There are number of firms being operated, by individual e-marketers as well as corporate houses. At present, most of the business houses, govt organizations, Universities, Private colleges and even in small education institutions are aware about their own website. Mostly prepared websites are found with common contents available in markets. Except few, most websites are prepared as to show formality. This situation also remains in top level government institutions. Private sector, thought as prepared website is sufficient to show corporate image, but it is just beginning, it has to update site time by time and upgrade it with recent data. It is lacking most of the Nepalese organizations. The top e-marketing organizations have been listed below:

- Nepalnews.com
- Do Surfer Pvt. Ltd.
- Janaki Technology Pvt. Ltd.
- Muncha.com
- hamrobazaar.com
- Thmel.com
- Welcomenepal.com
- Nepbay.com
- Harilo.com
- Acetravels.com

The above are few sites operating in Nepal, but in terms of turnover, it not comparable with other countries. Due lack of cyber law and lack of skill manpower has become main barriers.

### Market for E-marketing industry

With internet penetration breaking 50%, it is really a good time to be a digital marketer. E-marketing Industry is very potential if we look at the resources and investment required. The internet usage is increasing and the resources required basically featuring the human resource skill i.e. creativity, being the major benefits attracting most of the investors around the world. Despite several years of economic struggles in the country-or perhaps
because of it— the demand for online marketing services is on the rise. That’s according to the recent SEO Industry Survey. The survey attracted responses from online marketers from all over the country who were asked to characterize the demand for a variety of marketing services this year.

Figure 1: Market Demand of e-marketing

![Market Demand of e-marketing](Source: Janaki Tech Pvt. Ltd.)

According to the chart above, marketers are seeing strong demand for SEO and social media services, in particular. E-mail marketing and PPC are seeing the least increase in demand, but few are reporting a decrease in demand for those services.

- 72% of respondents say the demand for SEO is up this year (2,614 of 3,651 overall replies)
- 75% say the demand for social media marketing is up
- 12% say the demand for e-mail marketing has dropped
- 10% say the demand for PPC is down

Performance of the industry

The establishment of this industry does not date back before this decade. In context of our country, e-marketing started just before some years when [www.nepalnews.com](http://www.nepalnews.com) pioneered the first step in this industry. This website included advertisement and information related to social issues as well as promotional campaigns of different companies. At initial days, the e-marketing industry had to rely on paper media so that the real definition of
e-marketing had never been in existence. It was really hard for this industry to work in a real sense. The market initially found difficulties to find popularity among public since the industry existed in virtual world.

At initial phase, when e-marketing began in International world, it was the time when hardly Nepalese markets thought about it. But slowly the demand of e-marketing rose because Nepalese people using internet gradually felt the absence of it.

The advertisement were all thrown through media like television, radio and newspapers but today the internet users are directly accessing the websites which has always promoted e-marketing.

Today, when the statistics of e-marketers in analyzed, the penetration market can be seen 2.2% each year which means that not only the internet users are increasing but the interest of users and beneficiaries in e-marketing is also increasing as well. The e-marketing industry of present context does not only promote goods and services to the public but it also enhances the social welfare ideas. It has been globally enriching people with varieties of necessities in different sector. Though the e-marketing industry is emerging market in our country, the exact statistics of the number of industries under it are unknown. There is absence of umbrella association which runs and regulates the performance of e-marketing industry. The government of Nepal is still not able to put the data regarding the activities related to e-marketing industry. So, the e-marketing industry is at up-growing stage in our country which is rapidly penetrating Nepalese economy market.

**Employment Generation**

It is difficult to figure out exact employment generation through e-commerce in world. Several jobs have cut down due to internet
development. In United States high value items like car, washing machines, Laptops are buying through internet. Seventeen minutes is average time for decision making to buy car through internet in United States. History of ecommerce is unthinkable without Amazon and eBay which were among the first Internet companies to allow electronic transactions. Currently there are 5 largest and most famous worldwide internet retailers: Amazon, Dell, Staples, Office Depot and Hewlett and Packard. eBay is the largest online trading community in the world. The company started September 5, 1995, USA. Mr Pierre Omidyar, the founder of eBay. Now 27770 employees, and US$ 2.51 billions net profits. Paypal is the strategic partner is the strategic partner of eBay which handles all payment.

E-marketing belongs to nowhere but everywhere so it does not require any physical location. Thus, e-marketing world is always striving for new ideas and thoughts. Skilled manpower and experts having knowledge about internet surfing and marketing can effectively work in this field. E-marketers do not only work at registered offices of e-marketing but they can individually work at office, home or anywhere internet is accessible.

E-marketing basically prefers the manpower having internet knowledge and marketing background. Research experts are required in E-marketing because they can perfectly place the advertisement, sponsorship and capable of finding out the necessities of e-marketing. E-marketing is one of such employment generation fields which demands knowledge and skill more than qualification. Knowledge and skill manpower can help in uplifting the level of websites, its popularity. The most effective work that an e-marketing can do is the optimization of websites; Which directly enhance the effectiveness of the e-marketing and website accessibility.

E-marketing industry is an up-growing market in context of our country. E-marketing is gradually penetrating social, cultural, economical and others aspects of Nepalese life. So, it has provided great demand and eagerness to our people. In today’s context, Nepal is a very potential for e-marketing industry. The numbers of e-marketers can be counted in figures. But if the requirement is not overlooked it can be concluded that large number of manpower is demanded by this industry.

Opportunities in E-business

It has become great opportunities for e-business in the world. For example; graysOnline is an Australian company. It had a very good network with customers too. In 2007 it had started its business through online, afterwards both companies and customers benefitted. Grays turnover skyrocketed after its activities through online. “In case of India, Bangalore alone has 10 billion dollars turnover through e-business activities.” Two young entrepreneurs from IIT Delhi, Vijay Thadani and Rajendra Pawar, saw in the early 1980s what the government did not. They realized that the world is changing and no one would be employable without computer skills. India had a huge and growing appetite for IT professionals and our schools and colleges were only creating an army of unemployables. They stepped
into the vacuum, set up the National Institute of Information Technology (NIIT), and began to offer computer lessons in the bazaar. They were so successful that they could not cope with the exploding demand. Since they not resources to expand rapidly across the country, they hit upon the idea of franchising their schools. Soon NIIT centers were flourishing even in the smallest town. In Bombay, another entrepreneur had the same idea and he started Aptec. Today India has three thousand centers, training half a million students a year. InfoTech training has been growing 30% a year. NIIT has 40% market share of the $225 million market—its alumni base is almost a million.” (C.R. Das:249:2007)

There are ample opportunities to do business through e-commerce in Nepal. According to socialbacker.com; around 7 percent Nepalese population is connected with social networks. Almost all of them are educated and professionals. These members are connection with their friends, relatives through new media like facebook, linkedin, youtube, etc. To do business activities through e-commerce it has open up new areas in service sectors; for example, banking activities, airlines services, transports, social awareness to remote people has been developed not only urban areas but also in rural areas in Nepal. As a landlocked country, internet business could be best alternative to earn hard currency by exporting software to overseas. The following points should consciously consider.

1. Business activities should consider more customers focused.
2. Corporate image is another important step to compete international organ.
3. Very low investment and in some cases even it's negligible.
4. Efficient since both the marketers as well as the end users can get faster response.
5. Global concept. It’s accessibility is boundless.
6. More effective as it has a clear vision of its target market.
7. Creativity and skills of the employee and team are the biggest strength.
8. New market and increasing trend provides the wider opportunity for the market.

**Threats in E-Business**

Mostly human beings are hesitating to change everywhere. This is also apply Nepalese customers. A next threat is trust of our data and lack of evidence to validate its value. As we talked about IT Development, and its opportunities to export Software from Nepal; unfortunately, there is still 12 hours load shedding, which is serious barriers of IT development. Although we have very good nature gifted climate, but we Nepalese has not thought yet its infrastructure development; still we do not have cyber laws and lack of skilled human resources. The mentalities of employees are short sighted and are
not interested take ownership in working place. The followings are the areas where we have to improve to develop e-business in Nepal:

1. Dependability on technology.
2. Security and privacy issues.
3. Website does not invite customers to visit nor make effort of reaching the customers like traditional marketing.
4. Customer expectation
5. Unfocused web experience customer
6. Maintenance cost due to constantly evolving environment.
7. Complex and complicated.
8. Low connection speed

**Conclusion**

Marketing today has become an integral part of people’s lives. When new media rose, the functions of traditional marketing channels shortened. As early as 1993 it was just as a tool used for emailing & data transfer. At the beginning of the century, social life was mostly local. Internet began to advance in popularity among the general public in 1994. By the end of 2001, the largest form of ecommerce, Business-to-Business (B2B) model, had around $700 billion in transactions. It is difficult to figure out exact employment generation through e-commerce in world. Several jobs have cut down due to internet development. Currently there are 5 largest and most famous worldwide internet retailers: Amazon, Dell, Staples, Office Depot and Hewlett and Packard. eBay is th largest online trading community in the world. To do business activities through e-commerce it has open up new areas in service sectors; for example, banking activities, airlines services, transports, social awareness to remote people has been developed not only urban areas but also in rural areas in Nepal. As a landlocked country, internet business could be best alternative to earn hard currency by exporting software to overseas.

According to socialbacker.com; around 7 percent Nepalese population is connected with social networks. Almost them are educated and professionals. They may have good linkage who lives abroad through new media like facebook, linkedin, YouTube, etc. New young IT professionals could be best sources to starts up new ventures in Nepal. Unfortunately, Nepalese govt do not passed IT policy yet; which is serious barrier to expand e-business in future. Trust of our data and lack of evidence to validate its value is became another barrier in this field. As we talked about IT Development, and its opportunities to export Software from Nepal; unfortunately, there is still 12 hours load shedding, which is serious barriers of IT development. Although we have very good nature gifted climate, which may attract IT investors in future as India applied; but we Nepalese has not thought yet its infrastructure development; The mentality of human resources in Nepal is still poor to take ownership of their work.

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The Relationship Between Leadership Styles of Managers’ and Employees' Job Satisfaction in Ingos and Ngos in Nepal

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Abstract

The growing trend of high staff turnover, decreased morality and poor performance have been persistent issues for both international and national nongovernmental organizations (I/NGOs). The issues have often been connected with the level of motivation and job satisfaction of employees interrelated with the leadership styles of managers/leaders of these organizations. Considering this reality, the basic objective of this paper is to examine the relationship between perceived leadership styles of managers and job satisfaction of staff/employees with the moderating effects of age and experience of employee; in INGs and NGOs in Kathmandu valley. This research is based on co relational research design. Employers were found to be relatively satisfied with transformational leadership style as compared to trans-sectional leadership style.

Type of Paper: Qualitative Research

Key Words: Leadership, Job satisfaction, Transformational Leadership Style (TF), Transactional Leadership Style (TA), WQI, MLQ, SPSS, Nepal, NGO, INGO.

General Background

Nongovernmental organizations (NGOs) are social systems where human resources are the most important factors for effectiveness and efficiency; they need effective leaders and employees to achieve their objectives. The success or failure of an organization is decided by human beings, thus management is concerned with this human resources issue. In other words, an organization’s human resources can be the differentiating factor between success and failure. It is for this reason that millions of dollars are spent annually on performance improvement initiatives focused on enhancing the skills of managers. Therefore, in recent years, leadership style has become an important topic of study in the management field; a good leader guides subordinates to work

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effectively toward organizational goals (Davis R.C., 1951).

NGO leaders are often isolated and unsupported. There is talk of a leadership deficit, because of the shortage of talented leaders and the growth of the non-profit sector generally. As a result there is some urgency in attempts to develop a new generation of leaders, and to provide relevant support to existing and future leaders. Leadership development programs designed for NGO leaders must as a consequence incorporate best practice and current experience rather than rehashing tired, traditional approaches to leadership training (Hailey, 2006). There are also worries about the lack of leadership talent to be found within the context of the non-profit sector as a whole. This ‘leadership deficit’ will become a matter of urgency as the sector expands over the next twenty years. What is also apparent is that many of these jobs will be filled by individuals recruited from outside the sector who will have had limited experience of running non-profits at a senior level. Currently it is estimated that only 40 per cent of senior management positions in US non-profits are filled by internal appointments and that the remainder are recruited externally (Hailey, 2006). In Nepal, there is few national level NGOs although the registered NGOs in social welfare council are more than 40000 alone in Kathmandu valley (SWC, 2011). So it is matter of interest how the leadership of the organization affects the growth of the NGOs to the national level in Nepal. This is particularly important when governments’ important responsibilities are, on behalf, fulfilled by NGOs and INGOs.

In Nepali context, most of the NGOs seem to be a replica of family owned business if compared to business sector where the role of leaders and employees are still vague and unexplored issue, except for few NGOs. It could be an interesting issue to find out what makes some NGOs performing exceptionally well within short time in terms of their program expansion. Of course the leadership issues emerges somewhere behind the achievement of NGOs as well. The NGOs with non-founding leaders grew by experimenting, researching and then consolidating on their experiences, while the NGOs with founding leaders expanded by tapping into available finances of donor organizations. Although the process and reason for growth and change differs in each of the NGOs, they all face some common organizational challenges. Nevertheless, the difference in the strategies adopted by each leadership is noticeable (Hashmat, 2003).

Studies are scarce in NGO sectors to link the transformational leadership and job satisfaction. However, in other setting several studies found job satisfaction is positively correlated with transformational leadership. The positive correlations indicate that transformational leadership used by managers and empowerment improves the employee job satisfaction in the Indian restaurant industry (Gill, Flaschner, Shah, & Bhutani, 2010). The setting of this study is business sector and the issue is whether same outcome can be seen in NGO sector. In service industry, various studies show the positive relationship between transformational leadership and job satisfaction. The leadership approach of the supervisor is related to the job satisfaction of
subordinates. For example, in hospitals where head nurses serve as immediate supervisors, the type and quality of leadership they provide can influence staff nurses’ job satisfaction, either positively or negatively. Staff nurses’ job satisfaction was correlated positively with transformational leadership approach but not with transactional leadership approach (Medley & Larochelle, date unidentified).

Transformational leaders are believed to be at the final stage of the leadership development process. These leaders organize their world based on personal values and motivate followers by integrating these values in to the group (Bass, 1985). Data from six organizations (large and small, service and manufacturing) indicated that when managers use transformational leadership behaviors, employees set (and achieve) goals that are more important to them, personally (Bono & Judge, 2003).

Several other studies also have shown the relationship between leadership and job satisfaction (Nelson, Yarker, Randall, & Munir, 2009) (Zhao & Ni, 2012) (Yang, 2009) and attempts have been made to explore the organizational and individual variables which moderate this relationship. The relationship between transformational leadership and job outcomes including job satisfaction were found to be moderated by core job characteristics (Piccolo & Colquitt, 2006), trust and self-efficacy (Liu, Siu, & Shi, 2009), followers characteristics (Zhu, Avolio, & Walumbwa, 2009), psychological empowerment (Zhao & Ni, 2012), educational background and gender (Chen, Chen, & Chen, Are educational background and gender moderator variables for leadership, satisfaction, and organizational commitment, 2010). These studies show the relationship of leadership-job satisfaction relationship with interaction of other organizational and individual variables. However, the journey of exploring this relationship does not end here and apparently; there still are gaps to evaluate the relationship in relation to other organizational variables.

Statement of the Problem

Among other variables that affect the job satisfaction of employees working in INGO and NGO settings, this study tries to relate it with leadership styles of managers or leaders of these organizations, and also the moderating effect of age and experience of employees on above relationship. On the basis of this, there are following guiding questions for this study:

1) What is the leadership approach of I/NGOs leaders?
2) Is there a relationship between leadership approaches of I/NGOs leaders and job satisfaction of the employees?
3) Do factors like age and experience of the employees moderate such relationship?

Objectives of the Study

The basic objective of this study was to examine the relationship between perceived leadership styles of leaders and job satisfaction of staff in INGOs and NGOs in Kathmandu valley. The problem of focus of this study was staff’s lack of satisfaction with autocratic leadership styles in most
The researcher analyzed TF and TA leadership styles of leaders as perceived by staff/junior employees to determine what sorts of relationships exist between these leadership approaches and job satisfaction of the employees. The dependent variable was staff's job satisfaction and the independent variable were TF and TA leadership styles of leaders as perceived by staff working in I/NGOs. Besides, moderating effects of age and experience of employees on the above relationship was also analyzed. The specific objectives of the research are as follows:

1) To explore the relationship between leadership approaches of I/NGO leaders and job satisfaction of employees.

2) To examine whether the factors-age and experience of employees’ moderates the relationship stated in objective 1.

**Hypothesis Statement**

The hypothesis statements guiding this study were:

1. There is relationship between perceived leadership styles of I/NGOs’ leaders and job satisfaction levels of staff working in I/NGOs.
   
   H1: Transformational leadership approach of managers is positively related to the job satisfaction of employees.
   
   H2: Transactional leadership approach of managers is negatively related to the job satisfaction of employees.

2. The factors like age and experience of employees moderate the relationship between leadership approaches and job satisfaction of employees.

H3: Experience of the employees moderates the transformational leadership approach and employee job satisfaction relationship.

H4: Age of the employees moderates transformational leadership approach and employee job satisfaction relationship.

H5: Experience of the employees moderates the transactional leadership approach and employee job satisfaction relationship.

H6: Age of the employees moderates transactional leadership approach and employee job satisfaction relationship.

**Methodology**

**Selected Organizations**

This study was performed in the selected INGOs and NGOs of Kathmandu valley. Altogether 8 INGOs and 25 NGOs (both small and big) working in different sectors were selected. There were about 550 and 1200 employees in those INGOs and NGOs respectively. (Names of organizations are not stated to maintain confidentiality)

**Research Design**

This study involves non-experimental, correlational research design. Data were collected in the original work setting of NGOs and INGOs which makes the study non-experimental. The dependent variable was job satisfaction of staff who worked in these organizations and the independent variables were TF and TA leadership styles of leaders of these
organizations. Moderating effect of age and experience of the staff on leadership styles and job satisfaction of the staff was of the prime targets of the study. The Multifactor Leadership Questionnaire (MLQ) was used to measure perceived behaviors of leaders by the staff and the Work Quality Index (WQI) was used to measure staff job satisfaction. The study correlates between the leadership style of organizations' leaders and job satisfaction of their subordinates i.e. staff which makes the study correlational in nature.

Nature and Sources of Data
All the data for this study are collected from primary source. Standard questionnaire of WQI and MLQ were administered to the staff of NGOs and INGOs in Kathmandu Valley. There were altogether 33 organizations (25 NGOs and 8 INGOs) interrogated for data collection for this study.

Population and Sample
A total of around 30,284 NGOs was found to have affiliated with SWC whereas a total of 101 INGOs were found to have taken membership of AIN till March 2012.

A total of 1365 employees working in selected organizations (550 in INGOs and 815 in NGOs) was the population for this study. Initially, from this population a list of over 250 staff meeting the inclusion criteria was obtained on convenient sampling basis as samples but later on as only around 100 workable/correctly filled questionnaires were collected among them, so simply 100 samples was finalized for this study. Inclusion criteria for the samples of staff included (a) working in NGO or INGO within Kathmandu valley, (b) having at least an intermediate level education, (c) assignment to a non-supervisory or non-high level/decision making position, and (d) working under the direct supervision of the manager/director/head of the organization.

Instrument
A forty five item MLQ was used to collect the data on leadership approaches which included transformational (TF) and transactional (TA) leadership approaches. The MLQ assesses the four dimensions of transformational leadership: idealized influence (attributed and behavior), inspirational motivation, intellectual stimulation, and individualized consideration and four dimensions of transactional leadership: contingent reward, management-by-exception (active), management-by-exception (passive) and laissez faire. MLQ items were measured in 4 point Likert scale ranging from 0 (not at all) to 4 (frequently, if not always). Job satisfaction was measured with Work Quality Index (WQI) which assesses the general job satisfaction on the dimensions of professional work environment, autonomy, work-worth, professional relationships, role enactment and benefits. This was measured in 7 point Likert scale ranging from 1 (highly dissatisfied) to 7 (highly satisfied).

Method of Analysis
Descriptive statistics was used to analyze the demographic data. These data were analyzed in terms of age, sex, education, position, work experience, duration in
current position and current department of respondents as well as size of the organizations. The second part of analysis was to test the various hypotheses of this study. Pearson product-moment correlation was used to find the correlation between dependent and independent variables. To assess the moderating effect of the variables, simple correlation coefficients and hierarchical regression technique was used over following models:

\[
\text{Total WQI} = \beta_1 + \beta_2 \text{TF} + \beta_3 \text{TA} \ldots \ldots \ldots(1)
\]

\[
\text{Total WQI} = \beta_1 + \beta_2 \text{TF} + \beta_3 \text{Exp} + \beta_4 \text{TF} \times \text{Exp} \ldots \ldots \ldots(2)
\]

\[
\text{Total WQI} = \beta_1 + \beta_2 \text{TA} + \beta_3 \text{Exp} + \beta_4 \text{TA} \times \text{Exp} \ldots \ldots \ldots(3)
\]

\[
\text{Total WQI} = \beta_1 + \beta_2 \text{TF} + \beta_3 \text{Age} + \beta_4 \text{TF} \times \text{Age} \ldots \ldots \ldots(4)
\]

\[
\text{Total WQI} = \beta_1 + \beta_2 \text{TA} + \beta_3 \text{Exp} + \beta_4 \text{TA} \times \text{Exp} \ldots \ldots \ldots(5)
\]

Where, Total WQI is the job satisfaction score, TF is transformational leadership score, TA is transactional leadership score, Exp is level of experience of employees, Age is Employees’ age; TF x Exp. and TF x Age are the interaction terms for TF; and TA x Exp. and TA x Age are interaction terms for TF.

**Findings**

The initial hypothesis i.e. relationship between perceived leadership style of managers and job satisfaction of staff was measured using Pearson product moment correlation coefficient. The job satisfaction score ranged from 89 to 222, mean was 148.08 and standard deviation was 36.12. There was significant positive correlation between total job satisfaction score and total TF score (r = 0.429, p = 0.00). This indicated that the employees of INGOs and INGOs were satisfied with their leaders having TF leadership style. On contrary, there was significant negative correlation between total job satisfaction score and total TA score (r = -0.321, p = 0.00). This indicated that managers with TA leadership style had less satisfied staff in their organization.

Significant positive correlation were found between total score of job satisfaction and TF subscales of Idealized Influence-Behavioral (r = 0.413, p = 0.00), Idealized Influence-Attributed (r = 0.335, r = 0.001), Inspirational Motivation (r = 0.376, r = 0.00), Individual Consideration (r = 0.223, r = 0.026) and Intellectual Stimulation (r = 0.496, r = 0.00). This further supports that employees were more satisfied with their managers having TF Leadership characteristics.

A significant positive correlation between the total scores of contingent reward and total scores of job satisfaction was found (r = .321, p = .001). This indicates that employees considered contingent reward as TF leadership component. There was very weak correlation between management by exception (active) and total score of job satisfaction (r = .006, p = .95) indicating indifference of this component to job satisfaction. This is in consistent with the earlier findings of several researchers.

There were positive moderate significant correlations between total scores of TF and total score of WQI subscales of work worth and professional relationship (r = .22, p =
.01 and $r = .442$, $p = .01$) respectively. This indicates that managers who developed the work worth and professional relationship had more satisfied employees in their organizations. This further strengthens the belief of employees that TF leadership could influence their job satisfaction level.

Similarly, negative moderate –to- strong correlations were found between total scores of TA and total scores of WQI subscales. This finding further support that employees were not satisfied with TA leadership approach.

**Regarding moderating analysis**, Running the regression on model 1, TF and TA found to have significant effect on WQI ($\beta = 0.664$, $p = 0.00$) and ($\beta = -0.850$, $p = 0.00$) respectively which paved the path for further analysis.

Running model 2 i.e. when Exp. and interaction term for TF was included in the model, it does significantly alter the effect of TF on WQI i.e. TF ($\beta = 0.308$, $p = 0.185$) with significant beta values of the interaction term i.e. ($\beta = 0.087$, $p = 0.045$) (see table 19). This verified the hypothesis 3 i.e. experience of the employees moderates the transformational leadership approach and employee job satisfaction relationship in I/NGOs.

Running the model 3, where Age and interaction term for TF was included in the model; it does significantly alter the effect of TF on WQI with the beta value changed to negative direction insignificantly (initial 0.646 to -1.111 with $p = 0.241$). This satisfied the hypothesis 4 i.e. Age of the employees moderates transformational leadership approach and employee job satisfaction relationship in I/NGOs.

Similarly, running the model 4 i.e. when Exp. and interaction term for TA was included in the model, it doesn't significantly alter the effect of TA on WQI i.e. TA ($\beta = -1.276$, $p = 0.002$), in other words beta value of TF remain significant with insignificant beta value of the interaction term TA x Exp ($\beta = 0.069$, $p = 0.331$). This rejects the hypothesis 5 i.e. Experience of the employees doesn’t moderates the transactional leadership approach and employee job satisfaction relationship in I/NGOs in Nepal.

Again, running the model 5 i.e. when Age and interaction term for TA was included in the model, it doesn't significantly alter the effect of TA on WQI i.e. TA ($\beta = -3.661$, $p = 0.010$) nor the beta value of the interaction term remained insignificant i.e. TA x Exp ($\beta = 0.098$, $p = 0.047$) (see table 22). In other words, beta values ($\beta_1$, $\beta_2$, $\beta_3$ and $\beta_4$) of all the terms remained significant. In this scenario it is very hard to predict anything or we can say that age found to have very week moderating effect on TA-WQI relationship. This finding partially support for moderating effect of Age on TA-WQI relationship supporting hypothesis.

In short, both Experience and Age of the employees were found to have moderating effect on TF-WQI relationship supporting the hypothesis 3 and 4. But in case of TA, Experience did not show any moderating effect on TA-WQI relationship rejecting the hypothesis 5; however Age was found to have very weak moderating effect on TA-WQI relationship.
Recommendations

Followings are the recommendations made on the basis of findings of this study:

- As employees of INGOs and NGOs were found to be satisfied with TF leadership style, TF leadership development programs should be designed and implemented for managers of such organizations.

- As in earlier studies in this study also employees of INGOs and NGOs considered contingent reward as TF leadership characteristic; therefore further in-depth researches for its verification is recommended.

- Further studies can evaluate the benefits, challenges, and financial constraints of developing innovative leadership in these organizations.

- As experience and age of the employees, moderating effect of other demographical variables like sex, education, position, duration, department, organizational size etc. over leadership-job satisfaction relationship should be analyzed.

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Working Capital Management and Corporate Profitability in Nepalese Manufacturing Enterprises

Dr. Dilli Raj Sharma*

Abstract

Working capital management is one of the essential determinants of firms’ market value because it directly affects profitability. And, working capital management is also extremely crucial from the point of firms’ sustainability. Hence, firms should establish a fine balance between profitability and risk when it comes to managing working capital. The object of the research presented in this paper is to provide empirical evidence on the effects of working capital management on the profitability of Nepalese enterprises. For the purpose of this study, nine listed manufacturing enterprises are selected for the period of 2000-2010. The results demonstrated that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle also improves the firm’s profitability.

Keywords: Working capital, Gross profit, Manufacturing enterprises

Paper type: Research paper

1. Introduction

Efficient working capital management is an integral component of the overall corporate strategy to create shareholder’s value. Working capital management is important because of its effects on the firm’s profitability and risk, and consequently its value (Smith, 1980). Working capital management is one of the important areas of financial management, and the administration of working capital may have an important impact on the profitability and liquidity of the firm (Shin and Soenen, 1998). It means an increase in working capital represents employment or application of funds. Firms can choose between the relative benefits of two basic types of strategies for net working capital management: they can minimize working capital investment or they can adopt working capital policies designed to increase sales (Teruel and Solano, 2007). Good management of working capital generates cash and helps to improve profits and reduce risk (Flanagan, 2005). Specifically, working capital investment involves a tradeoff between profitability

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and risk. Decisions that tend to increase profitability tend to increase risk, and conversely, decisions that focus on risk reduction also tend to reduce potential profitability.

Traditional working capital ratios may be classified according to whether they measure working capital position, working capital activity or leverage (Emery, 1984, Lovemore and Brummer, 1993). Working capital activity ratios attempt to measure the relative efficiency of the firm’s resources by relating the level of investment in different current assets to the level of operations (Gallinger and Healey, 1991). The management of current assets and current liabilities is an important component of working capital management. Efficient allocation of funds among various current assets and acquisition of short term funds on favorable terms are conceptually the same for both multinational and domestic companies (Kim and Kim, 1992). Net working capital is a measure which provides a base to measure the liquidity of an enterprise. Liquid assets constitute a considerable portion of total assets and have important implications for the firm’s risk and profitability (John, 1993). There is a more complex relationship between firm’s size and liquidity constraints.

A popular measure of working capital management is the cash conversion cycle, i.e. the time lag between the expenditure for the purchase of raw materials and the collection of sales of finished goods. The cash conversion cycle is an additive function which measures the number of days funds are committed to inventories and receivables; less the number of days that payment to suppliers is deferred (Barbara & Wilson, 2003). The longer the time lags the larger the investment in working capital. A longer cash conversion cycle may increase profitability because it leads to higher sales. Where the measure differs from the cash conversion cycle, instead of computing number of days of cost of goods sold in inventory and number of days of purchases in accounts payable, the net trade cycle calculates days of sales in both (Kamath, 1989). However, corporate profitability may also decrease with the cash conversion cycle, if the costs of higher investment in working capital rise faster than benefits of holdings more inventories and / or granting more trade credit to the customers. The net trade cycle, similar to the cash conversion cycle, measures liquidity on a flow basis. Efficient management of working capital is a fundamental part of the overall corporate strategy in creating the shareholders’ value.

The high level of current assets may reduce the risk of liquidity associated with the opportunity cost of funds that may have been invested in long term assets. Though the impact of working capital policies on profitability is highly important, only a few empirical studies have been carried out to examine this relationship. This study will contribute to the literature because no such evidence exists for the case of Nepalese manufacturing enterprises in earlier studies.

The rest of the paper is organized as follows. Section 2 of this paper describes the review of major literature followed
by methodology employed in section 3. The methodology section describes the selection of enterprises, nature and sources of data used and the models used in the study. Section 4 analyses the effect of working capital management on corporate profitability of Nepalese manufacturing enterprises. At the end, section 5 indicates a conclusion over the results summarizes from main findings.

2. Review of Literature

A combination of reports indicating the amount of working capital, the flow of funds during past periods, and the expected flow of funds covering future periods might provide the basis for a thorough evaluation of the working capital position (Fess, 1966). Gitman (1974) argued that the cash conversion cycle was a key factor in working capital management. Working capital management is important because of its effects on the firm’s profitability and risk, and consequently its value specifically, working capital investment involves a tradeoff between profitability and risk (Smith, 1980). Nunn (1981) examined why firms have different levels of working capital. That study dealt with the strategic determinants of working capital (cash, short term securities, accounts receivable, and inventory) on a product line basis.

Minimizing working capital investment (aggressive policies) would positively affect the profitability of the firm, by reducing the proportion of its total assets in the form of net current assets and contrary to traditional belief, investing heavily in working capital (Conservative policy) may also result in higher profitability. In particular, maintaining high inventory levels reduces the cost of possible interruptions in the production process and of loss of business due to the scarcity of products, reduces supply costs, and protects against price fluctuations, among other advantages (Blinder and Maccini, 1991).

Efficient working capital management is particularly important for smaller companies (Peel and Wilson, 1996). Rafuse (1996) argued that attempts to improve working capital by delaying payment to creditors are counter-productive to individuals and to the economy as a whole and focused that altering debtor and creditor levels for individual tiers within a value system will rarely produce any net benefit and proposes that stock reduction generates system wide financial improvements and other improvements and other benefits.

Shin and Soenen (1998) concluded that working capital management is only a part, but for many firms they were very important components of financial management. The net trade cycle offers an easy and useful way to check the efficiency of managing the firm’s working capital. It had a strong negative association between the firm’s net trade cycle and its profitability. Reducing the firm’s net trade cycle to a reasonable minimum is one way to create shareholder’s value and should be a major concern for financial executives.

Deloof (2003) exposed a significant negative relation between gross operating income and the number of days accounts receivables, inventories and accounts payables of Belgian firms. Lazaridis
and Tryfonidis (2006) observed a strong negative relationship between the cash conversion cycle and corporate profitability. Therefore managers can create profits for their companies by handling correctly the cash conversion cycle and keeping each different component (accounts receivable, inventory) to an optimum level.

Teruel and Solano (2007) explained the important role of working capital management in value between profitability and the number of day’s accounts receivable and days of inventory. The managers of public enterprises fail to give same regards and attention to working capital as they have given to fixed capital. There exists no proper consistency between liquidity position and turnover of assets (Shrestha, 1983). The operational adequacy of working capital also reveals quite unfavourable situation in Nepal Tea Development Corporation in comparison to other selected public enterprises during the study period (Acharya, 1985). Pradhan (1986) reported that most of the selected enterprises have been achieving a trade-off between risk and return, thereby following neither an aggressive nor a conservative approach. Almost all the selected enterprises have a positive net working capital and the negative working capital has been observed in a few cases. When quick assets are compared with current liabilities, it is revealed that the current assets are insufficient to cover current liabilities on many occasions. There is negative relationship of return on assets with inventory conversion period, receivables conversion period, payables deferral period and cash conversion period in Nepalese enterprises (Gautam, 2008). This study also explained that corporate profitability is negatively associated with current ratio and leverage, but positively associated with sales. Sharma (2011) dealt that profitability is negatively affected by cash conversion cycle in Nepalese enterprises. It implies that if cash conversion cycle is higher, profitability will be reduced.

To sum up, there are very few studies on working capital management and corporate profitability in Nepal. Though there are different empirical evidences on working capital management and corporate profitability, such findings are not available in context of Nepal and some of the old studies may be irrelevant due to changes in economy as well as in corporate sector of Nepal. This study therefore concentrates on the impact of working capital management on the profitability and efficiency of Nepalese manufacturing enterprises.

3. Research Methodology

I. Selection of Enterprises

There are 176 listed companies in the operation, up to October 1, 2011 according to NEPSE. Out of them only 18 from listed companies are under manufacturing sector in Nepal. For the purpose of this study, nine manufacturing enterprises are selected for the period of 2000-2010. Samples are selected using different techniques like judgmental, random, convenient and stratified sampling in combine way. Because of the specific nature of their activities, firms relating to service sectors and others like banking
and finance, insurance etc. are excluded in this study.

II. Nature and Sources of Data

To measure the effect of working capital measures on corporate profitability, secondary data are used. These data have been collected from the office of the Auditor General (Annual Reports), Nepal Stock Exchange (Financial statements of listed companies), Ministry of Finance (Performance Report of Government Corporations and Economic Survey) and Security Board of Nepal. Other relevant data were also collected from concerned companies selected for the purpose of the study. Some of the valuable information about the performance of working capital management was also received from the concerned authorities of selected enterprises, asking and interacting with them individually.

III. Method of Analysis

1. Descriptive Statistics

The percentage, mean, median, standard deviation, maximum and minimum results in each variable have been described in clear way for the detail analysis of result about its significance.

2. Correlation Analysis

In this part, Pearson correlation coefficients for all variables are considered. This analysis tries to find out the relationship between operating incomes on the one hand and the measures of working capital management (Number of days accounts receivable, inventories and accounts payable and cash conversion cycle), sales, sales growth and debt ratio on the other hand. The priori hypothesis in this analysis is that there is strong relationship between operating income and the measures of working capital management in Nepalese manufacturing enterprises.

3. The Model

**Effects of working capital management on corporate profitability**

This section examines the effect of working capital management on corporate profitability using the approach adopted by Deloof (2003), Shin and Soenen (1998), Lazaridis and Tryfonidis (2006), and Teruel and Solano (2007). The corporate gross income is regressed on sales, growth, debt, number of days accounts receivable, number of days inventories, and number of days accounts payables and cash conversion cycle. The effect of working capital management on corporate profitability is regressed using the following equations.

\[ GPM = \beta_0 + \beta_1 \text{RCP}_{it} + \beta_2 \text{SALES}_{it} + \beta_3 \text{SGR}_{it} + \beta_4 \text{DEBT}_{it} + \epsilon_{it} \quad (1) \]

\[ GPM = \beta_0 + \beta_1 \text{ICP}_{it} + \beta_2 \text{SALES}_{it} + \beta_3 \text{SGR}_{it} + \beta_4 \text{DEBT}_{it} + \epsilon_{it} \quad (2) \]

\[ GPM = \beta_0 + \beta_1 \text{PDP}_{it} + \beta_2 \text{SSALES}_{it} + \beta_3 \text{SGR}_{it} + \beta_4 \text{DEBT}_{it} + \epsilon_{it} \quad (3) \]

\[ GPM = \beta_0 + \beta_1 \text{CCC}_{it} + \beta_2 \text{SSALES}_{it} + \beta_3 \text{SGR}_{it} + \beta_4 \text{DEBT}_{it} + \epsilon_{it} \quad (4) \]

Where, \( GPM \) = Gross profit margin
\( \text{RCP} \) = Number of days accounts receivables
\( \text{ICP} \) = Number of days inventories
\( \text{CCC} \) = Cash conversion cycle
Specifications of Variables
The variables used to estimate the above are described as below:

A. Cash Conversion Cycle
A shorter cash conversion cycle is related to better operating performance. However, corporate profitability may also decrease with the cash conversion cycle, if the costs of higher investment in working capital rise faster than benefits of holding more inventories and/or granting more trade credit to customers. Longer cash conversion cycle indicates more time between outlay of cash and cash recovery (Teruel and Solano, 2007). In turn, the components of cash conversion cycle are given below:

I. Receivable Conversion Period
The priori hypothesis in this variable is that there is negative relationship between profitability and number of days accounts receivables. It means customers want more time to assess the quality of products they buy from firms with declining profitability.

II. Inventory Conversion Period
The optimum level of inventories will have a direct effect on profitability since it will release working capital resources which in turn will be invested in the business cycle, or will increase inventory levels in order to respond to higher product demand (Lazaridis and Trfonidis, 2006). The assumption of this variable is that there is negative relationship between operating income and number of days inventories.

III. Payables Deferral Period
In simple sense, higher the number of days accounts payable will increase in the profitability of the firm. It is based on the assumption that less profitable firms wait longer to pay their bills (Deloof, 2003). But in case of discount offered by suppliers there will be negative relationship between profit and the number of days accounts payable. It is computed by dividing accounts payable by the daily credit purchases.

B. Size: Size (SIZE) is measured as the logarithm of Sales. The hypothesis is that corporate profitability is positively associated with size, so that large size seems to favor the generation of profitability.

C. Sales Growth: Growth, which can be an indicator of a firm’s business opportunities, is an important factor allowing firms to enjoy improved profitability, as can be seen in the positive sign for the variable sales growth rate. Sales growth is (this year’s sales-previous year’s sales)/previous year’s sales.

D. Debt Ratio: Debt ratio is total debt/total assets. The priori hypothesis is that higher debt ratio helps to increase in the profitability.

4. Analysis of Data
I. Descriptive Statistics
Table 1 offers descriptive statistics on the variables used for the sample as a whole.
The sales have a mean of Rs 412 million. The firms included in sample had an average of 24% gross profit margin.

Table 1: Descriptive Statistics Based on Nine Nepalese Manufacturing Enterprises, 2000-2010

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Median</th>
<th>Mode</th>
<th>Std. Deviation</th>
<th>Variance</th>
<th>Range</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Percentiles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (Rs.)</td>
<td>412</td>
<td>325</td>
<td>43</td>
<td>256</td>
<td>18760</td>
<td>1810</td>
<td>17</td>
<td>1980</td>
<td>65</td>
</tr>
<tr>
<td>RCP</td>
<td>83</td>
<td>50</td>
<td>6</td>
<td>75</td>
<td>5341</td>
<td>539</td>
<td>0.53</td>
<td>540</td>
<td>10</td>
</tr>
<tr>
<td>ICP</td>
<td>138</td>
<td>105</td>
<td>25</td>
<td>141</td>
<td>13456</td>
<td>1018</td>
<td>8</td>
<td>925</td>
<td>28</td>
</tr>
<tr>
<td>PDP</td>
<td>166</td>
<td>81</td>
<td>1</td>
<td>245</td>
<td>47654</td>
<td>2037</td>
<td>2</td>
<td>2039</td>
<td>12</td>
</tr>
<tr>
<td>CCC</td>
<td>55</td>
<td>52</td>
<td>-1923</td>
<td>270</td>
<td>54673</td>
<td>2882</td>
<td>-769</td>
<td>932</td>
<td>-14</td>
</tr>
<tr>
<td>Debt</td>
<td>0.73</td>
<td>0.61</td>
<td>0.41</td>
<td>1.02</td>
<td>1.03</td>
<td>9.28</td>
<td>0</td>
<td>9.28</td>
<td>0.31</td>
</tr>
<tr>
<td>SGR</td>
<td>0.12</td>
<td>0.05</td>
<td>0.05</td>
<td>0.38</td>
<td>0.14</td>
<td>3.44</td>
<td>-1</td>
<td>2.44</td>
<td>-0.25</td>
</tr>
<tr>
<td>GPM</td>
<td>24</td>
<td>20</td>
<td>24</td>
<td>18</td>
<td>130</td>
<td>90</td>
<td>-32</td>
<td>34</td>
<td>0.56</td>
</tr>
</tbody>
</table>

The credit period granted to their customers ranged at 83 days on average while they paid their creditors in 166 days on average. Inventory takes on average 138 days to be sold. Overall, the average cash conversion cycle ranged at 55 days. Mean sales growth is only 12 percent while the debt ratio is 73 percent.

II. The Model

In this section the effect of working capital management on the profitability of Nepalese enterprises has been examined at first part and the effect of working capital policy in the performance is also analyzed in second part. In order to determine the relationship between gross profit margin of Nepalese enterprises and other independent variables, the Pearson's correlation coefficients have been computed and the results are presented in the form of correlation matrix in Table 2. The Table shows that there is significant negative correlation between the gross operating margin and the receivable conversion period, inventory conversion period, and payable deferral period. In the same way, the correlation between cash conversion cycle and gross profit margin is negative. This demonstrates that paying suppliers and collecting payments from customers earlier, and keeping products in stock less time, are all associated with an increase in firm's profitability. The negative relation observed between gross profit margin and payable deferral period is surprising. It shows that less profitable firms tend to delay payment to their suppliers.
In order to determine the effect of working capital management on corporate profitability, the regression models as specified in equations 1 to 4 are estimated at first and the results are presented in Table 3. Model 1 is estimated with fixed effects and includes number of days accounts receivable as a measure of accounts receivable policy along with other independent variables. The coefficient of the accounts receivable is negative and significant as well. The coefficients of other variables included in the model are also significant. In model 2, a significant negative relation is observed between gross operating income and number of days inventories. Model 3 shows a significant negative relation between gross operating income and number of days accounts payable. The cash conversion cycle is included in model 4 and observed that coefficient of the cash conversion cycle is negative with gross profit margin.

Table 2: Pearson Correlation Coefficients between Gross Profit Margin and other Variables

Gross profit margin is (sales-cost of goods sold)/Sales. Receivable conversion period is accounts receivable*365)/sales. Inventory conversion period is (inventories*365)/cost of goods sold. Payable deferral period is (accounts payable*365)/purchase. The cash conversion cycle is: Receivable conversion period + Inventory conversion period - Payable deferral period. Sales are expressed in million of Nepalese currencies. Sales growth is (this year’s sales-previous year’s sales)/previous year’s sales. Debt ratio is total debt/total assets.

<table>
<thead>
<tr>
<th></th>
<th>GPM</th>
<th>RCP</th>
<th>ICP</th>
<th>PDP</th>
<th>CCC</th>
<th>SALES</th>
<th>SGR</th>
<th>Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>GPM</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RCP</td>
<td>-0.032**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICP</td>
<td>-0.248**</td>
<td>0.157**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PDP</td>
<td>-0.024***</td>
<td>0.416**</td>
<td>0.195***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCC</td>
<td>-0.139*</td>
<td>0.226*</td>
<td>0.518**</td>
<td>-0.370**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SALES</td>
<td>0.127*</td>
<td>0.373**</td>
<td>0.313**</td>
<td>0.472*</td>
<td>0.445**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SGR</td>
<td>0.021***</td>
<td>0.036**</td>
<td>-0.277*</td>
<td>0.419*</td>
<td>-0.514**</td>
<td>0.250**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td>-0.358**</td>
<td>0.058***</td>
<td>0.144**</td>
<td>-0.236</td>
<td>0.268*</td>
<td>0.354*</td>
<td>0.227**</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: * Significant at the 0.10 levels. ** Significant at the 0.05 level. *** Significant at the 0.01 level.

The sign and significance of the relations found are similar to that found in the previous analysis. The gross profit margin of Nepalese enterprises is affected by lengthening the number of days accounts receivable, number of days inventory and number of days accounts payable. This aspect, which is consistent with the results found by Deloof (2003) for large firms, underlines the importance of working capital management for firms. Lengthening the deadlines for clients to make their payments, although it may improve...
profitability because greater payment facilities may raise sales, also negatively affects profitability. Thus, a more restrictive credit policy giving customers less time to make their payments improve performance.

Table 3: Regression Result of Profitability as Measured by Gross profit Margin on Working Capital Measures, Sales, Growth and Other Variables

The table shows a regression result of profitability level on sales, growth and other controlling variables. The first column shows independent variables and other column shows the results of regression analysis. The variables are as follows: Gross profit margin (Dependent variable) is (sales-cost of goods sold)/sales. The Independent variables are; receivable conversion period is (accounts receivable*365)/sales, inventory conversion period is (inventories*365)/cost of goods sold and payable deferral period is (accounts payable*365)/purchase. The cash conversion cycle is: Receivable conversion period + Inventory conversion period – Payable deferral period. Sales are expressed in millions of Nepalese currencies. Sales growth is (this year’s sales-previous year’s sales)/previous year’s sales. Debt ratio is total debt/total assets. T value in parenthesis.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model I</th>
<th>Model II</th>
<th>Model III</th>
<th>Model IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant T Value</td>
<td>-5.271*** (-1.432)</td>
<td>-4.692 (-3.051)</td>
<td>-3.083* (-2.642)</td>
<td>-1.331 (-2.523)</td>
</tr>
<tr>
<td>RCP T Value</td>
<td>-0.136*** (-11.421)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICP T Value</td>
<td>-1.052*** (-13.682)</td>
<td>-0.044*** (-11.902)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PDP T Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCC T Value</td>
<td></td>
<td></td>
<td></td>
<td>-0.112*** (-3.452)</td>
</tr>
<tr>
<td>SALES T Value</td>
<td>3.615*** (4.063)</td>
<td>2.517*** (3.523)</td>
<td>3.603*** (2.653)</td>
<td>3.065*** (5.652)</td>
</tr>
<tr>
<td>SGR T Value</td>
<td>2.395*** (11.052)</td>
<td>3.273*** (13.262)</td>
<td>2.544** (14.352)</td>
<td>2.279*** (15.644)</td>
</tr>
<tr>
<td>R-Square</td>
<td>0.571</td>
<td>0.723</td>
<td>0.8112</td>
<td>0.863</td>
</tr>
<tr>
<td>Durbin Watson</td>
<td>1.727</td>
<td>1.983</td>
<td>2.597</td>
<td>1.668</td>
</tr>
<tr>
<td>Eigen Value</td>
<td>3.37</td>
<td>4.233</td>
<td>3.843</td>
<td>3.49</td>
</tr>
</tbody>
</table>

The firm’s profitability can also be improved by reducing the number of days inventory, so that keeping inventory for less time can also improve profitability. Lengthening the number of day’s accounts payable negatively affects profitability. Deloof (2003) justified a similar result by arguing that less profitable firms tend to delay payment of their bills. The
integrated analysis of the number of days accounts receivable, days of inventory and days accounts payable was carried out using the cash conversion cycle. As similar to Deloof’s (2003) findings for large Belgian firms, the present study shows that shortening the cash conversion cycle improves Nepalese firm’s profitability.

With reference to the control variables, all of these are significant. Corporate profitability is positively associated with size, so that larger size seems to favor in generating profitability. Growth, which can be an indicator of a firm’s business opportunities, is an important factor allowing firms to enjoy improved profitability, as can be seen from the positive sign for the variable SGR. The results of regressions models 1 to 4 suggest that managers can increase corporate profitability by reducing the number of days accounts receivable and inventories. An explanation for the negative relation between accounts payable and gross operating income is that less profitable firms waits longer to pay their bills. In this way, this analysis reveals the result that is consistent with previous studies.

5. Summary and Conclusion

The management of current assets and current liabilities is an important component of working capital management. Working capital is a measure which provides a base to measure the liquidity of an enterprise. Liquid assets constitute a considerable portion of total assets and have important implications for the firm’s risk and profitability.

In this study it is found that there is a significant negative relation between gross operating income and the number of days accounts receivable, inventories and accounts payable of Nepalese firms. The results are similar to those found in previous studies that focused on large firms (Shin and Soenen, 1998; Deloof, 2003, Lazaridis and Tryfonidis, 2006; and Teruel and Solano 2007).

The analysis carried out confirms the important role of working capital management towards the value generation in firms. Therefore, it seems that operational profitability dictates how managers or owners will act in terms of managing the working capital of the firm. It is observed that lower gross operating profit is associated with an increase in the number of days accounts payables. This finding could lead to the conclusion that profitable firms wait longer to pay their bills taking advantage of credit period granting by the suppliers. The negative relationship between accounts receivable and firm’s profitability suggests that less profitable firms will pursue decrease of their accounts receivables in an attempt to reduce their cash gap in the cash conversion cycle. Likewise the negative relationship between number of days in inventory and corporate profitability suggests that in case of a sudden drop in sales accompanied with a mismanagement of inventory will lead to tying up excess capital at the expense of profitable operations. Therefore, managers can create profits for their companies by handling correctly the cash conversion cycle and keeping each different component (accounts receivable,
accounts payable, inventory) to an optimum level.

References


Knowledge Management for Enhancing Bank’s Innovation and Performance

Mahananda Chalise, PhD*

Abstract

Contemporary organizations require a strong knowledge management (KM) to gain competitive advantage. Based on a review of the literature, the present investigation delineates three components of KM: technical KM resource, social KM resource, and KM process capability (KMPC). This research empirically examines the relationship among KMPC, innovation dimensions, and bank performance in Nepalese setting. Moreover, the proposed model also investigates two variables as antecedent to KMPC: technical KM resource and social KM resource. A framework is tested using data based on survey from six commercial banks three from government owned and three private owned banks in Nepal. A field survey was chosen as the methodology for data collection. In the data collection, the questionnaires were distributed after pilot test to the R&D related manager and other departmental heads of six commercial banks including three government owned banks and three private banks with the age of more than five years out of the 26 commercial banks in Nepal. The first round yielded 40 responses and the second one yielded an additional 20 responses, raising the total response to 60. This produced a final response rate of 50 percent. However, 5 out of 60 respondents were excluded from the final sample because their questionnaires were incomplete. This resulted in 55 valid questionnaires. The analytical results confirmed the impact of technical and social KM resources on KMPC. KMPC was found to be essential for improving innovation speed and innovation magnitude in Nepalese commercial banks. Innovation speed and magnitude positively influenced banking performance in Nepal.

Keywords: Knowledge management, Innovation, Competitive advantage, Bank

1. Introduction

Knowledge is recognized as an important weapon for sustaining competitive advantage and many companies are beginning to manage organizational knowledge. As estimated, many firms either have a knowledge management (KM) in place or are planning to develop one. Firms have deployed KM, with mixed benefits, to leverage knowledge assets using KM (Germain et al, 2001). Many studies have examined how KM process improves firm competitiveness (Germain et al, 2001 and Lee & Choi, 2003). For

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example, some previous studies have dealt with the relationship between KM process and innovation (Brand, 1998, Gilbert & Cordey-Hayes, 1996, Hall & Andriani, 2002, and Jang et al., 2002). However, most studies have not empirically investigated how organizations can enhance KM process capability (KMPC) to improve innovation. Given these general arguments regarding the importance of KMPC for improving innovation, additional grounding is required in exploring what KM resources can be adopted to enhance KMPC.

Gold et al., (2001) indicate how effectively KM resources are being used to leverage organizational capability. Grover & Davenport (2001), from the KM perspective, holds that firm resources are key determinants of firm KM process. Chuang (2004) asserts that two factors may enhance KM, namely: technical KM resource and social KM resource. These two factors, in our study, serve as KM related antecedents on KMPC and are examined to assess the potential to facilitate KMPC for improving innovation.

Applying KM to innovations suggests that broad, universal conclusions cannot be made regarding the nature of the relationship between innovation dimensions and firm performance. This is because innovation speed and magnitude varies according to the circumstances, such as the industry environment, to which they are applied (Gopalakrishnan, 2002). Therefore, this study attempts to examine: (1) whether technical and social KM resources may significantly influence KMPC; (2) whether KMPC may significantly affect innovation magnitude and innovation speed; (3) whether the innovation related variables may in turn significantly influence firm performance.

2. Research Variables

Studies in leveraging firm competition have emphasized three major factors: KM, innovation, and firm performance (Carneiro, 2000 and Gilbert & Cordey-Hayes, 1996). KM is an organizational mechanism for fostering innovation consistently (Chang & Chen, 2004). KM can be thought of as a structured coordination for effective innovation, represents the basic input of innovation (Gilbert & Cordey-Hayes, 1996) and provides the infrastructure necessary for organization to increase the performance (Brand, 1998). Two major components (KM resources and KMPC) make up KM and the understanding of their interaction is important and useful for KM effectiveness (Gold et al., 2001) and (Grover & Davenport, 2001). Thus, in order to improve performance, organizations need an integrated model to depict the relationships among KM resources, KMPC, innovation, and firm performance. This model suggests that KM resources, as antecedents, establish enabling conditions for KMPC to achieve firm performance through the innovation such as innovation speed and innovation magnitude. To develop the research model, the KM, innovation, and technology literature were reviewed to identify KM factors that potentially affect innovation and in turn performance. Figure 1 presents the integrated research model.
Figure 1: Research Model

Source: (Chuang, 2006)

2.1 KM Resources
A variety of KM resources classifications have been addressed in the literature (Chuang, 2004 and Gold et al, 2001). One classification of KM resources is based on a socio-technical theory which highlights the interplay between KM and organizational resource (Pan & Scarbrough, 1998). The term socio-technical was first suggested by Trist et al (1963) describing a method of viewing organizations and its environment as a whole (Pava, 1986 and Scarbrough, 1995). Through the socio-technical perspective on KM, two dimensions of KM resources were asserted by Chuang (2004): technical KM resource and social KM resource. Technical KM resource is the KM infrastructure that determines the degree of business freedom a firm enjoys in its business plans by using IT (Gold et al, 2001). This resource includes IT asset and capability that are a shared knowledge delivery base, and the business functionality of which has been defined in terms of its knowledge discovery, distribution, collaboration, and generation (Chuang, 2004). On the other hand, social KM resources include structural KM resource, cultural KM resource, and human KM resource (Chuang, 2004). Social KM resources generally comprise the sum of the actual and potential KM resources that are available and possessed by a human or a social unit.

2.2 KMPC
KM describes a management discipline that focuses on enhancing KM processes (McElroy, 2003). A number of studies have addressed KMPC as a succession of KM processes. For example, Alavi & Leidner (2001) presented four processes including creation, storage, transfer, and application. Gold et al (2001) proposed another four knowledge management processes: acquisition, conversion, application, and protection. These processes are often concurrent and not always in a linear sequence (Beckman, 1999).

2.3 Innovation
Carneiro (2000) defined innovation as the capability of creating valuable and useful new product, new services, new technology, or production process. Innovation comprises the
magnitude and speed (Subramanian & Nilakanta, 1996) and this categorization facilitates a good way of investigating the link between innovation and firm performance (Gopalakrishnan, 2000). Innovation magnitude indicates the number of innovations that an organization adopts from an available pool of innovation (Dewar & Dutton, 1986). This magnitude reflects the extent or breadth of innovation within the organization. Innovation speed denotes firm ability to capitalize on progressions in technology (Clark 1987). It reflects an organization’s quickness to adopt a product or process, relative to its competitors within the industry (Rogers, 1983). Meyer (1993) argues that organizations increase the pace of innovation to enhance business value. In order to investigate the impact of innovation on firm performance, our research model incorporates innovation magnitude and speed which are the seed of all innovations (Gopalakrishnan, 2000) and at the very core of KM.

2.4 Firm Performance

The measurement of firm performance can include financial measures (Subramanian & Nilakanta, 1996), tangible and intangible benefits (Gopalakrishnan, 2000), and intellectual capital (Sveiby, 1997). No single measure may fully explicate all aspects of the performance (Snow & Hrebiniak, 1980). Adopting perceptual measures as a proxy for objective measures of IT/IS business value is still open to debate (Ford & Schellenberg, 1982).

However, in the absence of objective data on IT/IS payoffs, executives’ perceptions can at least pinpoint where IT/IS is creating value for the firm. Moreover, Research has succeeded in alleviating the concerns by showing that the perceptual measures of firm performance correlate strongly with more traditional objective measures including sales growth, net income growth and return on investment (Tallon et al, 2000). Based the above reasons, in our study, banks performance is assessed by the use of subjective measures such as market share (Ford & Schellenberg, 1982, and Subramanian & Nilakanta, 1996), sales growth (Lee & Choi, 2003 and Subramanian & Nilakanta, 1992), profitability (Lee & Choi, 2003 and Subramanian & Nilakanta, 1996, efficiency of operations (Drew, 1997; and Gopalakrishnan, 2000); and quality of services (Drew 1997; and Gopalakrishnan, 2000; in comparison with key competitors.

3. Hypotheses

3.1 Technical KM Resources and KMPC

Technical KM resources are essential organizational capability for effective KM (Sher & Lee, 2004). Organizations should establish an appropriate technical KM resource that encourages people to generate knowledge. Technical KM resource can facilitate rapid knowledge collection, storage and exchange (Sher & Lee, 2004); thus, it not only integrates fragmented knowledge flows (Grover & Davenport, 2001) but also conserves existing knowledge and helps to create new knowledge. Therefore, we expect that technical KM resources should have a positive impact on KMPC such as knowledge acquisition, conversion, application, and protection.
H1: Technical KM Resource has a significant positive influence on KMPC.

3.2 Social KM Resource and KMPC
Social KM resources within an organization may encourage KMPC. Previous studies have indicated that social KM resources include: (1) an appropriate structural KM resource which encourages knowledge creation, sharing, and application (Hedlund, 1994; and Nonaka & Takeuchi, 1995), (2) an appropriate cultural KM resource which encourages knowledge creation and sharing within an organization (Barney, 1998 and Holsapple & Joshi, 2001), and (3) human KM resources which are extremely valuable for creating knowledge because they can integrate diverse knowledge assets. Thus, we expect that social KM resources should have a positive impact on KMPC such as knowledge acquisition, conversion, application, and protection.

H2: Social KM resource has a significant positive influence on KMPC.

3.3 KMPC and Innovation Speed
Gold et al (2001) point out that KMPC comprises various KM processes, including acquisition, conversion, application, and protection. KMPC plays an important role in firm innovation ability (Carneiro, 2000; Ding & Peters, 1991; and Hall & Andriani, 2002). Through KMPC, knowledge resources add most value to organizational activities, such as innovations (Holsapple & Joshi, 2001). Effective knowledge application and transfer mechanisms enable organizations to innovate rapidly (Davenport & Prusak, 1998) Research also indicates that innovation speed to market, which is essential for business success, will become increasingly critical in the future. KMPC thus is considered to be an aggregated variable, which might accelerate innovation speed. Based on these arguments, we hypothesize that:

H3: KMPC has a significant positive influence on innovation speed.

3.4 KMPC and Innovation Magnitude
Together with a growing interest in the literature concerning the significance and implications of KMPC, previous studies have been proved as to the impact of KMPC on firm innovative activity (Ding & Peters, 2000; and Hall & Andriani, 2003) Questions have then been raised regarding whether firms adopting KM are receptive to the idea of innovation, or whether they continually develop new products or new processes. If this reasoning should prove true, then KM should enable firms to promote innovation magnitude. Innovation magnitude is not necessarily related to employee knowledge, but rather to the manner in which knowledge is created, shared, and used. KMPC thus is considered to be an aggregated variable, which may lead to improved innovation magnitude. Based on these arguments, we hypothesize that:

H4: KMPC has a significant positive influence on innovation magnitude.

3.5 Innovation Speed and Performance
Innovations provide a key to understand the link between innovation, and organizational effectiveness and
performance (Irwin et al, 1998). Robinson (1990) demonstrated that over a broad cross section of industries, firms that stress innovation speed gain increased market share. Additionally, when an organization adopts innovations faster than its competitors, the organization is able to erect market segments because knowledge contained in these innovations is not readily available to competitors (Lieberman & Montgomery, 1998). For early KM adopters, knowledge helps achieve profit margins, which could result in significant firm performance. Early adoption of product innovations increases the market segment in association with service quality and operating efficiency. Therefore, based on these arguments, we test the following hypothesis:

**H5:** Innovation speed has a significant positive influence on organizational performance.

### 3.6 Innovation magnitude and performance

Gopalakrishnan (2000) describes that a higher magnitude of innovation involves synonymously adopting numerous new products, processes, and practices across a broad cross-section of organizational activities. Such new product development requires firms to create synergies among these multiple activity domains. However, such synergies must be created in a manner that is inimitable and encourages competitiveness. Other studies have found that organizations benefit from increased ideas, and more innovative organizations are more effective in achieving firm performance than less innovative organizations (Rogers, 1983). Based on these arguments, we test the following hypothesis:

**H6:** Innovation magnitude has a significant positive influence on firm performance.

### 4. Research Methodology

This section presents an overview of the survey procedure and a brief description of the sample used in this study. It then describes how the research variables are operationalized and measured.

Data collection was conducted in two phases: a pilot study phase and a questionnaire survey phase. One set of questionnaire was designed for data collection. The R&D managers, departmental heads, and branch managers of Nepalese commercial banks were chosen to be the key information in this study.

This study decided to select, specifically, the banking industry as the target population, since this industry has fundamentally changed during recent years owing to an increasingly turbulent environment.

The banking environment is evolving from homogenous national markets towards heterogeneous global markets (Doll & Vonderembse, 1991). Traditionally, banks compete in homogeneous markets with competitors that have access to the same capital sources and the same knowledge asset base. Recently, Nepalese banks have begun competing in heterogeneous markets where competitors have access to diverse capital and knowledge asset conditions, and must implement various
management practices (such as KM practices) to improve competitiveness.

In the pilot study phase, two banks were randomly chosen from the total commercial banks i.e. 26 commercial banks Nepal to pretest the questionnaire. Six R&D related managers, departmental heads of commercial banks completed the questionnaires. Then, interviews were conducted with these R&D related managers to determine whether there were any problems with the questionnaire. Based on feedback from these R&D managers and other departmental heads, minor modifications were made to the questionnaire for the next phase of data collection. Responses from these six pilot study commercial banks were not included in the final sample.

In the questionnaire survey phase, a package was mailed to the managers and other departmental heads of each of the commercial banks in the survey sample. The package contained a cover letter, a questionnaire and a prepaid reply envelope. The cover letter and questionnaire explained the purpose of the survey and asked the target respondents to return the completed questionnaire within two weeks. The respondents were assured of the confidentiality of their responses. A field survey was chosen as the methodology for data collection. In the data collection, two mailings of the questionnaire were distributed to the R&D related manager and departmental heads of six commercial banks including three government owned banks and three private banks with the age more than five years out of the 26 commercial banks in Nepal. The first round yielded 40 responses and the second one yielded an additional 20 responses, raising the total response to 60. This produced a final response rate of 50 percent. However, 5 out of 60 respondents were excluded from the final sample because their questionnaires are incomplete. This resulted in 55 valid questionnaires.

A multiple-item method was used to construct the questionnaires. All of the items were on a seven-point Likert scale ranging from strongly disagree(1) through neutral(4) to strongly agree(7). KM resources were operationalized based on Gold, 2001; and Lee & Choi, 2003). The index measures KM resources by focusing on two dimensions: technical KM resource and social KM resource. These items were adapted and derived primarily from previous conceptual and empirical research on knowledge management (Gold, 2001). Innovation includes speed and magnitude (Gopalakrishnan, 2000). Innovation magnitude was measured using five items which reflect total number of new products, processes, and practices. Innovation speed was operationalized using five items; these items reflect firm quickness to adopt a product or process. Firm performance includes market share gain (Ford & Schellenberg,1982;and Subramanian & Nilakanta,1996), sales growth (Lee&Choi,2003;and Subramanian & Nilakanta,(1996)profitability (Lee & Choi,2003 and Subramanian & Nilakanta,1996), efficiency of operations (Drew,1997 and Gopalakrishnan,2000), and quality of services (Drew,1997 and Gopalakrishnan,2000).
5. Research Analysis and Results

5.1 Reliability and Validity Analysis

Table 1: Statistics for Reliability and Validity Tests

<table>
<thead>
<tr>
<th>measures</th>
<th>items</th>
<th>mean</th>
<th>SD</th>
<th>alpha</th>
<th>Factor loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical KM resource</td>
<td>6</td>
<td>5.46</td>
<td>1.01</td>
<td>0.887</td>
<td>0.766</td>
</tr>
<tr>
<td>Human KM resource</td>
<td>3</td>
<td>5.75</td>
<td>0.79</td>
<td>0.86</td>
<td>0.787</td>
</tr>
<tr>
<td>Cultural KM resource</td>
<td>3</td>
<td>5.02</td>
<td>1.17</td>
<td>0.903</td>
<td>0.835</td>
</tr>
<tr>
<td>Structural KM resource</td>
<td>3</td>
<td>5.72</td>
<td>0.91</td>
<td>0.792</td>
<td>0.627</td>
</tr>
<tr>
<td>KMPC</td>
<td>12</td>
<td>4.87</td>
<td>1.23</td>
<td>0.950</td>
<td>0.846</td>
</tr>
<tr>
<td>Innovation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation speed</td>
<td>5</td>
<td>4.84</td>
<td>1.28</td>
<td>0.945</td>
<td>0.621</td>
</tr>
<tr>
<td>Innovation magnitude</td>
<td>5</td>
<td>5.02</td>
<td>1.25</td>
<td>0.927</td>
<td>0.870</td>
</tr>
<tr>
<td>Performance</td>
<td>5</td>
<td>4.82</td>
<td>1.34</td>
<td>0.904</td>
<td>0.867</td>
</tr>
</tbody>
</table>

Table 1 shows the results of reliability and validity tests. Cronbach’s alpha was used for examining the reliability of the instruments. Nunnally (1958) suggests that, when a previously validated instrument has been adopted, a higher cutoff value of 0.7 may be used. Four factors (technical KM, human KM, cultural KM, and structural KM) in resources, two factors (speed and magnitude) in innovation, and KMPC factor all have values higher than the 0.70 cutoff value, ranging from 0.792 to 0.950. The organizational performance factor shows Cronbach alpha scores of 0.904 with four items retained. Additionally, factor analysis was used to check discriminant validity. Because each variable was measured by multi-item constructs, factor analysis with varimax was adopted to check the unidimensionality among items. Hair (1998) suggests that items with factor loading values lower than 0.5 may be deleted. One item with factor loading of lower than 0.5 for organizational performance was thus deleted.

5.2 Research Results

The intent of this study proves the relationship among KM resources, KMPC, innovation, and performance in Nepalese commercial banks. The hypothesized relationships are tested using regression analysis. Table 2 summarizes the regression results.
Table 2: Results of Hypothesis Tests

<table>
<thead>
<tr>
<th>models</th>
<th>R²</th>
<th>(β Coefficients)</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational performance (OP)</td>
<td>0.581</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OP = IS + IM + errors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IS</td>
<td>0.621</td>
<td>10.190***</td>
<td></td>
</tr>
<tr>
<td>IM</td>
<td>0.443</td>
<td>7.269**</td>
<td></td>
</tr>
<tr>
<td>Innovation speed (IS)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IS = KMPC + errors</td>
<td>0.259</td>
<td>0.509</td>
<td>6.320**</td>
</tr>
<tr>
<td>Innovation magnitude (IM)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IM = KMPC + error</td>
<td>0.336</td>
<td>0.580</td>
<td>7.596***</td>
</tr>
<tr>
<td>KM process capability (KMPC)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KMPC = TKM + HKM + CKM + SKM + errors</td>
<td>0.548</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TKM</td>
<td>0.461</td>
<td>7.281***</td>
<td></td>
</tr>
<tr>
<td>HKM</td>
<td>0.181</td>
<td>2.860**</td>
<td></td>
</tr>
<tr>
<td>CKM</td>
<td>0.498</td>
<td>7.868***</td>
<td></td>
</tr>
<tr>
<td>SKM</td>
<td>0.235</td>
<td>3.721***</td>
<td></td>
</tr>
</tbody>
</table>

*p < 0.05; ** p < 0.01; *** p < 0.001.

OP = organizational performance; IS = innovation speed; IM = innovation magnitude; KMPC = KM process capability; TKM = technical KM resource; HKM = human KM resource; CKM = cultural KM resource; SKM = structural KM resource.

Hypotheses 1 and 2 examine the effects of KM resources (i.e., technical KM resource and social KM resource) on the KMPC. To investigate the hypothesis, entering all variables in a single block, we found that the proposed model explains a significant percentage of variance in KMPC (R²=54.8%, F-value=34.237, p<0.001). Specifically, the study results show that technical KM resource has a significant positive influence on KMPC (β=0.461, t-value=7.281, p<0.001). Furthermore, the human KM resource (β=0.181, t-value=2.860, p<0.01), cultural KM resource (β=0.498, t-value=7.868, p<0.001), and structural KM resource (β=0.235, t-value=3.721, p<0.001) variables are all found to be essential for KMPC. Likewise, social KM resource in a firm also has a significant positive influence on KMPC.

Therefore, hypotheses 1 and 2 are supported. Hypotheses 3 and 4 examine the link between KMPC, and innovation speed and innovation magnitude. Results indicate that KMPC has a positive impact on innovation speed (β=0.509, t-value=6.320, p<0.001), and KMPC also has a positive impact on innovation magnitude (β=0.580, t-value=7.596, p<0.001). Therefore, hypotheses 3 and 4 are all supported. In hypotheses 5 and 6, we
investigate the influence of innovation speed and innovation magnitude on firm performance. Entering all variables in a single block and eliminating poor predictors, we obtained the model in Table 2 as a result of the multiple regressions. Results show that 58.1 percent of the variance for firm performance is explained by innovation speed and innovation magnitude. Innovation speed has a significantly strong and positive influence on bank performance ($\beta = 0.621$, t-value=10.190, $p<0.001$). Also, innovation magnitude has significant effect on the bank performance ($\beta = 0.443$, t-value=7.269, $p<0.001$). Therefore, hypotheses 5 and 6 are all supported.

6. Discussion and Implications

The analytical results can help managers provide banks with distinctive advantages. The advantages that the KM resource brings can be described using two categories to reflect KMPC. First, technical KM resource describes the technology to help create, converse, or use an organization’s explicitly documented knowledge. Another, social KM resources describe actual knowledge acquisition, sharing, or application based on the interaction of humans or social units. Managers should pay careful attention to the potential impact of KM resources on KMPC.

The findings confirm that KMPC is significantly impacted by social KM resources such as structural, cultural, and human resources. Knowledge is mainly created via organizational structure. The Structural KM resource within an organization encourages employees’ interactions, which are regarded as vital practices in the effective management of knowledge. The structural resource also facilitates the bank the necessary capability to adapt to a knowledge intensive environment. The cultural KM resource has also proved to be supportive for knowledge-related processes. For example, knowledge is shared since organizational culture can understand the importance of knowledge. Employees also play a very crucial role in shaping KM processes in which employees can be more innovative in various tasks. For instance, with their expertise, employees can be more capable of creating new knowledge and this would lead to a higher capability of knowledge management. Additionally, the results confirm that technical support for KM positively affects KMPC. Several researches are essential for achieving a sound understanding of the impact of information technology on KMPC (Grover & Davenport, 2001 and Sher & Lee, 2004). Technical KM resource is crucial for establishing new knowledge, and provides rapid retrieval of organizational knowledge. To support KMPC, the question is not whether to deploy technical KM resource, but rather how to deploy it. In summary, the results imply that improving technical KM resources and social KM resources can facilitate new knowledge discovery. The results of regression analysis show that KMPC has a significant impact on bank innovation speed and magnitude. As expected, this study provides empirical evidence that banks with KM, besides having greater willingness to innovate, also commercialize innovations faster than their competitors. Likewise, Gopalakrishnan & Bierly (2001) notes that, firms with KM favor firm
capability to adopt or implement new ideas; this knowledge capability promotes the innovation development relative to competitors, and a greater innovation of novelty.

Particularly, a more careful investigation of innovation should be conducted. Innovation involves the adoption of new ideas, processes, and products. From this perspective, KMPC may exhibit the spontaneity and freedom of creation required for innovation (Brand, 1998). For example, product and process innovations are associated with knowledge that may be embedded and stored in organizational systems. All knowledge is initially created by individuals, and only becomes organizational knowledge when it is transferred throughout the organization such that it can be stored or shared using KMPC. The influences of innovation on firm performance are addressed as follows from two perspectives: innovation speed and innovation magnitude. First, results demonstrate that innovation speed affects banks performance significantly. This result mirrors that of previous studies (Carneiro, 2000; and Robinson, 1990). For example, Carneiro (2000) provided a framework linking innovation and competitiveness and indicated that KM enables people to innovation more quickly to achieve firm performance. For instance, early adoption of process innovations reduces the costs associated with servicing product innovations and this in turn allows the organization to improve operating efficiencies. Second, results also demonstrate the significant impact of innovation magnitude on Nepalese banks performance. This finding generally coincides with previous research. In their study, Subramanian & Nilakanta (1996) found that the magnitude of technical and administrative innovation is positively linked to firm performance. From a practitioner point of view, interconnecting these variables may provide a clue as to how firms can enhance KMPC to improve their innovation and in turn to improve their performance. Furthermore, managers will be better able to find which KM resources are critical for KMPC. For example, a Nepalese bank may try to be staffed by a high proportion of highly qualified employees who are capable of applying analytical knowledge to their jobs. This kind of employees is more likely involved intimately in innovation activities. Nepalese commercial banks in this case generally have market values that are far greater than their conventional asset values because of their ability to generate future returns from their stock and flow of intellectual capital. The ability of the Nepalese commercial banks to outperform the marketplace rests on the continuous generation and synthesis of collective, organizational knowledge. Therefore, the understanding of the cause and effect relationship between the variables in the research model may facilitate a better strategy for organizational resources allocation and a more effective way of utilizing the consigned resources for organizational activities.

7. Conclusions

The integrative framework is proposed for empirical evidences to link KM resources, KMPC, innovation, and banking performance. While being positively affected by technical KM
resource and social KM resource, an organization’s KMPC is shown to have positive impact on its innovation speed and innovation magnitude. Advanced innovation also significantly increases the banking performance. Additionally, from a practical point of view, interconnecting these variables may provide a clue as to how firms can enhance KMPC to improve their innovation. Furthermore, managers will be better able to find which KM resources are critical for KMPC. Although the results are interesting and promising, they must be viewed with caution because there are limitations in this research. This study focused on banking industry in Nepal, caution should be exercised in generalizing the results to other industries that have a different environment. It is needed to explore to what extent these results can be replicated in other industries, such as manufacturing and other service sector, in which knowledge appropriability functions differently as compared with banking industry.

References


Efficacy of Economic Models of China and India in the Global Financial Crisis

Khagendra P. Ojha, Ph. D.*

Abstract

Within 30 years after its economic reform and opening up, China has witnessed its per capita GDP soaring from US$ 60 in 1978 to US$ 3586 in 2008, a nearly 60-fold increase. Since the second half of 2008, the international financial crisis triggered by the U.S. sub-prime mortgage crisis has spread rapidly, and the world’s major economies have experienced a slowdown or recession. The Chinese government responded to the crisis by adjusting China’s macroeconomic policies and implementing a proactive fiscal policy and loose monetary policy, along with the 634 billion U.S. dollars economic stimulus plan. Consequently, China has been immune from adverse external effects, and the Chinese model has demonstrated high efficiency and strength in the face of the international financial crisis. On the other hand, the major impact of the 2008 financial crisis on India was a near drying-up of capital flows in 2008-09. Net inward capital flows dropped from $100 billion in 2007-08 to about $10 billion in 2008-09. However, there was a substantial recovery to over $50 billion in 2009-10. To counter the negative fallout of the global slowdown on the Indian economy, the federal government responded by providing three focused fiscal stimulus packages in the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets. Even during the global financial crisis, when compared to countries across the world, India stands out as one of the best performing economies. On all accounts, except for the agricultural sector, economic recovery seems to be well underway. GDP growth for 2009-10 amounted to 8 per cent. and 8.6 percent during fiscal year 2010-11. The growth in domestic demand helped India counter the sharp decline in its export growth in 2009 caused by the US and global financial crisis. A comparison of the periods of rapid economic growth in China since 1978 and India since 1991 shows different patterns of development and structural change. However, both countries displayed common features, including relative economic backwardness and large-size population. The Chinese development model aims to reduce the size of the centralised planned economy and increase the size of market-based private sector activity. India, on the other hand, has shown a miracle in her economic development after 1991 followed by the essential reforms starting in the mid-1980s, while after 1992 there was a sharp rise in the rate of economic growth. However, eradicating extreme poverty has become the development priority in the Eleventh Five Year Plan (2007-2012) of India.

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Key Words: economic development, development models, economic models, Marxist economy, socialistic economy, planned economy, Xiao Kang model, Fordist growth model, Nehruvian economic model, Mahalanobis model, economic reforms, economic liberalization, privatization, market economy, foreign direct investment (FDI), export-led economy, gross domestic product (GDP), economic growth rate, BOP crisis, US sub-prime mortgage crisis, global financial crisis, stimulus package

China and India from economic development perspective

China and India are the world’s most populous countries. The Chinese population ranks first and India’s population ranks second in the world. The combined population of China and India make up almost 40 per cent of humanity. Both economies are among the largest in the world. Chinese gross domestic product (GDP), adjusted for purchasing power parity, ranked number 2 and Indian GDP, adjusted for purchasing power parity, ranked number 4. The combined real GDP of both countries accounted for more than one-quarter of world gross output. Over the last two decades, both countries have experienced an accelerated rate of economic growth. According to the World Bank, China is poised to overtake the US and become the world’s largest economy in 2020.4

In some important aspects, the initial conditions of both countries were similar, with low income per capita, and an economy based on agriculture using traditional technology and facing severe constraints with regard to land resources. Both were under the influence of the Soviet model and initially pursued similar development strategies; namely, central planning and rapid industrialisation. Later on, both deviated from the Soviet model and adjusted their development strategy to suit their unique resource conditions by giving more emphasis to agricultural development and the adoption of traditional technology as well as the development of small and medium enterprises.5

As far as initial differences are concerned, China was more backward than India in many facets in the mid-20th century. Unlike India, China was relatively isolated in the international community in the early 1950s because of its communist ideology. It had limited access to foreign capital, with the exception of that of the Soviet Union and other communist countries in Eastern Europe. Chinese income per capita in terms of 1952 US$ amounted to only 83 per cent relative to India. Apart from modern industry, India was also well ahead of China in terms of modern infrastructure development. In transport, for instance, China’s rail coverage per million people was only 43 km in 1952, whereas the corresponding figure for India in 1951 was almost quadruple that of China. China was poorer than India in terms of land resources. The land–person ratio of China in 1950 was 58 sq km per capita, as compared to 110 sq km per capita in India. However, in terms of human resources, China was better endowed than India in the early 1950s. Not only was the Chinese population larger than that of India, but its population was also healthier and
better educated. The average Chinese in the early 1950s had a life expectancy 28 per cent longer than the average Indian. The Chinese literacy rate was 20 per cent as compared to 19 per cent in India.\(^6\)

However, in comparison with China today, economically and militarily, India is inferior in many aspects. As for example, India accounts for 2.4 per cent of world trade – well behind China. It is also behind China in attracting FDI, accounting for 1 per cent of global inward FDI stock in 2009. Inward investment flows to India have been increasing rapidly, however, reaching USD 40 billion in 2008, before declining slightly due to the crisis. Outward FDI has also been increasing rapidly, reaching USD 18 billion in 2008. In terms of market reforms, India lags behind China and other parts of East Asia. India ranked 134th overall in the World Bank's 2011 'ease of doing business' indicators, well behind China. It applies a higher degree of protection against imports and inward investment. India's tariff structure remains more protectionist compared to East Asian countries. However, the liberalisation in services, trade and FDI, carried out during the 1990s, rapidly integrated India into the global economy. The trade-to-GDP ratio climbed to over 55 per cent of GDP in 2008, before coming down to about 45 per cent of GDP in the wake of the crisis – not far off China's trade-to-GDP ratio.\(^7\)

Nevertheless, India's policy towards foreign capital is still not very proactive, as India remains a relatively closed economy compared to China and other East Asian countries. The size of total capital inflow to India during the first decade of the post-reform period is about the same as the average annual foreign capital inflow to China in the post-reform period. However, India's services sector, particularly the information technology (IT) industry and the new bio-technology industry, has been growing very rapidly compared with the same sector in China. Thus, while India and China followed similar paths to development, the approaches to achieving their goals became different as time went by due to a number of factors, prominent among these being the differences in the style of political regime, of leadership in political institutions, labour market institutions and in respective cultures.\(^8\)

**China's economic development models**

Since the 1970s, China's economy has changed from a closed, centrally planned system to a market-oriented economy and major global player. China became the world's largest exporter in 2010, and in the same year it surpassed Japan as the second largest economy in the world. Until 1978, China was a low-economic-growth Asian developing country with a very different political, social and economic status. Following the economic reforms initiated in 1978, China has experienced a miracle in economic growth. The country has become a manufacturer on a global scale, which may render its export-led growth strategy unsustainable in the future. Therefore, China's economic model for future would be to shift from export-led growth to domestic demand-led growth.
Deng Xiaoping’s model of economic reforms

The Chinese pre-reform economic system was based on the Soviet model. It had the following features: (a) collective farms in the agricultural sector; (b) state-owned enterprises in the non-agricultural sector; (c) central planning; and (d) bureaucratic control of the economy by the government. However, there are significant differences between the pre-reform Chinese system and the Soviet model, such as the formation of the commune, the principle of self-reliance, the emphasis on egalitarianism, decentralisation in planning, and so on. These deviations can be partly explained by China’s specific conditions, its learning from past Soviet mistakes, and partly by Maoist ideology. Communist party chairman Mao Zedong followed the basic principles of socialism in the form of public ownership of capital, planned economic system, and egalitarian wealth distribution. The socialist market economy in China was both a heritage and a development of Marxist economics. China and the former Soviet Union, along with its East European satellite countries, had tried for many years to implement a socialist economy, with mostly adverse consequences. This situation made the Communist Party of China (CPC) re-think and re-understand Marx and Engels, especially their ideas in their later years.

The theories introduced by Deng Xiaoping were based on continuity and developing a new outlook of Marxist philosophy in contemporary China, in order to achieve socialism with Chinese characteristics. Following the death of Mao in 1976, under the new leadership of Deng, economic modernisation was given the priority over the building of socialism. The economic system in China changed from a centrally planned system to a socialist free market system. As a result, the stage was set for a complete overhaul of the Chinese economic system. However, the main cause of Chinese reforms was the increased dissatisfaction of the Chinese with their existing economic system. The ultimate objective of the Chinese reforms is to establish a full-fledged market economy. The transformation of a planned economy into a market economy involved several steps: (a) the liberalisation of the economy from bureaucratic control; (b) the establishment of market institutions, in particular the product and factor markets; (c) privatisation; and (d) control of macro-instability.

Deng Xiaoping is characterised by realism and gradualism, and he stressed importance of learning by trial-and-error. Deng’s proposed new institutional structures were introduced at first, wherever possible, only in a particular region or locality or sector of the economy. Deng’s formula of implementing new policies was ‘crossing the river by touching stones’, which China continues to apply to date. Following Deng’s principle of realism, China’s success since it began its transition to a market economy has been based on adaptable strategies and policies: as each set of problems is solved, new problems arise, for which new policies and strategies must be devised. This process includes social innovation. Secondly, in accordance with Deng’s principle of gradualism, China’s reforms have proceeded step-by-step, beginning
Major economic policy changes and outcomes after the 1978 reforms

The Third Plenary Session of the Eleventh Central Committee of the Communist Party of China in 1978 stated in its decision that in order to promote production, it is necessary ‘to work out payment in accordance with the amount and quality of work done, and avoid egalitarianism’. Reform began with the phasing out of collectivised agriculture, and expanded to include the gradual liberalisation of prices, fiscal decentralisation, increased autonomy for state enterprises, creation of a diversified banking system, development of stock markets, rapid growth of the private sector, and opening to foreign trade and investment. Following the economic reforms of 1978, the Chinese development model aimed to reduce the size of the centralised planned economy, tie wages to output performance and increase the size of market-based private sector. This spread of market-centred activity was accompanied by an explicit external and internal capital accumulation strategy. The external capital accumulation strategy rested on foreign direct investment (FDI) and export-led growth, while the internal capital accumulation strategy mainly on the use of credit creation by state-controlled banks and improving the performance of state-owned enterprises (SOEs).

The reform agenda, which included attracting FDI inflow, allowed China to fund industrialisation and also to provide a source of export earnings, as a significant portion of the output of multinational companies (MNCs) in China is exported. Exports earnings provide foreign exchange reserves and a positive balance of payments, which have ensured the confidence of foreign investors. The inflow of FDI and the export-oriented production have been core elements of China’s export-led growth strategy.

During its reform period, China amazed the rest of the world by its rapid rate of economic growth, which in most years reached, or almost reached, double-digit levels. As a result, China’s real GDP was over 13 times higher in 2006 than in 1978. Furthermore, because of its controlled growth in population, the level of per capita income in China has risen steeply. However, most economists realise that GDP alone and market-based measures of per capita income can be a poor indicator of human welfare. The Human Development Index (HDI) goes some way to addressing these concerns, even though it also has several limitations. Nevertheless, using the HDI measure, China progressed significantly in its reform period. According to UNDP estimates, in 1975 China’s HDI increased from 0.530 in 1975 to 0.777 in 2005, that is by more than 30%. Another indicator of China’s economic success is the substantial reduction it has achieved in its incidence of poverty, which is now very low for a developing country. China has brought down the number of people in absolute poverty from 250 million to 15 million in less than 30 years. Therefore, China’s experience seems to accord with the ‘trickle-down’ theory of economic growth.
On the other hand, there has been a very significant increase in income inequality in China during the reform period. There has also been progress in improving the rule of law in China, but political and civil liberties remain a question of concern.

**China’s economic development models**

China is a nationalist state with a clear vision of national power through economic growth and technological progress. The Chinese Communist Party translates this vision into explicit objectives suitable for different levels (nation, province, city, and firm). The important sub-goals include: increased sales and production, value added, investment, and technology transfer from the advanced countries. The growth strategy for achieving these objectives has evolved over time. Starting from the mid-1970s, it transformed from a export-led growth strategy to an FDI-export-led growth strategy by the mid-1980s. Underlying these has been the development of domestic product markets and the evolution of the management structures of government enterprises to meet the challenges of competition in domestic and global markets. Virmani finds that the primary means of achieving high growth is a high investment rate. This has two main supporting pillars in China’s successful growth maximisation strategy.

**The first pillar:** Public ownership of assets has been an important contributor to the rapid growth of China’s economy, as it allows a motivated government to use these profits either for public investment or to provide subsidies to FDI or exporters and thus indirectly boost investment. Unlike a democratic market economy such as India, China did not need to generate funds for public investment (or subsidies) through taxes that distort markets and reduce efficiency and productivity.

**The second pillar:** Foreign direct investment is the second pillar of China’s growth. China has learnt from and built upon the experience of Singapore, Thailand, and Malaysia, the pioneers of FDI-export led growth. It has then laid out a red carpet for every FD investor that can help raise China’s technological levels, skills and expertise, or directly or indirectly raise the level of exports on a sustainable basis.

Many eminent scholars have studied China’s phenomenal growth rate and come to the conclusion that it has basically adopted the ‘East Asian model of growth.’ An essential component of this model is export-led growth. Singapore, however, followed an FDI-export led growth model rather than an export-led one. China, since reforms began in the late 1970s, has shared some, but not all of these (East Asian model) characteristics. China’s economic institutions could be seen in favourable light both theoretically and with reference to the East Asian development experience. In the Chinese case, equipping local labour with advanced technology, including international market networks, foreign direct investment (FDI), as in Singapore, has played an important role. Some authors suggest that China has emulated other East Asian countries by adopting the comparative advantage doctrine as its new development strategy during the
post-reform period. However, it is not suffice to qualify for the East Asian model as it has a number of important additional characteristics. Furthermore, the Chinese post-reform development strategy seems different from the East Asian model, as the comparative cost doctrine is not strictly adhered to, considering that alongside the export-orientated strategy, China still maintains its import substitution strategy. Following the death of Mao, the objective of building socialism, though not abandoned, has been placed in the back corner, and economic modernisation is being elevated as the single most important goal of China's new long-term development strategy.\textsuperscript{24}

The Chinese development model after the 1978 reforms aims to reduce the size of the centralised planned economy and increase the size of market-based private sector activity. The first step in this transition was taken with the historic 1979 reforms of the agricultural sector. Since then, private sector activity has been allowed to spread more widely by the removal of controls on economic activity, and it is also being spread by partial privatisation of state-owned enterprises.\textsuperscript{25} It is suffice to say that the same arguments concerning soft budget constraints, i.e. protecting efficient firms against fluctuations and facilitating their long-term endeavours – can apply. Moreover, where corporate entrepreneurship is underdeveloped, the government can act as a surrogate.\textsuperscript{26} The rationalisation drive in Chinese industry in the 1990s is especially illustrative of soft budget constraints as a necessary condition for corporate entrepreneurship (Jiang et al. 1993).\textsuperscript{27}

Today, China is discussing a ‘new economic model’. Of course, the old economic model has been a resounding success, producing almost 10% annual growth for 30 years and lifting hundreds of millions of Chinese out of poverty. If China seeks a dynamic innovation system, experts say, it should resist pressure by Western governments to adopt the kind of unbalanced intellectual property laws that are being demanded. Instead, it should pursue a ‘balanced’ intellectual property regime: because knowledge itself is the most important input in the production of knowledge, a badly designed intellectual property regime can stifle innovation – as has been the case in America in some areas.\textsuperscript{28} China still follows soft budget practices; protecting efficient firms against fluctuations and facilitating their long-term endeavours. A soft budget constraint is instrumental in protecting potentially efficient firms from being wiped out by the short-term fluctuations like the world-wide recession of 2008. China still maintains a strong command over the factors of production and financial market. China works for a small margin of profits, or even no profits, to maintain employment and enhance the foreign currency reserve. Some argue that China’s export success is due to the cheap labour price imposed by the government. China, of course, has been benefitted from underdevelopment (growth potentiality), existing unemployment (cheap labour), and large size of population (huge domestic market). This is known as the Fordist model of growth. China’s export-oriented development path is, however, based on productivity growth, rather than on the notion of cheap labour.
The Chinese economic development miracle was possible thanks to the coincidence of critical factors, such as: opening to the world economy combined with state control over factors of production; large-scale capital investment from FDI and domestic saving; adoption of bench-mark international technologies through multi-national companies; rapid productivity growth enhanced by considerable investment in education, training and technology; higher efficiency in the economy as a result of the 1978 economic reform; vertical and horizontal co-ordination mechanisms within the country, and ‘just-in-time’ practices followed by experience as advised by Deng Xiaoping.

**China’s development policies, strategies and challenges**

The Chinese market-oriented reforms and global opening-up started in 1979. Indeed, China’s open-door policy put the country in a better position to obtain established knowledge related to both hard and soft technologies on a global scale, and entry into the WTO points to the efficacy of market competition based on comparative advantage. Such pro-knowledge and pro-competitive institutional re-orientation, both hierarchical and horizontal, in line with advanced economies, has been the fundamental driver for the rapid economic growth in China in recent decades. The process of realignment is still continuing.20 It is well-known that China’s employment system has been characterised by both low labour mobility and rigid wage adjustment. It is also well-known that the reform has fallen far short of official targets.30 Aoki provides insight in the competitiveness of firms, stating that where the external environment is continually changing, the information value created by learning and horizontal coordination at operational level may more than compensate for the loss of efficiency due to the sacrifice of operational specialisation.31

Xiao Kang’s model of social development, and China’s own goal of building a moderately prosperous society, includes freedom and dignity, equality, equity and social justice, tolerance, respect for nature and shared responsibility. However, given that China has the world’s largest population, achieving the Xiao Kang Society Goals represents a significant challenge for the government.32 In contrary to Mao’s dream of equality, a high income inequality between urban and rural population, as well as the rich and poor has emerged in China. In particular, there are fears that China’s rapid growth rate is unsustainable, and is being driven by an asset price bubble and excessive state investment financed with domestic credit creation. In addition, China’s large current account (trade) and capital account (FDI) surpluses, combined with its fixed exchange rate have led to increased money supply growth. Monetary policy has been highly accommodative of the investment boom. The danger is that this will generate even more investment, further asset price increases and accelerating inflation, all of which will eventually end in a hard landing. China is mainly dependent on the EU, US, and Japan as the major importers of Chinese goods, but the scale of its exports is undermining its trade partners’ manufacturing and risks diversifying policies. Such export based
The Chinese economic model is one of partial privatisation – selling off minority ownership stakes. Banking and financial market reform is a needed component of a domestic demand-led growth strategy. However, a greater challenge is developing an appropriate system of household income distribution that supports domestic consumer markets. Finally, in the longer term, China must move to raise wages and improve income distribution.

India’s economic development models

In GDP at PPP ranking of the World Bank (2010), India has shown a rapid improvement to her economic standing, becoming the fourth largest economy in 2010. This achievement is even higher than target set by the Planning Commission of India in its Vision 2020, where it was forecast that India would rank fourth in 2020. Until 1990, India was an extremely slow-growth economy. Following the 1991 economic reforms, India has experienced rapid economic growth. In the period from 1992 to 2008, the annual average rate of growth of real GDP surpassed 7%. Although the benefits of this growth have impacted the living standard of an increasing proportion of medium and high-income class people, mainly concentrated in urban areas, a large mass of the population remains still very poor, unable to buy almost any durable consumption goods. Therefore, eradicating extreme poverty is still a development priority in the Eleventh Five-Year Plan of India.

India’s 1990 financial crisis, economic reforms and outcomes

India, after independence in 1947, began with an inward-looking heavy industry-biased industrialisation strategy. The Indian development model began with a compromise between Gandhi’s Enlightenment promoting modernisation and Nehru’s Romantic revolt against the Enlightenment, represented by younger Marx and English socialists such as William Morris. After Gandhi’s death, Nehru’s ideas determined India’s economic policies, with massive interventions in the form of centralised planning and a draconian set of economic controls on foreign trade, capital flows and prices. In shaping India’s state-sponsored socialism and national planning, Nehru was greatly influenced by Fabian ideas, which emanated from the traditions of English utilitarianism, empiricism and classical economic thought. Fabian reformism in the political sphere was adopted in India in the form of parliamentary democracy. However, this Nehruvian economic model was not sustained for a longer period. Indian economy underwent a ‘quiet crisis’ in mid-1960s, with a rate of growth of 3.5 percent and population growth at 2.2 percent until the early 1980s, yielding meagre annual rises in per capita income of just over 1.3 percent.

Mahalanobis, the architect of India’s planning model, believed that, due to the paucity of capital goods, the establishment and expansion of large-scale manufacturing units to generate employment, which was the primary
goal of planned development, would take time. India's economic development strategy immediately after independence was based primarily on the Mahalanobis model, which gave preference to investment in the industrial goods sector, with secondary importance accorded to the services and household goods sector. The Mahalanobis model placed strong emphasis on mining and manufacturing (for the production of capital goods) and infrastructural development (including electricity generation and transportation). The model downplayed the role of the factory goods sector because it was more capital intensive and therefore, would not address the problem of high unemployment in India.

The immediate reason for India's 1990 economic crisis and need for reform was a severe balance of payment (BOP) crisis. The crisis was accentuated by the Gulf War of early 1991, which raised India's oil import bill and lowered workers' pay. But the origin of the Indian economic crisis of 1990 can be traced back to centralised planning, the overriding dominance of the public sector of the economy, pervasive economic and social controls over the private sector. Centralised planning imposed strict controls on the establishment of industries through licensing, restrictions on capacity expansion, controls covering monopolies and even normal non-monopolistic trade practices, price and distribution controls, labour market and employment controls, comprehensive external sector controls including import licensing and prohibitive tariffs, and direct control over foreign exchange allocation and utilisation. The partial liberalisation followed by India until 1990 did not produce any sustainable economic growth. In 1990, the country was essentially bankrupt, with foreign exchange reserves barely sufficient to finance 10 days of imports, galloping inflation of 14 percent and an impending growth collapse.

Rupee trade with the Soviet bloc was an important element of India's total trade in the 1980s. Exports to Eastern Europe constituted 22.1% of total exports in 1980 and 19.3% in 1989. A significant proportion of trade, constituting imports of capital goods and defence equipment was financed by long-term trade credits. With the introduction of Glasnost and the breaking away of the Eastern European countries, several rupee payment arrangements were terminated in 1990-91. As a consequence of these and other political developments in Eastern Europe, including the USSR, the flow of new rupee trade credits declined abruptly in 1990-91. What was for most countries a temporary shock (resulting from the Iraq-Kuwait War) was much more lasting for India, because of its dependence on Kuwaiti and Iraqi crude supplies, including long-term supply contracts with the latter. The effect of the oil price increase was therefore multiplied for India by a more permanent disruption of oil supplies from Iraq. Short-term purchases on the spot market had to be followed up by new long-term contracts at higher prices. As a result, the oil import bill increased by about 60 per cent in 1990 above the 1989 level. Moreover, because of the substantial presence of Indian migrants in these two countries, there was also an effect on workers' remittances from these countries.
One result of the BOP crisis of 1990 was that a retired professional economist, Man Mohan Singh, with wide experience in government and universally respected for his sincerity and integrity, became the Finance Minister of India. Singh, having been the government’s top economic bureaucrat during the previous decade, was instrumental in raising economic expertise within the government by bringing a number of market-savvy economists into the government. He was, therefore, relatively well-positioned to make the move from a socialist-inspired approach to economic development to a market-oriented approach. In the mid-1980s a series of hesitant and piecemeal reforms of some of the elements of the basic development strategy were introduced. However, only when India adopted full liberalisation in 1991, the economic growth rate accelerated to record levels, which allowed India to become the economic power it is today. The change in economic policy following the 1991 macroeconomic crisis was a crucial turning point in the economic policy history of India. The new policy and programmes announced in 1991 included: a significant reduction in import tariffs and elimination of import quotas except for consumer goods, elimination or reduction of restrictions on foreign ownership, currency convertibility on the trade account, reduction in licensing requirements, regulations on red tape, opening all industries (except six) to private ownership, and reduction in domestic excise taxes among others. As a result of these reforms, foreign direct investment poured in the form of multinational companies.

The increase in total factor productivity shows the effects of improved efficiency resulting from the reforms and the gradual easing of the economic repression of the Indian economy. The efficiency gains deriving from economic liberalisation, which have become most marked since 1991, are brought out in the reallocation effects caused by shifts in employment from low productivity uses in agriculture to higher productivity uses in industry. As a federal republic, India’s political structure depends on what happens in its constituent states. There was a sense that there would be some resistance to change at state level. This turned out to be partially true, but not sufficient to curtail the reforms.

The Indian software industry, which was almost non-existent until the late 1980s, has grown at a tremendous pace since the early 1990s. The service sector, including IT and communications sectors, have been the main drivers of growth, developing faster than both industry and manufacturing, while having comparable rates of growth in employment. There has also been significant improvement in the quality of labour force in this sector as compared with other sectors. Even though industrial and manufacturing growth rates have risen, industrial employment has been weak. The fastest growth rate has been in services, which accounts for a large part of the recent growth acceleration.

Lal and Clement observe that in order to meet its immediate balance of payments crisis, India also entered into a structural
loan adjustment agreement with the International Monetary Fund (IMF). As one might expect, macroeconomic policy played a major role in India’s economic progress during the 1990s. India’s devaluation of the rupee and its decision to increase the permitted level of foreign investment helped it to make considerable economic progress. The policy of selective capital account liberalisation helped it to achieve important economic objectives, as did the important role played by India’s prudent management of exchange rate policy and its tight monetary policy. Both the privatisation of the public sector enterprises and the gradual dismantling of the government planning process favoured market forces. Indeed, one of the more recent microeconomic approaches to economic growth in India is the promotion of entrepreneurial activities. Entrepreneurial efforts have been found to generate a wide range of economic benefits, including new businesses, new jobs, innovative products and services, and increased wealth for future community investment.

The Indian experience also suggests that the opening of the equity market to foreign investors has been relatively more successful than the opening of FDI. The liberalisation of India’s external sector during the past decade was extremely successful in addressing the BOP crisis of 1990 and placing the balance of payments on a sustainable path. These reforms improved the openness of the Indian economy vis-à-vis other emerging economies.

India’s Vision 2020, development strategies and challenges

The Government of India defines its vision statement as a statement of what it believes is possible for the country to achieve, provided it is able to fully mobilise all the available resources – human, organisational, technological and financial – generate the requisite will and make the required effort. An essential requirement for envisioning India’s future in the new century is to recognise that the parameters, which determine national development, have changed in recent years and will change further in future. The compounded effect of achieving the targeted annual GDP growth rate of 8.5 to 9 per cent over the next 20 years would result in a quadrupling of the real per capita income and almost eliminating the percentage of Indians living below the poverty line. This will raise India’s rank from 11th today to 4th in 2020 among 207 countries listed in the World Development Report in terms of GDP. Furthermore, in terms of per capita GDP measured in PPP, India is expected to rise by 53 ranks from the present 153 to 100. This means that India will move from a low-income country to an upper middle-income country. The report explains that the vision of India 2020 is predicated on the belief that human resources are the most important determinant of overall development. Export of services is a field in which India can excel. India’s recent boom in outsourcing of IT services is only the tip of a rich vein of economic opportunity that could extend to a wide range of manufacturing and service businesses. India’s progress over the next 20 years will be intimately linked to events within the region and around the world.

However, the report also indicates some major challenges of Indian development for the periods to come. The Indian economy is experiencing a distorted
development process, as the service sector has bypassed the industry sector in the typical order of development. Yet, there is a positive side that the service sector will add to industry’s growth potential. However, if industry fails to grow at the required rate, not only will the growth of the service sector suffer, but it will also drag down GDP growth.60

Global financial crisis: efficacy of the Chinese and Indian models

China in the global financial crisis: effects and policy responses

In 2007, the outbreak of US sub-prime mortgage crisis eventually evolved into a global financial crisis, which has affected the real economy of the world. China is in a better position than many other countries to withstand the global financial crisis, mainly because of its conservative and prudent fiscal policies that have placed an emphasis on saving and investing earnings, rather than on consumption. However, the involvement of its real economy in global production has made China deeply affected by the global financial crisis and the economic downturn. The economic growth rate in China was 9% in 2008, a considerable drop from 13% in 2007. In the first quarter of 2009, the growth rate continued to shrink and hit the bottom at 6.1% on an annual base. China’s export sector was badly hurt from the fall of international demand. However, owing to its relatively strict capital controls, China’s financial institutions have recorded limited financial losses in the 2008 financial crisis.61

China’s economy is heavily dependent on the United States, which is one of the largest target markets for China’s exports and one of the largest foreign investors in China. In 2008, China was the largest supplier of textiles to the United States at $32.7 billion (35.1%). From 2002 to 2008, China’s exports of textiles to the United States rose by 274%. Obviously, therefore, the international financial crisis has adversely affected China’s economic growth through a variety of channels including exports, FDI, bilateral trade, price and psychological aspects in varying degrees.62

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Sources: [http://www.mofcom.gov.cn/tongjiziliao/tongjiziliao.html](http://www.mofcom.gov.cn/tongjiziliao/tongjiziliao.html)
To mitigate the effects of the 2008 financial crisis, the government of China promptly reacted by implementing a proactive fiscal policy and moderately loose monetary policy, and launched a large-scale $634 billion U.S. dollars economic stimulus plan for 2009-2010, announced in November 2008, for stimulating domestic demand through enhancing public expenditure. The spending structure proclaimed by the government shows that most of the allocated funds would go to transportation networks, earthquake reconstruction, rural infrastructure and other social works. Besides the increase in expenditures, the government also considered possible tax reductions, including VAT reform, a tax cut for businesses, increasing the export rebate rate, and raising the threshold of individual income taxes, etc.

To respond to the challenges of the global financial crisis, the Chinese government aimed to strengthen and improve macroeconomic control, implement a proactive fiscal policy and moderately loose monetary policy, increase public spending by a relative large degree, implement structural tax reductions and promote the rational growth of monetary credit supply. In addition, China has taken measures such as reducing the bank deposit reserve ratio, cutting deposit and lending rates, cutting corporate taxes and other measures in order to promote economic development. By cutting down interest rates to a historically low level, lowering bank reserve requirement ratios, and removing quota controls on lending by commercial banks in 2008, China successfully injected a huge amount of liquidity into the banking system. In order to reduce the credit crunch and encourage banks to increase lending, the authorities announced a series of measures to accelerate the development of credit guarantee services. Moreover, it also decided to loosen controls on mortgage loan in order to stimulate residents to buy property. As a result, China’s money supply and bank lending increased rapidly in the first half of 2009.

India in the global financial crisis: effects and policy responses

The global financial crisis of 2008 has also directly affected a number of India’s macroeconomic indicators. These include: a decline in the level of foreign exchange reserves held by the Reserve Bank of India; a fall in the external value of the rupee, especially vis-à-vis the US dollar; and the decline in stock market indices. By the middle of 2008, state governments had already started feeling the resource constraint as their tax revenues were affected by the economic downturn. Data shows that in 2006-07 the GDP growth rate was 9.6%, which became 9.3% in 2007-08 and due to the impact of the global financial crisis and global recession, the growth rate of the Indian economy continued to decline. In 2008-09, it fell to 6.8%. The RBI annual policy statement for 2009 projected GDP growth at 6% for 2009-10. This declining trend has adversely affected industrial activity, especially in the manufacturing and service sectors, as well as infrastructure, mainly in construction, transport and communication. The other direct impact of the global financial crisis to India has occurred in the area of credit availability to small-scale agriculture and other rural livelihoods.
effect of that crisis on India has been an outflow of foreign institutional investors from the equity market. India’s industrial sector has suffered from the depressed demand conditions in its export markets, as well as from suppressed domestic demand due to the slow generation of employment.\textsuperscript{70} India’s balance of payments in 2008-09 captured the spread of the global financial crisis. The current account deficit during 2008-09 shot up to 2.6 percent of GDP from 1.5 percent of GDP in 2007-08, which is the highest level since 1990-91. The capital account surplus dropped from a record high of 9.3 percent of GDP in 2007-08 to 0.9 percent of GDP, which is lowest level since 1981-82. The 2008-09 fiscal year ended with a decline in reserves of US$ 20.1 billion compared to a record rise in reserves of US$ 92.2 billion for 2007-08.\textsuperscript{71}

As mentioned above, the global financial crisis began to affect India from early 2008 through the withdrawal of capital from India’s financial markets. This is shown in India’s balance of payments as a substantial decline in net capital inflows in the first half of 2008-09 to US$ 19 billion from US$ 51.4 billion in the first half of 2007-08, a 63 per cent decline.\textsuperscript{72} Due to the global crisis, the economy experienced extreme volatility in terms of fluctuations in stock prices, exchange rates and inflation levels, necessitating a reversal of policy to deal with the emergent situation.\textsuperscript{73} The combination of a rapid sell-off by financial institutions and the prospect of economic slowdown have pulled down the stock and commodities market. Foreign institutional investors pulled out nearly $11 billion from India, dragging the capital market down with it. Stock prices have fallen by 60 per cent. India’s stock market index—Sensex— touched above 21,000 in the month of January, 2008 and plunged below 10,000 in October 2008.\textsuperscript{74}

The government of India took various fiscal and administrative measures to weaken the spread of the international financial crisis in the country. Primarily, the Reserve Bank of India (RBI), the central bank, took a number of monetary easing and liquidity enhancing measures to facilitate the flow of funds from the financial system to meet the needs of productive sectors. The key policy rates of the RBI moved to signal a contractionary monetary stance. The outflow of foreign exchange, as a fallout of the crisis, also meant a tightening of liquidity in the economy. To deal with the liquidity crunch and the virtual freezing of international credit, the monetary stance underwent an abrupt change in the second half of 2008/09. The RBI responded to the emergent situation by facilitating monetary expansion through decreases in the cash reserve ratio (CRR) and statutory liquidity ratio (SLR).\textsuperscript{75} As a result, export growth recovered in 2010. India’s external sector witnessed further improvement with the recovery seen in the global economy as reflected in the turnaround in exports, buoyancy in capital inflows and further accretion to the country’s foreign exchange reserves. As for the Indian banking sector, it was largely insulated from the toxic elements of global finance, partly because Indian banks were not strongly integrated with the Western financial system, which became a chief victim of adventurism in the financial product market.
Conclusions

China’s economy is heavily dependent on the United States, which is one of the largest target markets for China’s exports and one of the largest foreign investors in China. Since early 2008, the financial crisis originated in America has constantly spread and exerted adverse influence on China’s economy, particularly due to the falling exports and FDI. The government of China promptly reacted by implementing a proactive fiscal policy and moderately loose monetary policy, and launched a large-scaled stimulus package worth 634 billion U.S. dollars for 2009-2010 to stimulate domestic demand through enhancing public expenditure. The 2008 global financial crisis has also directly influenced India’s macroeconomic indicators. Significant effects included the sharp outflow of foreign institutional investment from the equity market, a decline in foreign exchange reserves, a fall in the external value of the rupee vis-à-vis the US dollar, and a decline in stock market indices. The government of India took various fiscal and administrative measures, monetary easing and liquidity enhancing measures, and policies strengthening the domestic market to facilitate the flow of funds in the domestic financial system and to weaken the spread of the international financial crisis in the country. Both China and India managed to rescue their economies from the disaster of the 2008 global financial crisis that had resulted from US sub-prime mortgage lending defaults. Furthermore, the economic challenges of these two Asian developing countries are unique. China’s dilemma between its Communist identity with a partial privatization and open market economy has made it difficult to answer the issues of increasingly accumulating inequality and wanting political freedom. In turn, India’s major challenge is to eradicate the extreme poverty that continues to afflict a significant portion of its population.

Notes

1 In exchange rate of January 10, 2012, US$ / Yuan = 0.1584.
2 Ibid.
6 Ibid.
8 Chai and Roy, Economic Reform.
9 Ibid.
11 Chai and Roy, Economic Reform.
12 Guojie Zhao, Wenhui Li and Xiwu Zhou, The Innovation of Deng Xiaoping’s


15 Tisdell, ‘Economic Reform’.

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39 Lal, ‘An Indian Economic Miracle?’

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Determinants of Accounts Receivables: Evidence from Nepal

Dr. Ramji Gautam*

Abstract

Receivables are considered as a key component of the current assets of a business firm. Effective and efficient management of receivables is the most important determinants of effective management of current assets. The level of accounts receivables is affected by various factors. The objective of this study is to analyze the determinants of accounts receivable of Nepalese listed enterprises focusing manufacturing sector. In order to investigate the determinants of accounts achieve fifteen manufacturing firms have been taken as sample covering the period of time 2056/57–2065/66 B.S. Multiple linear regression models have been employed for the analysis of data. It is evident from the findings that accounts receivable are strongly affected by sales revenue, current liabilities, liquid assets, cost of production, depreciation expenditures and opportunity cost.

Key words: Accounts receivable, liquid assets, loan and advance.

1. Introduction

Working capital plays a vital role for the success or failure of the business firms. The excess or inadequate working capital is harmful for business. This broad area covers the management of cash and bank balance, short term investment, receivables, inventories and current liabilities. One of the most important components of working capital is receivables. In their work on cost accounting Matz, Curry, Frank and Khan (1992) estimated that inventories, on average, cover one third of the value of total assets in a balance sheet. Similarly, receivables are another important element of the current asset. The receivables have constituted quite a considerable proportion of total assets in Nepalese manufacturing enterprises i.e. 25.03 percent. Rajan and Zingales (1995) compared non-financial companies in the G7 countries and found that relative part of accounts receivable differs between 29% Italy and 13% Canada. Official statistics show that Finnish manufacturing companies’ accounts receivables are on average 9.7% and accounts payable 6.1% of total assets (firms with more than 20 employees). For retail firms the respective percentages are 8.1% and 16% and for wholesale firms the numbers are as high as 24.1% and 23%, respectively (Niskanen and Niskanen, 2000). Mian and Smith (1992) reported that in 1986 US manufacturing firms had 21 percent of accounts receivable of their total assets. Deloof and Jegers, (1999) reported that in 1995 Belgian non-financial firms’ accounts receivable were 16% of total

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assets. Significance of receivables differs among the countries and it is expected to be higher in the countries which produce more manufacturing products, although there is substantial difference across them (Marotta, 1998). Several studies have been conducted to simply analyze the existence of trade credit (Feriss, 1981; Frank and Maksimovic, 1998; Long, Malitz and Ravid, 1993; Brennan, Maksimovic and Zechner, 1988; Brick and Fung, 1984; and Emery, 1984 and 1987), but very few studies have discussed the reason behind the trade credit is offered or which corporations use it or delivers it most (Petersen and Rajan, 1997).

Numerous recent empirical studies have aimed to test the determinant factors of firms’ receivables. All these previous studies focus their analysis on the determinants of receivables in the firms in the developed countries but the same issue has not been evaluated for corporate firms in developing countries like Nepal. Therefore, determinants of the level of receivables in Nepalese enterprises have been examined in this study.

2. Literature Review

Mian and Smith (1992) have analyzed the various attitudes towards trade credit. They identify sales revenue (market power), tax advantages, scale economies (production volume) and organizational set up as the factors determining accounts receivables. They suggest that there are several non-mutually exclusive incentives for a firm to extend trade credit to its customers, rather than requiring cash sales. Trade credit is more likely to be extended if the additional earnings on a credit sale as compared to cash on delivery (COD) are higher than the cost of borrowing.

Niskanen and Niskanen (2000) analyzed the accounts receivable and accounts payable of Finnish listed firms and found that accounts receivable are most likely to be influenced by the firms’ incentive to use trade credit as a means of price discrimination. Through increased demand for the trade credit level of accounts receivable increases with the increase in the interest rate level. Additionally, they found that the level of accounts payable is affected by the firm size, supply of trade credit, interest rate level, the ratio of current assets to the total assets, and insufficient internal financing.

Petersen and Rajan (1997) found that large firms maintain higher accounts receivables. One reason for this result can be the greater access of larger firms to capital markets which makes them less capital reserved. Second reason can be the demand component from capital rationed firms that causes the accounts receivable of larger firms higher than average.

Hossain (1996) studied on receivable management in public sector textile industry of Bangladesh. The objective of the study was to attempt to analyze and evaluate the receivable management in the public sector textile industry of Bangladesh by taking forty textile units working under the administrative control of Bangladesh Textile Mills Corporation (BTMC) covering a period of ten years starting from 1982/83 to 1991/92. On the basis of analysis, he found that the total receivables constituted more than one...
third of the total current assets and the turnover of total receivables was low and unsatisfactory. Receivable management has been found to be in poor shape in BTMC. BTMC was adopted the policy not to sell goods on credit basis except to the government organization and other public sector organization.

3. Data and Methodology

A sample of 15 listed manufacturing enterprises has been taken for the purpose of this study. The reason of choosing these enterprises is primarily due to reliability and availability of financial statements. The enterprises listed in stock market have an incentive to present profits in order to make their shares more attractive. Contrary to listed firms, non-listed firms in Nepal have less incentive to present true operational results and financial position and usually their financial statements do not reflect real operational and financial activity. Hiding profits in order to avoid corporate tax is a common tactics for non-listed firms in Nepal, which makes them less suitable sample for analysis where one can draw inference, based on financial data. In this study, secondary data have been used. All required secondary data for this study have been taken from different sources such as SEBON, NEPSE and annual reports of concerned enterprise. The data cover a ten-year period starting from 2000/2001 to 2009/10. Multiple linear regression models have been employed for the analysis of data. To get the regression result, the statistical package SPSS-14 has been used.

The following model has been used to study the determinants of receivables. According to this model, receivables are a function of Sales Revenue, Current liabilities, liquid assets, cost of production, depreciation expenditures and opportunity cost.

The receivables model is given by the following equation:

$$\text{DEBTORS} = \alpha + \beta_1 \text{SALES} + \beta_2 \text{CL} + \beta_3 \text{LA} + \beta_4 \text{COP} + \beta_5 \text{DEP} + \beta_6 \text{INTEREST} + \epsilon_t$$

Where, DEBTORS measures the trade debtors; SALES, sales revenue; CL, current liabilities; LA, liquid assets; COP, the cost of production; DEP, the depreciation expenditure; INTEREST, opportunity cost and $\epsilon_t$, error term

Variables Defined:

This study undertakes the issue of identifying key variables that determine the level of receivables in Nepalese enterprises. Choice of the variables is influenced by the previous studies on determinants of receivables.

To find the determinants of receivables, the receivables are used as the explained variable. The receivables include accounts receivable, bills/notes receivables and loan and advances

Following explanatory variables have been used:

Sales Revenue:

Trade debtor depends upon the sales volume and credit policy of a firm. Sales
revenue bears a direct relation to the receivables. Mian and Smith (1992) also include sales revenue in their equation explaining receivables from debtors, as a proxy for the market power of any given firm.

Short-term Liabilities:
Current liabilities have a positive relationship with the accounts receivable.

Liquid Assets:
It is assumed that liquid assets bear a negative relation to account receivables. It is calculated as total of cash in hand, cash at bank and marketable securities. All of these lead to an improvement in the liquidity position of a firm and a good liquidity position leads to a soft credit policy.

Cost of Production:
It hypothesizes that trade credit policy is indirectly related to the cost of production and to the pattern of corporate financing. The high cost of production is a cause of low credit sales.

Depreciation Expenditure:
It assumes that trade credit policy is inversely related to the depreciation expenditure. It means higher the depreciation expenditures lower the credit sales.

Opportunity Cost
Finally, the opportunity cost of the capital invested in receivables has been measured as short-term interest rate of commercial bank. It is assumed that opportunity cost is negatively related to receivables.

4. Regression Results
From the regression analysis, it is found that there is positive relationship between sales revenue and accounts receivable. This confirms the direct relationship between sales and a credit facility. The results are also consistent with the findings of the Mian and Smith (1992) study. The relationship of accounts receivables with cost of production and depreciation expenditures is negative. It shows that higher cost of production and depreciation expenditure encourages a tendency to avoid credit sales. It is observed that the relationship of receivables with regard to current liabilities is positive. While, financing through short-term liabilities lead to the expansion of accounts receivable. Any increase in current liabilities will lead to the enhancement of accounts receivables. The result shows the negative relationship between receivables and liquid assets. It reflects that liquid assets are substitute for receivables. The result also shows a negative relationship with opportunity cost. It means higher opportunity cost is another cause of a lower level of receivables.

The coefficients of all variables are significant except current liabilities and depreciation expenditure. It is obvious that the regression equation does not suffer from any multicollinearity among independent variables as can be readily ascertained from the correlation matrix.
Table 1: Regression Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEBTORS (Constant)</td>
<td>108.066** (1.916)</td>
</tr>
<tr>
<td>SALES</td>
<td>0.033*** (1.793)</td>
</tr>
<tr>
<td>CL</td>
<td>0.024 (0.477)</td>
</tr>
<tr>
<td>LA</td>
<td>-0.277** (-1.955)</td>
</tr>
<tr>
<td>DEP</td>
<td>-0.002 (-0.008)</td>
</tr>
<tr>
<td>CSTPRD</td>
<td>-0.265* (10.560)</td>
</tr>
<tr>
<td>INTEREST</td>
<td>-728.275*** (-1.658)</td>
</tr>
<tr>
<td>R Square</td>
<td>0.709</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.700</td>
</tr>
</tbody>
</table>

Source: Computed from annual reports of concerned enterprise

Note: Figures in parenthesis denote ‘t’ values.

*Significant at 1 percent **Significant at 5 percent ***Significant at 10 percent

Table 2: Correlation Matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>DEBTORS</th>
<th>SALES</th>
<th>CL</th>
<th>LA</th>
<th>DEP</th>
<th>COP</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEBTORS</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SALES</td>
<td>0.620</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CL</td>
<td>0.594</td>
<td>0.393</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LA</td>
<td>0.226</td>
<td>0.340</td>
<td>0.366</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEP</td>
<td>-0.025</td>
<td>0.070</td>
<td>0.285</td>
<td>0.042</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>COP</td>
<td>0.834</td>
<td>0.692</td>
<td>0.645</td>
<td>0.338</td>
<td>-0.050</td>
<td>1</td>
</tr>
<tr>
<td>INTEREST</td>
<td>-0.125</td>
<td>-0.049</td>
<td>-0.229</td>
<td>-0.096</td>
<td>-0.026</td>
<td>-0.071</td>
</tr>
</tbody>
</table>

Source: Computed from annual reports of concerned enterprise

5. Conclusion

This study empirically analyzed the determinants of accounts receivable of Nepalese manufacturing enterprises. It has been observed that the sales revenue and current liabilities are positively associated with receivables whereas liquid assets, depreciation
expenditure, cost of production and opportunity cost are negatively related with debtors/receivables. All the values of coefficients are statistically significant except for current liabilities and depreciation expenditure and signs of coefficients are as expected.

Therefore, it can be inferred that sales revenue, current assets, depreciation expenditure, cost of production, liquid assets and opportunity cost are the major determinants of level of receivables in Nepalese Enterprises.

Reference
Labor Migration and Remittance in Nepal: A Cross-Sectional and Temporal Analysis

Basant Dhakal*

Abstract

Nepal has become one of the major labor exporting countries in recent years. Since last few years, remittance income is playing a vital role for foreign currency earnings and favorable impact on balance of payment situation, to reduce the number of people in the country below the poverty line and ultimately to the economic growth of the nation. This paper tries to explain the number of Nepalese people who are engaging in foreign employment sector on the basis of gender, ecological belt, development region and urban-rural area. It also tries to explore the trend analysis of remittance income and ratio of remittance to GDP in Nepal.

Keywords: Foreign employment, Labor destination, Remittance, Trend analysis.

1. Introduction

The history of foreign employment in Nepal dates back to the early nineteenth century when Nepalese soldiers began to work for the British army. In the ensuing decades thousands of Nepalese have worked in British and Indian armies. Currently, over 60,000 Nepalese are working in the Indian Army and other government institutions in India. There are three migration patterns in Nepal: domestic migration, migration to India and migration to third countries other than India. As the border between Nepal and India is open, thousands of Nepalese people go to India for labor employment. It increased dramatically after 1996 and the consequence of shrinking economic opportunities back home compelled Nepalese youths to look for alternatives elsewhere. The massive unemployment inside the country is main reason behind this upsurge in venturing out to distant lands. India has been a traditional destination for Nepalese migrants. The primary reasons for this are geographical proximity, historical and cultural links, and a large and open porous border. The 1950 Treaty of Peace and Friendship between India and Nepal formalized free border movement of people. The bulk of these migrants are employed in the private, informal sector. These migrants hold semi-skilled and unskilled jobs in restaurants and factories or are employed as domestic workers, security guards, and maids. However, a significant proportion of the remittances from India are not recorded in the balance of payment as they are brought in by the migrants themselves or sent through relatives and friends. As increasingly larger share of remittances now comes from countries other than

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India, reflecting changing migration patterns and higher earnings in these locations. Moreover, the composition of skills of the labor flows is different among destinations. While migrants to the Middle East are employed mostly as security personnel, chauffeurs, and construction workers, the demand from South East Asian countries is more for employment in industrial enterprises. There are huge number of Nepalese in UK and USA. They went to those counties as a student but their return into Nepal is rare. They are remitting their earning through unofficial channels since the commission charge in official channels is very high.

Over the past 15 years from 1991, international migrant’s remittances have become increasingly prominent in our country. The amount of remittances reflects only transfer record in the balance of payments. Unrecorded flows through informal channels are believed to be more than the recorded flows. Regarding the transfer of remittances in Nepal, the record of banking sector showed that Rs 25.9 billion was received in the fiscal year 2000/01, however, Hundi operators or money transferring agencies handled the bulk part of remittances. Considering the increasing number of workers, assuming four lakh per year going outside the country in this perspective, remittance received was estimated Rs 50 billion in fiscal year 2001/02(Kshetry, 2003:9-12).

Remittances are typically helpful to meet specific needs of the respondent’s family members and thus tend to increase their standard of living. In lower class or poor household, they may finance their remittances to fulfill their basic needs, such as in consumption, housing, children education and health care and to pay for loan. In middle class or rich households, they may provide either loan for individuals going aboard or capital for business and entrepreneurial activities. From macro -economic point of view, this source may be more stable than capital flows (Gaudel, 2006:9-17).

One the Nepal’s major exports is labor, and most rural households now rely on at least one member’s earning from employment away from home. Nepalese works have sought foreign employment as both the agricultural and non-agricultural sectors struggle to generate new employment opportunities, with limited arable land, landlessness is pervasive and the number of landless households has steadily increased in the agricultural sector. In the non-agricultural sector, the slowdown in growth, especially since 2000/01, due to the Moist insurgency and exogenous shock has further retarded the pace of employment creation. The conflict had also, until recently, crated difficult living and security conditions, especially in the rural areas. It had also promoted people to look for overseas employment (Panta, 2011:1-20).

Today’s, the process of money transfer to Nepal from aboard through banking channel has become efficient and easy. It is now possible to measure the amount repatriated by the Nepalese migrant from aboard to Nepal every year through formal channel. However, it is estimated that only 40% of Nepalese migrants workers use formal channel to send their
earning back home. The rest still rely on the informal channels like hundi that is believed to be fast and economic. Workers remittance is now consider as backbone of Nepalese economy. According to a study by David Seddon for the DFID, the value of foreign remittance from migrant labors could be equivalent to 25% of official gross domestic product(GDP). Since last few years, remittance income is plying a vital role for foreign currency earnings and favorable impact on balance of payment situation, to reduce the number of people in the country below poverty line and ultimately to the economic growth of the nation.

2. Objective of the Study
The basic objective of the study is to explore the current condition of labor migrants in Nepal on the basis of gender, rural-urban areas, ecological belts and development regions and to analyze the trend and nature of remittance, ratio of remittance to GDP and share of remittance to current account receipts excluding grants in Nepal.

3. Methodology
All analysis and discussion have been based in published source of secondary data such as Economic Review (2011), Nepal in Figure 2010(CBS), Report of Foreign Employment Department (2011) and other different associations which are related with labor migrants and remittance in Nepal. Some descriptive statistics such as percentage, ratio, pie-chart, bar diagram and line chart are used to explain the number of labor migrants on the basis of sex, ecological belt, development zone and urban-rural area as well as current situation of remittance in Nepal. Trend analysis by least square method \( Y = a + bx + e \) is used to find the yearly increment of remittance, where \( y \) = dependent variable like remittance, ratio of remittance to GDP and share of remittance to current account receipts in Nepal, \( x \) = time in fiscal year, \( a \) = Y-intercept, \( b \) = slope of the line and \( e \) = error term.

4. Data Presentation and Analysis
All analysis and discussion have been based in published source of secondary data such as Economic Review (2011), Nepal in Figure 2010(CBS), Report of Foreign Employment Department (2011) and other different associations which are related with labor migrants and remittance in Nepal.

4.1 Top Nepalese Labor Destination
Nepalese labors are demanded mostly in countries like Malaysia, Qatar, Saudi Arabia and UAE. Most of the Nepalese labors ranging from unskilled, semi-skilled and skilled are equally opting to receive foreign employment to these countries. The following table shows the top six destinations of Nepalese labors.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Nepalese labors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>314,313</td>
</tr>
<tr>
<td>Qatar</td>
<td>232,346</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>164,229</td>
</tr>
<tr>
<td>UAE</td>
<td>85,346</td>
</tr>
<tr>
<td>Kuwait</td>
<td>13,446</td>
</tr>
<tr>
<td>Bahrain</td>
<td>7,052</td>
</tr>
</tbody>
</table>

Source: Department of Foreign Employment, 2011
The above table shows that Nepalese labors give first priority to Malaysia, second to Qatar, third to Saudi Arabia, fourth to UAE, fifth to Kuwait and sixth to Bahrain. For more clarity the above information is presented in the following diagram.

Figure: 1

The above pie chart shows that Malaysia, Qatar and Saudi Arabia are the main destination of Nepalese labors.

4.2 Labor Migration by Sex

In Nepalese society, generally male is engaged in earning money and female is care taker of children and household. The following table shows that the present scenario of labor migrants on the basis of sex.

Table: 2 Labor migrants by sex

<table>
<thead>
<tr>
<th>Sex</th>
<th>Number of Labor migrants</th>
<th>Percent of labor migrants</th>
<th>Percent of absent population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>1,663,237</td>
<td>86.7</td>
<td>7.77</td>
</tr>
<tr>
<td>Female</td>
<td>254,666</td>
<td>13.3</td>
<td>1.86</td>
</tr>
<tr>
<td>Total</td>
<td>1,688,703</td>
<td>100</td>
<td>6.34</td>
</tr>
</tbody>
</table>

Source: CBS, 2011

The above table shows that 86.7 % of male and 13.3% of female are engaged in foreign employment on the basis of total number of labor migrants. The ratio of male to female is 6.53. It means that male foreign employment is 6.53 times of female foreign employment. There are 7.77 percent of male population and 1.86 percent of female population are out of country by the cause of foreign labor migrants. For more clarity the above information is presented in the following diagram.

Figure: 2

The pie chart shows that very small chunk of female population are engaged in foreign employment sector.

4.3 Labor Migration by Urban–Rural Area

Most of the labors of rural area are engaged in unskilled and semi-skilled foreign employment by the cause of low opportunity of getting job in the nation. The following table shows the present scenario of labor migrants by urban – rural area.

Table: 3 Labor Migrations by Urban –Rural Area

<table>
<thead>
<tr>
<th>Area</th>
<th>Number of labor migrants</th>
<th>Percent of total labor migrants</th>
<th>Percent of absent population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>280,434</td>
<td>14.62</td>
<td>6.17</td>
</tr>
<tr>
<td>Rural</td>
<td>1,637,469</td>
<td>85.38</td>
<td>7.41</td>
</tr>
<tr>
<td>Total</td>
<td>1,917,903</td>
<td>100</td>
<td>7.20</td>
</tr>
</tbody>
</table>

Source: CBS, 2011
The above table shows that 85.38% people from rural area and 14.62% people from urban area are engaged in foreign employment on the basis of total labor migrants. It means that there is maximum labor migration in rural area with compare to urban area. There are 6.17 percent urban people and 7.41 rural people are out of country by the cause of foreign labor migration.

The pie chart shows that labor migration is popular in the rural area with compare to urban area of Nepal.

4.4 Labor Migrations by Ecological Belt
Ecologically, Nepal is divided into three regions: mountain, hill and terai. The following table shows the condition of labor migrants of three ecological regions.

<table>
<thead>
<tr>
<th>Ecological Belt</th>
<th>Number of labor migrants</th>
<th>Percent of labor migrants</th>
<th>Percent of absent population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mountain</td>
<td>107,936</td>
<td>5.6</td>
<td>6.01</td>
</tr>
<tr>
<td>Hill</td>
<td>998,087</td>
<td>52.1</td>
<td>8.69</td>
</tr>
<tr>
<td>Terai</td>
<td>811,880</td>
<td>42.3</td>
<td>6.08</td>
</tr>
<tr>
<td>Total</td>
<td>1,917,903</td>
<td>100</td>
<td>7.20</td>
</tr>
</tbody>
</table>

Source: CBS, 2011

The above table shows that 5.6% of labor migrants from mountain region, 52.1% of labor from hill region and 42.3% of labor from terai region. There is a maximum number of labor migrant from hill region. The percentages of absent population who are engaged in foreign labor employment are 6.01%, 8.69% and 6.08% in the mountain, hill and terai region respectively.

The pie chart shows that people of hilly region attracted to the foreign labor employment.

4.5 Labor Migrations by Development Zone
Administratively, Nepal is divided into five development zone: eastern, central, western, mid-western and far-western zones. The following table shows the condition of labor migrants on the basis of development zones.

<table>
<thead>
<tr>
<th>Development Zone</th>
<th>Number of labor migrants</th>
<th>Percent of labor migrants</th>
<th>Percent of absent population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern</td>
<td>427,835</td>
<td>22.31</td>
<td>7.34</td>
</tr>
<tr>
<td>Central</td>
<td>460,303</td>
<td>24</td>
<td>4.74</td>
</tr>
<tr>
<td>Western</td>
<td>578,849</td>
<td>30.18</td>
<td>11.70</td>
</tr>
<tr>
<td>Mid-Western</td>
<td>223,076</td>
<td>11.63</td>
<td>6.22</td>
</tr>
<tr>
<td>Far-Western</td>
<td>227,840</td>
<td>11.88</td>
<td>8.96</td>
</tr>
<tr>
<td>Total</td>
<td>1,917,903</td>
<td>100</td>
<td>7.20</td>
</tr>
</tbody>
</table>

Source: CBS, 2011
The above table shows that 22.31% of labor migrants from eastern region, 24% labor migrants from central region, 30.18% labor migrants from western region, 11.63% labor migrants from mid-western region and 11.88% labor migrants from far western region. There is maximum number of labor migrants from western region with compare to other regions. There are 7.34%, 4.74%, 11.70%, 6.22% and 8.96 % people of eastern, central, western, mid-western and far-western are absent in the country by the cause of foreign labor migration.

Table: 6 Total Remittances in Nepal

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total remittance (in billions Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004/05</td>
<td>65.54</td>
</tr>
<tr>
<td>2005/06</td>
<td>97.69</td>
</tr>
<tr>
<td>2006/07</td>
<td>100.14</td>
</tr>
<tr>
<td>2007/08</td>
<td>142.68</td>
</tr>
<tr>
<td>2008/09</td>
<td>209.70</td>
</tr>
<tr>
<td>2009/10</td>
<td>231.73</td>
</tr>
</tbody>
</table>

Y-intercept(a) = 141.25
Annual increases(b) = 34.56

Source: Economic Review, 2011

From the above table, the trend line equation is \( Yc=141.25+34.56X \) which is the line of best fit. The y-intercept \( a = Rs \ 141.25 \) billion which is the value of y when \( x=0 \). The rate of change of remittance for unit change of time in a year \( b = Rs \ 34.56 \) billion which is the annual increases of remittance in Nepal. It indicates that in each year, remittance is increased by Rs 34.56 billion.

The above line chart shows that the remittance in Nepal has increasing tendency from the fiscal year 2004/05 to 2009/10.

4.7 Ratio of Remittance to GDP

Over the past 21 years from 1991, international migrant’s remittances have become increasingly prominent in our country. The amount of remittances reflects only transfer record in the balance of payments. The following table shows the remittance income from fiscal year 2004/05 to 2009/10.
of payment situation, to reduce the number of people in the country below poverty line and ultimately to the economic growth of the nation. The following table reveals the ratio of remittance to GDP from the fiscal year 2004/05 to 2009/10.

Table: 7 Ratio of Remittance to GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio of remittance to GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004/05</td>
<td>11.1</td>
</tr>
<tr>
<td>2005/06</td>
<td>14.9</td>
</tr>
<tr>
<td>2006/07</td>
<td>13.8</td>
</tr>
<tr>
<td>2007/08</td>
<td>17.5</td>
</tr>
<tr>
<td>2008/09</td>
<td>21.2</td>
</tr>
<tr>
<td>2009/10</td>
<td>19.6</td>
</tr>
<tr>
<td>Y-intercept(a)</td>
<td>16.35</td>
</tr>
<tr>
<td>Annual Increase(b)</td>
<td>1.86</td>
</tr>
</tbody>
</table>

Source: Economic Review, 2011

From the above table, the trend line equation is $Y_c = 16.35 + 1.86X$ which is the line of best fit. The y-intercept (a) = 16.35 percent which is the value of y when $x=0$. The rate of change of ratio of remittance to GDP for unit change of time in a year (b) = 1.86 percent which is the annual increases of ratio of remittance to GDP in Nepal. It indicates that in each year, the ratio of remittance to GDP is increased by 1.86 percent.

The above figure indicates that the ratio of remittance to GDP (%) has increasing tendency from fiscal year 2004/05 to 2009/10.

4.8 Share of Remittance to Current A/C Receipts Excluding Grants

The following table reveals the share of remittance to current account receipts excluding grants of Nepal from fiscal year 2004/05 to 2009/10.

Table: 8 Share of Remittance to Current A/C Receipts Excluding Grants

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Share of remittance to current account receipts excluding grants (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004/05</td>
<td>38.2</td>
</tr>
<tr>
<td>2005/06</td>
<td>46.7</td>
</tr>
<tr>
<td>2006/07</td>
<td>45.3</td>
</tr>
<tr>
<td>2007/08</td>
<td>51.1</td>
</tr>
<tr>
<td>2008/09</td>
<td>56.7</td>
</tr>
<tr>
<td>2009/10</td>
<td>59.3</td>
</tr>
<tr>
<td>Y-intercept(a)</td>
<td>49.55</td>
</tr>
<tr>
<td>Annual increase(b)</td>
<td>4.04</td>
</tr>
</tbody>
</table>

Source: Economic Review, 2011

From the above table, the trend line equation is $Y_c = 49.55 + 4.04X$ which is the line of best fit. The y-intercept (a) = 49.55 percent which is the value of y when $x=0$. The rate of change of share of remittance to current account receipts excluding grants for unit change of time in a year (b) = 4.04 percent which is the annual increases of share of remittance to current account receipts excluding grants in Nepal. It indicates that in each year, the share of remittance to current account
receipts excluding grants is increased by 4.04 percent.

Figure: 8

The diagram shows that share of remittance to current account receipts excluding grants is increasing gradually from fiscal year 2004 but it is decreased in fiscal year 2006/07, after wards it is increasing smoothly.

5. Summary and conclusion

Remittance has played a vital role in poverty reduction. Remittance increases the foreign currency availability in the domestic market and raises national savings. It reveals the crucial role that remittances play in attaining macro-economic stability in the country. Though increasing remittance has its own advantage; it is also that over dependency on it in the end will eventually lead to economic failure if the flow of remittance is disrupted. There is massive leakage in actual remittance inflow because most of labor prefers to send their earning through the informal channels. So government should make plans to encourage the migrants to follow the formal channels to send their earning. An equal intentional should be given to secure the female labors whose share in total is 11%. There is demand of skilled workers in the international labor market. However, there is vast difference while comparing the education and technical standards of Nepalese workers with those of the other countries. It is believed that Nepalese workers are accepted in East and South Asia as well as the Gulf countries only because they come cheap and do whatever job is given to them. So that government should improve the curriculum in school so that it can provide more practical based knowledge. Apart from it, the government should also conduct consultation meetings with the experts, occupation groups, trade unions and foreign employment enterprises to make rules and regulations for the promotion and management of foreign employment occupation. It is necessary to monitor the man power agencies providing foreign employment services for their efficiency and transpiring. There are many incidences of fake employment contracts, visas and forged documents etc. so effort should make foreign employment business safe, well-managed and decent as well as protect the rights and interest of foreign bound workers and foreign employment entrepreneurs.

References


Attractive Attributes to Build Employer Brand to Attract and Retain Best Talents: Evidence from Bangladesh

Farhana Zaman*
Priyabrata Chowdhury**
Md. Tapan Mahmud***

Abstract
In present business environment, where knowledge based capital is gaining increasing emphasis, organization has to be competitive not only to earn profit but also to retain and attract best talents. For a successful organization, efficient employees play a major role. So, this paper tries to identify the attractive attributes of an organization that are important to build the employer brand to attract and retain the talented employees. A total of 80 students of different universities and departments and 45 employees of different organizations are surveyed through a structured questionnaire to know about the attractive attributes. The findings of his study shows that high business ethics, good corporate image, career growth and learning opportunities are attractive attributes for an employee and corporate politics, inequality in pay system, rough behavior of seniors make an employee dissatisfied. Therefore, employer should try to control these negative factors of an organization.

Keywords: Employer brand, Attractive attributes, Fresh graduates, Potential job switchers, Good organization.

1. Introduction
In this present era business organizations have become more competitive and every organization tries to get the competitive advantage over other organizations. An important factor of long term competitive advantage for business organizations is its human resource. Every company, regardless of its nature of business, its marketplace, and the economic conditions; needs the right people to be engaged in making the right contributions. To make this happen, a business must first attract

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the right people to do the right jobs at the right time (Florea, 2011).

In today’s job market, talented people have many job opportunities to explore. Lyon and Marler (2011) say that to attract and retain the appropriate employee is a burning issue; therefore organizations are trying their level best to get the skillful and knowledgeable employees (Yaqub & Khan, n.d). The employer must invest time and effort in establishing the reputation of being a top employer in order to be able to attract and retain talent. So, this is the right time for the advent of a technique called “Employer Branding”.

The transition from the industrial era to the knowledge era has changed the employer–employee relationship paradigm, and the supply and demand curve for talent is becoming increasingly favored towards the talented employee. The quest to win the talent war confronts companies around the world to realign their employer brand efforts in a bid to mitigate talent limitations (Deloitte LLP, 2010; Minchington, 2006). According to Chartered Institute of Personnel and Development (2009), employer branding is the set of intangible attributes and qualities which attract the potential employees to offer the services for the particular organization (Yaqub & Khan, n.d). Backhaus and Tikoo (2004) argue that employer branding suggests unique aspects of the organization’s employment offerings which distinguish it from other organizations. On the other hand, King and Grace (2008) consider the employer branding as an identity of the organization as an employer. Similarly they described that employer branding is an image of the firm as a good place to work.

Corporate leaders and their human resource functionaries are moving towards placing a high premium on employer brand as a critical success factor for companies striving for competitive advantage in the talent war (Cheese, Thomas & Craig, 2007; Crous, 2007; Minchington, 2006). This

2.0. Literature Review

The term “Branding” is mostly used in developing product and corporate brands. However, it can also be used in the human resource management and it is known as “Employer Branding”. Employer branding is the science of branding and its principles are applicable on the human resource management. The core job of employer branding is to make company attractive for the potential employees (Yaqub & Khan, n.d). Employer brand is associated with an organization’s differentiated attractiveness in terms of functional, economic and psychological benefits (Ambler & Barrow, 1996; Corporate Leadership Council, 2007; Donath, 2001; Minchington, 2006).
observation is confirmed in a recent global survey by Deloitte LLP (2010) who found that the importance of employer brand has gained the attention of companies with higher retention plan. Corporate leaders of companies who plan to retain more than seven in ten (72%) will increase their focus on their employer brand in the year to come (Botha, Bussin & De Swardt, 2011).

A research of current literature has revealed that the global talent pool is shrinking and organizations are uncertain as to what talent management decisions they should make (Armstrong, 2007; Bussin, 2007; Crous, 2007; Leonardi, 2007; Minchington, 2006). Research evidence confirms the relationship between employer brand and the attraction and retention of talent (Crous, 2007; Dell, Ainspan, Bodenberg, Troy & Hickey, 2001; Minchington, 2010; Willock, 2005). However, Minchington (2006) claims that many organizations are not developing or maintaining their employer brand correctly and talent shortages can render organizations vulnerable in terms of competitive sustainability (Boshard & Louw, 2010; Charest, 2011; Prinsloo, 2008). So a strong employer brand acts as an enticement for talent in the current marketplace (Rosethorn, 2009; Willock, 2005).

Research findings by Milkovich and Newman (2008) confirm that job candidates are attracted to companies with benefits that fit their inherent preferences or needs.

A survey made by Spherion in January, 2007 shows why US workers voluntarily change their jobs, as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Criteria</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Growth &amp; earnings potential</td>
<td>30</td>
</tr>
<tr>
<td>2</td>
<td>Time &amp; flexibility</td>
<td>23</td>
</tr>
<tr>
<td>3</td>
<td>Financial compensation</td>
<td>22</td>
</tr>
<tr>
<td>4</td>
<td>Culture &amp; work environment</td>
<td>22</td>
</tr>
<tr>
<td>5</td>
<td>Benefits</td>
<td>12</td>
</tr>
<tr>
<td>6</td>
<td>Supervision relationship</td>
<td>10</td>
</tr>
<tr>
<td>7</td>
<td>Training &amp; development</td>
<td>9</td>
</tr>
<tr>
<td>8</td>
<td>Management climate</td>
<td>9</td>
</tr>
</tbody>
</table>


Another study conducted by McKinsey in 2004 found that employees rated factors such as: fun place to work, for people like me, training opportunities and innovative company to be more important than high salary when it comes to winning over a potential recruit [de St Aubin D. and Carlsen B.J., 2008].

The employer brand is a concept of crucial importance for a high ranking company or one that aims to hold this position. Externally, a strong employer brand can support the organization in the battle for talents, while internally it can contribute to their employee retention. Therefore, if any company wants to make a difference and wants to compete globally, then it must have to give emphasis on talented employee attraction and retention. A few studies were conducted in some countries on employer branding and how can it be used to attract and retain the talented employee, but no study was found in Bangladeshi context. Hence, this paper
tries to find out the attractive attributes of an organization to attract and retain the best talents.

3.0. Objectives of the Study
The objectives of this study are:

- To find what forms the perception of a good organization among the fresh graduates and potential job switchers.
- To find out how the fresh graduates and potential job switchers collect information about an organization.
- To identify the attractive attributes that the fresh graduates and potential job switchers seek from their profession.
- To identify the reasons why an employee want to switch a job/organization.
- To provide managers and human resource functionaries some guidelines by which they may become able to build employer brand.

4.0. Methodology of the Study
This study is mainly descriptive in nature. Data were collected about the perception of a good organization, attractive attributes of an organization, from where the fresh graduates and potential job switchers collected information regarding an organization and why the potential job switchers want to switch from their present organization.

4.1. Data collection
This study uses both primary and secondary data. Primary data were collected through a structured questionnaire. The questionnaire consists of six questions to fulfill the objectives of the study. Secondary data were also used for literature review and other purposes. Secondary data were collected from articles, magazines, web publications and internet.

4.2. Data Analysis
Descriptive statistics (frequencies and percentages) is used to analyze the data.

4.3. Sample design
The sample design consists of defining the target population, determining the sample size and sampling method. The target population for this study is all the fresh graduates and potential job switchers. However, for the convenience of the study, data were collected from a 125 students of the department of following universities and job organizations. The technique that is used to collect data is quota sampling to assure a proper cross sectional representation of the population.

Table 2: For Fresh Graduates

<table>
<thead>
<tr>
<th>Department</th>
<th>Universities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>American International University of Bangladesh(AIUB), East West University(EWU), North South University(NSU)</td>
</tr>
<tr>
<td>Mechanical engineering</td>
<td>Bangladesh University of Engineering and Technology(BUET)</td>
</tr>
<tr>
<td>EEE</td>
<td>EWU, AIUB, BUET, NSU</td>
</tr>
<tr>
<td>Chemical engineering</td>
<td>BUET</td>
</tr>
<tr>
<td>Chemistry</td>
<td>Dhaka University, JahangirnagarUniversity(JU)</td>
</tr>
<tr>
<td>Business Administration</td>
<td>NSU, Institute of Business Administration,DU; EWU, AIUB</td>
</tr>
</tbody>
</table>
Table 3: For Job Switcher

<table>
<thead>
<tr>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Square, ACI, Transcom, BEXIMCO, GP, Unilever, Huawei, BAT, Rabi, Banglalink, Novertis.</td>
</tr>
</tbody>
</table>

5.0. Respondents’ Profile

5.1. Age Group of respondents

The age group of the respondent is presented below:

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>23-25</td>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>26-28</td>
<td>35</td>
<td>28</td>
</tr>
<tr>
<td>29 years and above</td>
<td>40</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>100</td>
</tr>
</tbody>
</table>

Respondents were mainly within the age of 23 to 25. Focus was given on this group since the people in this group are young and dynamic who are seeking the entry level jobs.

5.2. Occupation of respondents

The occupation of the respondents is presented below:

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student</td>
<td>80</td>
<td>64</td>
</tr>
<tr>
<td>Employee of local private company</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>Employee of multinational company</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>100</td>
</tr>
</tbody>
</table>

The occupation table shows that majority of the respondents were students. This can be justified by the fact that the students are the potential job seekers. Since they are the fresh graduates from their universities, they will look for a job. Thus it will be easier to identify what attract these students most to join in any organization.

5.3. Gender and education of respondents

Gender and education of the respondents are presented below:

<table>
<thead>
<tr>
<th>Gender</th>
<th>Business</th>
<th>Mechanical Engineer</th>
<th>Information Technology</th>
<th>EEE</th>
<th>Chemical Engineer</th>
<th>Chemist</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>27</td>
<td>0</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>8</td>
<td>46</td>
</tr>
<tr>
<td>Male</td>
<td>22</td>
<td>8</td>
<td>21</td>
<td>16</td>
<td>7</td>
<td>5</td>
<td>79</td>
</tr>
<tr>
<td></td>
<td>49</td>
<td>8</td>
<td>25</td>
<td>19</td>
<td>11</td>
<td>13</td>
<td>125</td>
</tr>
<tr>
<td>Total % within gender</td>
<td>39.2%</td>
<td>6.4%</td>
<td>20.0%</td>
<td>15.2%</td>
<td>8.8%</td>
<td>10.4%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Gender and education table shows that respondents are from different background. Nevertheless, students from business background hold the major portion, since for executive and management level positions companies is a bit hinged towards graduates having business background. Thus, the survey was not biased; it maintained a balance among different universities, age, gender and background of students.

6.0. Findings and Analysis of the Study

6.1. Perception about good organization

Every employee wants to work in a good organization. People want to take the pride that they are the part of a well reputed organization. That’s why, a question about the criteria to be a good organization was asked to the respondents. The responses about good organization are presented below:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good prospects for high future earnings</td>
<td>13</td>
<td>10.4</td>
</tr>
<tr>
<td>Business ethics is high</td>
<td>27</td>
<td>21.6</td>
</tr>
<tr>
<td>Catalyst of change and innovation at the forefront</td>
<td>23</td>
<td>18.4</td>
</tr>
<tr>
<td>of the industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Having a good corporate “culture”</td>
<td>25</td>
<td>20.0</td>
</tr>
<tr>
<td>Having a durable and structural competitive advantage</td>
<td>19</td>
<td>15.2</td>
</tr>
<tr>
<td>Pay tax to the government properly</td>
<td>10</td>
<td>8.0</td>
</tr>
<tr>
<td>Invest huge on Corporate Social Responsibility</td>
<td>05</td>
<td>4.0</td>
</tr>
<tr>
<td>Others</td>
<td>03</td>
<td>2.4</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>100.0</td>
</tr>
</tbody>
</table>

For the respondent of this study most important criterion of a good organization is high business ethics. 21.6% of the respondents believe that an organization which follows a high standard of business ethics is a good organization. The respondents give 20% preference on good corporate culture where a clear set of values, vibrant style of management along with creative and dynamic work environment exist. 18.4% preference goes to an organization with change and innovation and 15.2% preference goes to organization holding durable and structural competitive advantage. So, these criteria are important to most employees to choose a good organization. According to the respondents, good location, reputed management body, image of the organization and efficient human resource also possess minor importance, which in this study are covered by the other category.

Education is closely related to the perception of a good organization. So education and perception about good organization is presented in the following table.
For the business students, the most important criteria are business ethics (24.8%) and good corporate culture (21.6%). Change and innovation (17.6%) is also important to them. For mechanical engineers, high future earnings (3.2%), change and innovation (2.4%) and corporate culture (2.4%) are most important criteria. For the respondents from Information technology background, business ethics (8.0%) and durable, structural competitive advantage (7.3%) are highly important. For electrical engineers, business ethics (8.8%) and paying tax to government (8.0%) are most important criteria. For chemical engineers, the most important criteria are change and innovation (6.4%). For chemistry background students, corporate culture (4.8%), structural competitive advantage (4.8%), business ethics (4.0%) are important criteria for a good organization.

6.2. Sources of information regarding different organization

It is also important to know the source from where the fresh graduates and job switchers collect information regarding an organization. Focusing on these sources, organizations can create employer branding among potential employees posting appropriate advertisement there. The sources of information regarding an organization are presented below:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Business</th>
<th>Mechanical Engineering</th>
<th>Information Technology</th>
<th>EEE</th>
<th>Chemical Engineer</th>
<th>Chemist</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>High future earnings</td>
<td>12.0%</td>
<td>3.2%</td>
<td>1.6%</td>
<td>3.2%</td>
<td>1.6%</td>
<td>1.6%</td>
<td>23.2%</td>
</tr>
<tr>
<td>High business ethics</td>
<td>24.8%</td>
<td>1.6%</td>
<td>8.0%</td>
<td>8.8%</td>
<td>0.8%</td>
<td>4.0%</td>
<td>48.0%</td>
</tr>
<tr>
<td>Catalyst of change and innovation</td>
<td>17.6%</td>
<td>2.4%</td>
<td>6.4%</td>
<td>5.6%</td>
<td>6.4%</td>
<td>1.6%</td>
<td>40.0%</td>
</tr>
<tr>
<td>Culture</td>
<td>21.6%</td>
<td>2.4%</td>
<td>6.4%</td>
<td>5.6%</td>
<td>3.2%</td>
<td>4.8%</td>
<td>44.0%</td>
</tr>
<tr>
<td>Structural Competitive Advantage</td>
<td>15.3%</td>
<td>1.6%</td>
<td>7.3%</td>
<td>4.8%</td>
<td>2.4%</td>
<td>4.8%</td>
<td>36.3%</td>
</tr>
<tr>
<td>Proper Tax</td>
<td>4.8%</td>
<td>1.6%</td>
<td>4.8%</td>
<td>8.0%</td>
<td>1.6%</td>
<td>3.2%</td>
<td>24.0%</td>
</tr>
<tr>
<td>CSR</td>
<td>4.0%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>1.6%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Other</td>
<td>1.6%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>1.6%</td>
<td>0.0%</td>
<td>0.8%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Most popular source to get information about different organization is jobsite (25.6%) because most of the respondents are students and they are very much
familiar with internet. They frequently visit the popular job sites of our country to search for a job. Second popular source is corporate website (22.4%). After searching the job sites students go to the home pages of different organizations to collect more information about the organization there. Besides that, for academic purposes such as assignments, term paper and presentation, students always visit corporate websites. Job fair (17.6%) and university alums (15.2%) are also popular sources. Universities arrange job fair in their campus and different companies take part there to collect resumes from the students. As it is a face to face contact, it provides a good impression to the students. Most of the universities have “Alumni Association”. It happens to be a popular and authentic source, because it works as “word of mouth”. Newspapers (9.6%) and TV channels (7.2%) are also important sources of information. Different activities of an organization like launching new products or services, opening a new branch, CSR activities and change in management are available in the newspapers and TV channels. Therefore, these are popular sources for people who are already in the corporate world. Recruitment agencies (2.4%) are not a popular source of information yet.

6.3. Most important attribute to choose a profession

To attract the best talents it is imperative that an employer knows about the attributes that are being highly rated by potential employees for choosing a profession. The most important attributes for the employees are presented in the following table:

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Very high priority</th>
<th>High priority</th>
<th>Average priority</th>
<th>Low priority</th>
<th>Very low priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation</td>
<td>18.69%</td>
<td>14.95%</td>
<td>16.82%</td>
<td>25.23%</td>
<td>24.30%</td>
</tr>
<tr>
<td>Image of the company</td>
<td>17.92%</td>
<td>17.92%</td>
<td>20.75%</td>
<td>24.53%</td>
<td>18.87%</td>
</tr>
<tr>
<td>Career growth</td>
<td>38.20%</td>
<td>25.50%</td>
<td>21.80%</td>
<td>10.00%</td>
<td>4.50%</td>
</tr>
<tr>
<td>Flexible working hour</td>
<td>20.00%</td>
<td>17.30%</td>
<td>16.40%</td>
<td>16.40%</td>
<td>28.20%</td>
</tr>
<tr>
<td>Learning opportunity</td>
<td>23.40%</td>
<td>25.20%</td>
<td>19.80%</td>
<td>18.00%</td>
<td>13.50%</td>
</tr>
</tbody>
</table>

Career growth is the most important attribute for the job seeker as most of them give “very high priority” (38.2%) and “high priority” (25.5%) to this attribute. This indicates having a structured career development plan is very important to attract best talents.

Learning opportunity is the second important attribute as most of the respondents give “very high priority” (23.4%) and “high priority” (25.2%) to this attribute.

Compensation is not that much important attribute for the respondents. The reason may be that they are just entering in the job field and want to explore their knowledge first.

For most of the respondents, image of the company bears “average priority” (20.75%) closely followed by “low priority” (24.53%).
For most of the female respondents flexible working hour (20%) is “very important”. For others it is the “low priority” attribute.

6.4. Most attractive attribute to join/work for an organization

To attract and to retain the employees the employers should focus on those attributes which are being prioritized by the incumbents for joining and keep working in an organization. Responses about the most attractive attributes to join/work for an organization are presented below:

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will enable someone to have good work/life balance</td>
<td>11</td>
<td>8.8</td>
</tr>
<tr>
<td>Professional training and development</td>
<td>21</td>
<td>16.8</td>
</tr>
<tr>
<td>Have leaders who will support the development of others in the organization.</td>
<td>13</td>
<td>10.4</td>
</tr>
<tr>
<td>Good reputation &amp; image of employer</td>
<td>17</td>
<td>13.6</td>
</tr>
<tr>
<td>Good reference for future career</td>
<td>28</td>
<td>22.4</td>
</tr>
<tr>
<td>Competitive base salary</td>
<td>25</td>
<td>20.0</td>
</tr>
<tr>
<td>Offers a friendly work environment</td>
<td>07</td>
<td>5.6</td>
</tr>
<tr>
<td>Others (please specify)</td>
<td>03</td>
<td>2.4</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The most attractive attribute for an employee is good future career (22.4%). Every employee wants to work in an organization where he/she will get an opportunity to flourish his/her career. So, it is the most attractive attribute to work for an organization. The second attractive attribute for an employee is the competitive base salary (20%). Monetary incentive attracts the young minds very much. As most of the respondents are students, they give a high priority on that attribute. Professional training and development (16.8%) along with employer reputation and image (13.6%) are also important attributes to attract the best talents. The respondents give less importance on work/life balance (8.8%) and friendly environment (5.6%). Among the other attributes, the respondents mention about secure employment, attractive geographic location of the organization, leadership opportunities, overtime pay and competitive benefits etc.

6.5. Reasons for switching to another organization

To reduce the turnover rate of employees, it is vital for an organization to know the reasons for which an employee wants to switch. An organization invests a lot for its employee and wants to get a reasonable amount of benefit from them. Thus, job switching of employees invariably brings negative return for an organization. The reasons for switching to another organization are mentioned below:
Table 12: Reasons for switching to another organization

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work is not challenging</td>
<td>14</td>
<td>11.2</td>
</tr>
<tr>
<td>Lack of training &amp; resource to do the job properly</td>
<td>22</td>
<td>17.6</td>
</tr>
<tr>
<td>Lack of flexibility to arrange work schedule to maintain the personal responsibilities</td>
<td>19</td>
<td>15.2</td>
</tr>
<tr>
<td>Do not understand the pay policy clearly</td>
<td>24</td>
<td>19.2</td>
</tr>
<tr>
<td>Job which does not make good use of your skills and abilities</td>
<td>26</td>
<td>20.8</td>
</tr>
<tr>
<td>Lack of freedom in decision making</td>
<td>09</td>
<td>7.2</td>
</tr>
<tr>
<td>Lack of freedom in risk taking</td>
<td>07</td>
<td>5.6</td>
</tr>
<tr>
<td>Lack of openness in the organization</td>
<td>04</td>
<td>3.2</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Job that does not make good use of the skills and abilities of an employee (20.8%) is the main reason for switching. The second most significant reason for switching a job happens to be the lack of clear understanding of the pay policy (19.2%). Lack of training and resources (17.6%) and flexibility to arrange work schedule (15.2%) are also important reasons to switch the job. Other reasons for switching a job or organizations are lack of challenge in the work (11.2%), lack of freedom in decision making (7.2%), risk taking (5.6%) and lack of openness in the organization (3.2%)

6.6. Dissatisfying Characteristics of an organization

To retain the best talents it is very essential for any organization to know about the dissatisfying characteristics of the organizations. If an organization can identify these characteristics, it will be easier for them to mitigate these reasons.

The most dissatisfying characteristics of an organization are presented below:

Table 13: Dissatisfying Characteristics of an organization

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too much work</td>
<td>08</td>
<td>6.4</td>
</tr>
<tr>
<td>Corporate politics</td>
<td>31</td>
<td>24.8</td>
</tr>
<tr>
<td>Rough behavior of seniors</td>
<td>15</td>
<td>12.0</td>
</tr>
<tr>
<td>Inequality in pay system</td>
<td>26</td>
<td>20.8</td>
</tr>
<tr>
<td>Unethical work</td>
<td>24</td>
<td>19.2</td>
</tr>
<tr>
<td>Poor salary</td>
<td>11</td>
<td>8.8</td>
</tr>
<tr>
<td>Poor working environment</td>
<td>10</td>
<td>8.0</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Most of the respondent mentioned that corporate politics make them dissatisfied (24.8%). Inequality in pay system (20.8%) is another displeasing characteristic of an organization. Most of the respondents also dislike any sort of unethical activities in the organization (19.2%). Among the other factors, too much work (6.4%), poor salary (8.8%) and poor working condition (8.0%)
are also important factors that contribute to the unhappiness and frustration of the respondents.

### 7.0. Conclusion & Recommendations

This study attempts to find out the attractive attributes that is important for the employers to build their employer brand in the job market. In this complex job market, it is very essential for the employers to promote, both within and outside the firm, a clear view of what makes it different and desirable as an employer. The outcomes of this study also show that the fresh graduates are being attracted towards those organizations that maintain business ethics, have a good corporate culture, are catalysts of change & innovation and have a good career growth along with learning opportunity. Corporate politics, inequality in pay system, lack of training and developments are the dissatisfying characteristics of an organization for the fresh graduates and the potential job switchers. Hence, based on the findings, the recommendations of this study are:

- **Business ethics** is a vital parameter to decide whether an organization is good or bad. Nobody will be interested to work in an organization having poorly maintained business ethics and off-color reputation. So, maintaining a high ethical standard is important to recruit and retain talents. Simultaneously, it is very essential for the organizations to notify their stakeholders about their business ethics through company website, print, audio & visual media.

- **Job fair** is a significant source for the potential employees to know about an organization. So, organizations should participate more in job fair. They can also introduce campus recruitment strategy. If the companies can make a stable relationship with the university authority, the authority will be more responsible to provide competent students as employees, in consequence which can create a good impression among the fresh graduates about the company.

- Companies can invest more time and money in public relation by which the students can have a clear picture of the company. They can capitalize in invitation for study tour, sponsorship for university events, involvement in social activities, scholarship programs and course sponsorship.

- The availability of learning opportunity and career development scope is the key factor in attracting and retaining talents. Therefore, investment in training and development is very important for an organization. It improves employees’ skills and thereby increases their productivity, serving as the main predictor of retention. Employees feel more appreciated and sniff better career prospects, if training is offered to them by their company. Thus, companies need to set up formal training policies.

- Companies committed to continuous improvement to increase value for their employees are treated as good employers. So, merely high compensation and benefit cannot attract and retain the preferable candidates. Other areas that may increase value for employees should also be kept in mind.
• Corporate politics is the most dissatisfying characteristics of an organization. Inequality in pay system and rough behavior of seniors also make an employee discontented. Hence, to motivate employees an organization should try to minimize the corporate politics, try to establish a good senior-junior relationship and should follow a systemic pay system.

• Corporate Social Responsibility has a strong impact on the company’s public image. It also improves employee morale and increase the reputation of an organization. So, the organizations should try to involve themselves in various social works and take initiative to let the people know about their activities.

At last, it can be concluded that employer branding is one of the keys to attract and retain the talented employees. From the findings of this study, employers can recognize the attributes which are important for employer branding. Therefore, the practical implications of the study can fetch benefit for the organizations since they can use better employer branding techniques for strengthening their brand image.

8.0. Future Research

This study has certain limitations such as small sample size and the sole usage of frequency and percentage to analyze data. So, this same study can be conducted on a large sample. The subject of this study was restricted to the fresh graduates and potential job switchers. Hence, a further research can be conducted in the leading organizations to know about their prevailing practices for employer branding to make their organization attractive.

References


Annexure

Questionnaire
for
Attractive Attributes to Build Employer Brand to Attract and Retain Best Talents:
Evidence from Bangladesh

Name of the Respondent:                                                                                  Age:
University & Department:                                                                                   
Educational Qualification:                                                                               
Profession:                                                                                               

1. According to you, what is a good organization? (Put a tick mark)
   a) Good prospects for high future earnings
   b) Business ethics is high
   c) Being the catalyst of change and innovation at the forefront of the industry
   d) Having a good corporate "culture" (clear set of values, clear style of management, creative and dynamic work environment)
   e) Having a durable and structural competitive advantage
   f) Pay tax to the government properly
   g) Invest huge on Corporate Social Responsibility
   h) Others (please specify)………………………………………..

2. What is the source of information regarding different organizations? (Put a tick mark)
   a) Corporate website
   b) Job fair
   c) Newspaper
   d) Job sites
   e) Recruitment agencies
   f) University alums
   g) TV channels
   h) Others (please specify)……………………………………….

3. Among the following attributes, which one is most important to you before choosing a profession? (Rank the attribute according to your priority; 1- very high priority, 2- high priority, 3- average priority, 4- low priority, 5-very low priority)
### Attributes and Rank

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation</td>
<td></td>
</tr>
<tr>
<td>Image of the company</td>
<td></td>
</tr>
<tr>
<td>Career growth</td>
<td></td>
</tr>
<tr>
<td>Flexible working hour</td>
<td></td>
</tr>
<tr>
<td>Learning opportunity</td>
<td></td>
</tr>
</tbody>
</table>

4. According to you, what is the most attractive attribute to join/ work for an organization? (Put a tick mark)
   a) Will enable someone to have good work/life balance
   b) Professional training and development
   c) Have leaders who will support the development of others in the organization
   d) Good reputation & image of employer
   e) Good reference for future career
   f) Competitive base salary
   g) Offers a friendly work environment
   h) Others (please specify)………………………………………..

5. When you try to switch to another job/ organization? (Put a tick mark)
   a) Work is not challenging
   b) Lack of training & resource to do the job properly
   c) Lack of flexibility to arrange work schedule to maintain the personal responsibilities
   d) Do not understand the pay policy clearly
   e) Job which does not make good use of your skills and abilities
   f) Lack of freedom in decision making
   g) Lack of freedom in risk taking
   h) Lack of openness in the organization

6. Which characteristic of an organization makes you most dissatisfied? (Put a tick mark)
   a) Too much work
   b) Corporate politics
   c) Rough behavior of seniors
   d) Inequality in pay system
   e) Unethical work
   f) Poor salary
   h) Poor working environment
Issues of Knowledge Management in Nepalese Banks

Jagat Timilsina*

Abstract

The globalization of financial markets forced bankers to be knowledge-based and be more efficient in managing knowledge in their banking operations. In this paper, researcher encompasses knowledge creation, knowledge retention and knowledge sharing and more importantly, how each of these elements can be integrated in enhancing the quality of banking operations. The various components of (Banking knowledge Management Model) BKMM are described in detail so as to explain the progress of knowledge management in banking operations. Then, using the BKMM as a reference, two case studies, one of joint venture bank and the other of the Nepalese private bank, were analyzed to study the progress of knowledge management application. The contribution of the BKMM is expected to create a culture that promotes and encourages knowledge management to flourish in the banking sector.

Keywords: Financial market, Knowledge management, Bank, Intangible asset

1. Introduction

In a highly demanding business world today, an organization’s competitive edge almost wholly depends on how well it can manage and deploy its corporate assets. These assets can be categorized into tangible and intangible assets. Traditionally, tangible assets like plant, equipment, inventory and financial capital are considered the most fundamental corporate assets. Intangible assets play a very little or vague role in any organization regardless from which industry it comes from (Vorbeck, Heisig, Martin & Schutt, 2001). Generally, many organizations until today still downplay the importance of their intangible assets. To compete and become successful in their own market, organizations must now learn to manage their intangible asset, that is “Knowledge” and this practice is generally known as Knowledge Management or sometimes is referred to as business intelligence. Knowledge management is the concept in which an enterprise consciously and comprehensively gathers, organizes, shares, and analyzes its knowledge in term of resources, documents, and people skills (Lyons, 2000). The emergence of this “knowledge era” is radically changing what creates value in organizations (Carlisle, 2002), whereby the long-term viability and prosperity of an organization increasingly depends on its ability to leverage the hidden value of its intangible assets.

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Therefore, knowledge management is now becoming an undeniably important component in an organization’s intangible asset. The continuous change in market expectations and the demands for new products have been gradually replacing the capital and labor-intensive firms by knowledge intensive firms, and routine work by knowledge worker.

2. Knowledge and Knowledge Management Definition

Knowledge is the main element that inspired the knowledge management initiatives in any sector. The knowledge-based era forced the banking institutions, to put knowledge as one of the main competitive advantages. The issues discussed in corporation are somehow relevant to banking institutions although “it gets tougher in financial landscape because it is such a knowledge-oriented environment” (Davenport, 1998; ISIS, 2002). There are researchers who define knowledge in the context of know-why, know-what, know-how, know-who, know-where and know-when, in order to relate it with managing knowledge concepts. For instance, Van den Bosch and Van Wijk (2001) present a conceptual framework of managerial knowledge integration. Know-what can be defined as something people carry around in their head and pass between each other but in contrast, know-how embraces the ability to put know-what into practice (Brown & Duguid, 2002). On the other hand, Japanese researchers like Nonaka, Toyomo and Konno (2002) defines knowledge by emphasizing on the relative, dynamic and humanistic dimension rather than traditional Western epistemology (the theory of knowledge) that focus on absolute, static and non-human view of knowledge. They agree that:

“knowledge is created in the spiral that goes through two seemingly antithetical concept such as order and chaos, micro and macro, part and whole, mind and body, tacit and explicit, self and other, deduction and induction and creativity and control” (Nonaka et. al, 2002).

Basically, knowledge can be differentiated into two types, which are explicit knowledge and tacit knowledge (Nonaka et. al, 2002). Explicit can be expressed in formed and specific language and shared in the form of data, scientific formula, specification, and such like. Explicit can be processed, transmitted and stored relatively easily. Tacit is deeply rooted in action, procedures, routines, commitment, ideas, values and emotions and highly personal and hard to formalize.

Knowledge management can be viewed from different perspective which then produced different interpretation. As knowledge management practices are widely implemented in business, firms and corporate fields, the discussion of the definition is mainly inspired from those fields.

3. Benefits of Knowledge Management

Knowledge management has been implemented and practiced in both public and private sectors and many benefits have been claimed in the literature.
For example, Foundation Knowledge lists 44 generic benefits of knowledge management on its website (Cong & Pandya, 2003). However, only key benefits of knowledge management are addressed in this paper.

In an organizational setting, benefits can occur at two levels; individual and organizational (Cong & Pandya, 2003). At the individual level, knowledge management provides employees opportunities to enhance skills and experience by working together and sharing other people’s knowledge and learn from one another, thereby improving personal performance, which leads to better career advancement.

At the organizational level, knowledge management provides two major benefits for an organization:

- Improving the organization’s performance through increased efficiency, productivity, quality and innovation. Organizations that manage knowledge claim higher rates of productivity. By having greater access to their employees’ knowledge, organizations make better decisions, streamline processed, reduce re-work, increase innovation, have higher data integrity and greater collaboration (CIO Council, 2001).

- Increasing the financial value of the organization by treating people’s knowledge as an asset similar to traditional assets like inventory and capital facilities (U.S Department of Navy, 2001).

4. Knowledge Management in the Banking Sector

For the past 20 over years, banks have been actively automating their manual processes. This has resulted in the creation of many information systems even within one bank. While these information systems were able to help banks to better manage their processes and resources, they also have created a number of setbacks. This phenomenon occurs when we are faced with overwhelming amount of information, and we have to take time to go through the bulk of information and select the best one to use. When there is the load of information it could result in less reactive responses and decline of capacity. Consequently, efficient and effective recovery of resource and knowledge has increasingly becoming an imminent research issue in recent times.

Without proper management information systems, plans, procedures and tools, information has become a very serious and annoying problem in many banks to the extent that most of the time information is regarded as noise. Nonetheless, realizing the important roles they play in the economy, banks are trying to make it a priority to capture and manage their data and turn it into organizational knowledge or business intelligence. However, the lack of process definition, classification, a comprehensive knowledge management model, and suitable knowledge based business model make the efforts futile in the last decade.

This scenario, however, has changed. More efforts and resources are employed to make it successful since in today’s
modern banking, information and knowledge are treasured assets. The application of knowledge management in the banking industry does not really differ from other industries but the increasing complexity of bank’s environment makes its implementation more difficult. Banks have realized the crucial role of knowledge management in gaining an edge in this competitive field, but there have been laggards in the adoption of knowledge management usually due to wait and see attitude of what will be the true benefits and pitfalls from early adopters. According to an International Data Corporation’s (IDC) survey conducted across more than 600 banks in Western Europe, only 20% of banks are currently apply a knowledge management principles (Blesio & Molignani, 2000). This trend is actually more prevalent among large banks. With greater awareness of the importance of knowledge management, IDC expects this situation to change in the near future, and knowledge management will become a priority for the banking sector.

Then, what is new in knowledge management in banking sector? Apart from large volumes of knowledge, the use of information technology (IT) in managing knowledge has given knowledge management a new dimension. Knowledge management is defined as “a process that drives innovation by capitalizing on organizational intellect and experience” (Duffy, 1999).

Knowledge management is intended to promote and support the creation of new knowledge, thus contributing to innovation, an essential ingredient in banking success.

The purpose of this paper is to highlight the extent of knowledge management integration in the banking sector. The objective of this research is to introduce a new research model called Banking Knowledge Management Model (BKMM). This model is based on the concept of knowledge management postulated by Wiig and Prusak(1998). Secondly, researcher proceed to test to what extent this model has been applied by two Nepalese commercial banks, one joint venture and another indigenous bank. Specifically, a case study was conducted on two banks to illustrate the integration of knowledge management in each component of the model (BKMM) in Nepalese setting.

The researcher believes that this study will assist Nepalese banks in developing capabilities to utilize and create new business opportunities at the same time creating sustained competitive advantage through the use of term “knowledge management”.

5. Research Model - Banking Knowledge Management Model (BKMM)

Based on the literature review, we have come up with a model to describe the knowledge management progress. The model is as shown in Figure 2. The environment forces such as the importance for an organization to maintain its competitive advantage by managing knowledge well or the requirement of the organization to distribute its knowledge among its geographically dispersed human resources may compel the organization to initiate a knowledge management programme. Through a combination of
people and technology, information and energy are transformed into knowledge progress and structures that produce products and services. There are mainly three components in the knowledge progress. They are knowledge creation, knowledge retention and knowledge sharing. Each of these components is discussed below.

5.1. Environment

In any work environment most jobs are imprecise: best decisions depend on circumstances and available knowledge, which drive the need to rethink current approaches to problem solving and decision-making. Time pressure demands that organizations capitalize on lessons learned. However, this approach has many limitations as the decisions made based on past experience may not be the most appropriate one. Consequently, there is a need for a sophisticated level of “know-how”, “know-what”, “know-who”, “know-where” and “know-why”.

Organizations need to have high performance to respond to market demands such as the right product at the right time, customer focused service and marketing strategies, high performance organizational practices and access to high value of information and knowledge.

A high performance organization pursues its goals in a changing environment by adapting and enhancing its behavior according to what it knows about itself and the world in which it needs to succeed. It is therefore a learning organization that is skilled at creating, acquiring, organizing and sharing knowledge that can gain competitive advantage. Two major components influencing the success of organization in adopting knowledge management are people and technology.

5.2. People

A challenge for knowledge management is managing and training people to embrace a knowledge management oriented culture. According to Duffy (1999), sharing knowledge especially proprietary or individual knowledge could result in power redistribution and face cultural resistance. Many studies emphasized the importance of corporate culture in successful knowledge management (Earl & Scott, 1999; Havens & Knapp, 1999). Some
even claim that knowledge management can be successful only with a change in culture. Furthermore, the new culture must be integrated with existing business processes and practices. Communication, reward systems, and leadership are important cultural factors in implementing knowledge management.

5.3. Technology

Knowledge in today’s organizations can be characterized as “fragmented” (Duffy, 1999). There are extremely large volumes of knowledge dispersed in organizations with ever-increasing size. Accompanied with mergers, acquisition and alliances, banks are becoming more and more diversified in the type of businesses they operate. Information technology is only effective if used properly in data management. Now the question is whether information technology can do the same for knowledge management to enhance knowledge management initiatives.

To allow knowledge sharing anytime anywhere, several types of technological tools are available. Mobile technology, portable hardware and software, networks, email, teleconferencing and intranets are some of the commonly used technologies for knowledge creation and sharing. Knowledge repositories and data warehouse are some of the technologies used for data retention.

The people and technology are the elements contribute to knowledge progress. Knowledge progress can be divided into three components namely knowledge creation, knowledge retention and knowledge sharing.

5.4. Knowledge Progress

Inkpen (1996) characterizes knowledge management progress as “a set of organizational actions that established the basis for accessing and exploiting knowledge”. Knowledge related work, categorized by Davenport and Prusak (1998) are accessing, generating, imbedding and transferring. Three major components are involved in knowledge progress: knowledge creation, knowledge retention and knowledge sharing. The essence of knowledge management is to manage those components for organizational effectiveness.

5.4.1. Knowledge Creation

This is the progress in which knowledge is captured and defined. Explicit knowledge can be easily captured and put in the form of a manual, booklet, or document. On the other hand, tacit knowledge is imbedded in social structures, and therefore, it needs to be extracted, codified, and made explicit. Through this codification process, tacit knowledge is transformed into explicit knowledge.

5.4.2. Knowledge Retention

Another important knowledge progress component is the retention of knowledge. The main purpose of retention is to allow reuse of knowledge. Knowledge retained can be readily shared. Protection of knowledge is equally important. Without security measure, the integrity of the knowledge could be at stake. Erroneous knowledge is just as damaging as inaccessible knowledge if not more.
5.4.3. Knowledge Sharing
When we communicate knowledge, it is the process of sharing. Both explicit and tacit knowledge can be shared. However, explicit knowledge can be shared more easily and will have little risk of creating error in the process. Tacit knowledge, which is hard to articulate, is the challenging part of knowledge sharing. In any case, sharing should be as direct as possible with few intermediaries (Buckman, 1998).

6. Case Studies
In this section, researcher presents the experiences of two commercial banks of Nepal that have succeeded in applying knowledge management. Using the case study approach, researcher analyzes the knowledge management progress of a Joint venture Bank and a private Bank.

6.1. Standard Chartered Bank
Standard Chartered, Nepal is the leading player in banking services in the country in terms of business volumes as well as brand image and clientele profile. About eight years ago the brand name identity of the bank changed from ‘ANZ Grindleys’ to ‘Standard Chartered’, following the merger of these two banks at the worldwide level.

The banking sector in Nepal has witnessed a lot of activity and has also undergone a significant degree of evolution with the existing banks getting aggressive on the areas of consumer banking, retail products (home, auto, personal loans; deposits etc) and brand marketing. Several new entrants also joined this sector over the recent past. The knowledge management progress adopted by Standard Chartered was examined and the findings are grouped to fit each of the components in Banking Knowledge Management Model (BKMM) (research model):

**Environment:** Some of the environmental factors that compelled the bank to go in for knowledge management were: (i) the need to maintain customer knowledge (customer relation management (CRM)), (ii) competitive intelligence, and (iii) service knowledge. The knowledge management progress was found important to maintain the bank’s competitive edge as well as its proprietary knowledge.

**People:** The bank’s culture consists of its knowledge enterprising characteristics that promote knowledge sharing. Part of this unique culture puts the world’s most knowledgeable experts to stay in touch with all levels of the SC Bank nationally and internationally, thus encouraging group problem solving and sharing of new ideas and knowledge. The study shows that top management is proactive in changing the work culture within the bank.

**Technology:** In terms of technology, Standard Charter Bank has incorporated knowledge management in the form of webpage known as online banking Visa Classic and Master Card Gold, Credit Card. Straight2 bank is a webpage of knowledge bases used as a worldwide resource by Standard Charter Bank customers and employees. It is the network through which the Standard Charter Bank employees share knowledge electronically and then passes it on to the
customers. Straight2u bank represented by an inter-related collection of databases that support rapid exchange of knowledge between employees who are separated by both time and space. Integrating electronic forums, libraries (online) and e-mail, Straight2bank gives Standard Charter Bank employees and customers’ unlimited access to expertise, services and resources in Nepal and worldwide.

Knowledge Creation, Retention & Sharing: A feedback loop was set up, so that after, listening to customers and queries relating to a particular area those could not be answered by the customer service consultant were posted on the forum. Usually the request for help was picked up by anyone who had expertise in the related field. If the request was unattended for a few hours, the forum specialist would pick up the request, identify the potential experts and try to get their attention in order to answer the questions. The knowledge was then organized, validated, and stored into the repository and was ready for distribution and use/reuse if a similar query was requested in the future.

6.2. NABIL Bank

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society.

Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Tele-banking system. The knowledge strategy brings forward a systematic approach to creating and harvesting the knowledge of the bank. The intent is to place its best collective knowledge at the fingertips of everyone in the bank:

Environment: For Nabil Bank Limited, it was important to improve human resources and management of human resource. That is, competitive advantage can only be sustained by continuously improving the knowledge and expertise of employees, motivating and empowering employees at different levels to use their knowledge to pursue the main strategic objectives of the bank, re-organizing and restructuring human resources, rearranging specialist division of knowledge and expertise, and maintaining close links with customers.

People: The traditional differences between acquire and acquirer workers and the lack of skills and training, plus the cultural differences between the Nabil Bank Limited and member of mergers in terms of accepting ownership and
responsibility were major challenges for technical information exchange between the workers.

Technology: Nabil Bank Limited developed e-libraries in the form of distributed databases that could be accessed by everyone (24 hours). The libraries were developed and maintained by the employees, giving them an understanding of what the libraries represent, how they should be developed and the benefits that they could bring within the overall drive to improve services. This e-libraries is a facility that not provided by other banks’ to their customers. Therefore, this facility is at present unique in comparison to application of KM in others banks.

Knowledge Progress: Nabil Bank Limited had full time employees logging the customer problems into the e-libraries and maintaining them, which had an extensive range of customer services and in some cases solutions that were used to overcome the problems. The e-libraries were used as a reference tool and store of knowledge and experience on process fraud that contributed significantly to final services.

7. Discussions

This section discusses the findings on knowledge management that was observed in the two case studies in Nepalese context. Overall, it is found that the usage of KM by banks is still at the infant stage, although the concept of KM is well accepted in the banks. The main reasons that the two banks undergo knowledge management are to improve the knowledge and expertise of their employees, to motivate and empower employees at different levels to use their knowledge, to reorganize and restructure human resources and to improve the interfaces for knowledge sharing. However, wider application of KM is still very much desired, especially in bank-customer and customer-customer relationships to flourish greater knowledge sharing.

Standard Charter Bank and NABIL Bank are found to be different in practicing knowledge management methods. Standard Charter Bank is focused on codified method of knowledge management while NABIL Bank used the personalized method although they codified their processes into e-libraries and databases for all the personnel to use. In addition, the bank customers have additional advantage to access their banking transaction information in 24 hours fast speed. This provides competitive advantage to the banks and customers. Various technologies were used for knowledge management in these two banks. Among these technologies, databases and web-pages are the most common types of technologies used. Through these technologies, knowledge, both explicit and tacit, are created and retained in databases. Therefore this knowledge can be shared among the employees and easily accessible. Hence, the two case study of Standard Charter Bank and NABIL Bank highlight that banks which applied KM can enjoy the benefits of having more knowledgeable workers and greater knowledge sharing. This would contribute to greater efficiency and bank performance improvement.
8. Conclusions

This paper highlights the concept of KM and the importance of KM integration in the banking sector as a strategy for banks to maintain their competitive advantage. A research model; Banking Knowledge Management Model (BKMM) based on KM concepts is developed to study to what extent this model has been applied by two Nepalese commercial banks, Standard Charter Bank and Nabil Bank. Based on findings, it is explored that the two leading commercial banks have applied the concepts of KM as incorporated in the model. However, the extents of KM integration as evidence in these two case studies are still small. The environmental forces compel the banks to take knowledge management initiatives. It is also found that distributing and sharing knowledge among the employees so as to empower them to take timely decisions is one of the main reasons for knowledge management integration in banks. KM practices are integrated in banking sector through people and technology. Although Standard Charter Bank focuses on codified method for knowledge management and Nabil Bank adopts personalized method, both banks find they derived many benefits from applying knowledge management practices in their operations. The contribution of this paper is firstly, by presenting the extent of Standard Charter Bank and NABIL Bank (two large banks in Nepal) application of knowledge management based on the BKMM; secondly, by creating awareness of the benefits of knowledge management integration; and thirdly, BKMM serves as a guide for bankers to integrate the knowledge management in their banks. The feasibility of the model is demonstrated by the two case studies. Nonetheless, this study incorporates the integration of KM in only two banks. Thus, the findings suggest that KM practices be investigated in a large number of banks to validate the model. Since this study only covers two banks, and suggest that a more comprehensive research be conducted to optimize the benefits of KM integration in the banking sector. The model serves as a framework for the future research in KM integration in banking sector. The study highlights that KM integration is very important for organizations to maintain their competitive advantage.

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Foreign direct investment in Nepal

Achyut Gnawali*

Abstract
Foreign investment plays an important role in the industrial development and in the promotion of manufactured exports for the developing countries. It helps in the maximum mobilization of capital, human and natural resources of the country, which in turn helps to make the economy dynamic and competitive. Besides, because of worldwide economic and financial crisis of the present time, many donor countries have curtailed their official development assistance in response to budgetary constraints. In such situation, private investment, domestic as well as foreign, would be the right solution to the problem. Foreign investment is critical to enhance the transfer of capital, modern technology, management and technical skill, increase culture. This article tries to explore about the condition of FDI.

Key words: Foreign Direct Investment, economic growth, technologyEmployment

Introduction
Foreign Direct Investment (FDI) occurs when an investor based in one country acquires an asset in another country with the intent to manage that asset. Theories of FDI suggest that national and foreign private-sector enterprises, if permitted to operate in competitive market conditions, offer developing countries the best prospects for faster national economic growth. FDI is considered beneficial in view of its contribution to technological transfers, enhancement of managerial capability and new opportunities for market access. It includes the transfer of intangible assets such as trademark, technology and business management as well as the authorization given to the investor to control the investment.

Foreign direct investment (FDI) is the long-term capital investment. It involves acquisitions by domestic firms of foreign-based factories or any other types of business firms. The investor, thus, enjoys managerial control over the assets of the acquired firm. Direct investment may be financed in a number of ways other than through capital movements. Foreign investments may be financed by borrowing locally, by reinvesting foreign earnings, by the sale to foreign affiliate of non-financial assets such as technology, or through funds generated by licensing fees and payments for management services to the parent company.

The investment made by in any country by the foreign entrepreneur and institution is known as foreign investment. It is the

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long term capital investment. It involves acquisitions by domestic firms of foreign-based factories or any other types of business firms. To acquire ownership of the asset of the firm by making investment in any country and control the enterprise by the foreign investor is called direct investment. The indirect investment is also known as international portfolio investment. It is the purchase of foreign securities in the form of stocks, bonds, or commercial papers to obtain a return on that investment in the form of dividends, interests, or capital gains. There is no right of managerial control in the foreign enterprise from such investment.

Foreign direct investment stimulates growth, creates jobs, fosters competition, and facilitates the creation and exchange of goods, services, and innovative techniques. It helps the economy maintain investment, which is vital to our economic performance and international competitiveness. Foreign investment and their participation is vital to accelerate and strengthen economic growth. Nepal has to an extent been able to attract foreign investment through its policy of global liberalization and incentives, but Nepal has not been able to strengthen or develop supporting industries needed to attract them [FNCCI 1998]. FDI describes the acquisition of managerial control by a citizen i.e. corporation, of a home nation over corporation of some other host nations [Encyclopedia of Economic, 1994].

Increase in FDI is seen as leading factor to increase exports by creating international markets through new marketing and organizational skills. Therefore, it is not unusual for economists to emphasize the importance of FDI in fueling economic growth. In fact, since the early 1950s, FDI has been recognized as the most crucial factor in enhancing economic development and ensuring a reasonable standard of living for countries which have been the recipient of FDI. South Korea, Singapore, and Taiwan have been examples of nations outside the OECD countries that have benefitted greatly from FDI. In recent years, China and India have made remarkable progress in attracting FDI and in realizing technological and economic successes.

**Status of FDI in Nepal**

The volume of FDI inflows to Nepal has historically been very low. During 1980-1989, FDI flows to Nepal were minimal or even negative, with an annual average of Rs.45 million. There was a distinct acceleration during the 1990s, although total flows remained small: averaging Rs. 18 billion per annum during 1990-2000. One factor explaining the increased FDI in the 1990s is Nepal's more liberal trade policy. For example, the unweighted average rate of import tariff was drastically reduced from 111 percent in 1989 to 16 percent by 1992; and the number of tariff slabs fell from more than 100 in the 1980s to only 5 in 1996 (RIS, 2002). In addition, the establishment of bonded warehouses and the introduction of a duty drawback scheme reduced the previous trade policy’s anti-export bias. Complementing this overall trade reform programme was a bilateral trade treaty with India concluded in 1996, which allowed India to import goods from Nepal free of import duty and quantitative restrictions if the goods
were manufactured in Nepal (except those on the negative list). This has been cited as an explanation of the considerable expansion of Indian investment in Nepal after 1996 (RIS, 2002). Another factor was the liberalization of the exchange rate regime. The currency was made partially convertible in the current account in March 1992 and fully convertible in February 1993. Since 1994 all individuals and firms have been allowed to open accounts in major convertible currencies with domestic banks after showing evidence of source of foreign exchange. However, in spite of these policy measures, the Nepal’s receipt of FDI remained low (UNCTAD, 2003). Available data for FDI reflect that total 2018 projects have been registered in Nepal comprising seven categories of industries, worth a total of investment equal to RS.152 billion. The total fixed cost is estimated to be Rs.129 billion while the total foreign direct investment (FDI) is estimated to be Rs. 68 billion as of July 2011. The registered projects provided employment to 155,432 people (see table 1).

### Distribution by sector, origin and geographical location

FDI is highly concentrated in the manufacturing sector, which accounted for 33.78 percent of approved FDI projects, 37.61 percent of foreign investment and over 50 percent of total employment. It is followed by service sector with over 30 percent of approved projects, 19 percent of foreign investment and 20.67 percent of total employment. Tourism stands in third position with 26 of approved projects, 12.31 percent of foreign investment and 16 percent of total employment. The energy based sector, though comes at fourth position by share in approved projects, it is second highest to attract the FDI with 21.34 percent of total foreign investment (see table 2).

### Table 1: Sectoral distribution of Foreign Investment projects in Nepal

<table>
<thead>
<tr>
<th>Types of industries</th>
<th>No</th>
<th>Total Project Cost</th>
<th>Total Fixed Costs</th>
<th>Foreign Investment</th>
<th>Employment</th>
<th>Share in FDI</th>
<th>Share in projects</th>
<th>Share in employ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>60</td>
<td>1674.42</td>
<td>1095.61</td>
<td>893.29</td>
<td>3497</td>
<td>1.31</td>
<td>2.85</td>
<td>2.25</td>
</tr>
<tr>
<td>Construction</td>
<td>42</td>
<td>3605.34</td>
<td>2683.10</td>
<td>2762.81</td>
<td>3016</td>
<td>4.06</td>
<td>1.99</td>
<td>1.94</td>
</tr>
<tr>
<td>Energy Based</td>
<td>47</td>
<td>40759.24</td>
<td>40381.02</td>
<td>14518.77</td>
<td>7947</td>
<td>21.34</td>
<td>2.23</td>
<td>5.11</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>712</td>
<td>54611.18</td>
<td>40355.50</td>
<td>25595.87</td>
<td>78409</td>
<td>37.61</td>
<td>33.78</td>
<td>50.45</td>
</tr>
<tr>
<td>Mineral</td>
<td>36</td>
<td>5162.62</td>
<td>4223.60</td>
<td>2904.24</td>
<td>5574</td>
<td>4.27</td>
<td>1.71</td>
<td>3.59</td>
</tr>
<tr>
<td>Service</td>
<td>650</td>
<td>25955.40</td>
<td>21220.18</td>
<td>12974.65</td>
<td>32127</td>
<td>19.07</td>
<td>30.83</td>
<td>20.67</td>
</tr>
<tr>
<td>Tourism</td>
<td>561</td>
<td>20413.55</td>
<td>19157.38</td>
<td>8400.34</td>
<td>24862</td>
<td>12.34</td>
<td>26.61</td>
<td>16.00</td>
</tr>
<tr>
<td>Total</td>
<td>2108</td>
<td>152181.75</td>
<td>129116.39</td>
<td>68049.97</td>
<td>155432</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Department of Industry, GoN. July 2011.
### Table 2: Summary of Foreign Investment Project in Nepal  
From beginning to FY 2010/11

<table>
<thead>
<tr>
<th>FY</th>
<th>Number</th>
<th>Total Project Cost</th>
<th>Total Fixed Cost</th>
<th>Foreign Investment</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1988/89</td>
<td>58</td>
<td>5102.8</td>
<td>4271.6</td>
<td>449.56</td>
<td>10586</td>
</tr>
<tr>
<td>1989/90</td>
<td>30</td>
<td>2438.19</td>
<td>2139.6</td>
<td>398.51</td>
<td>9515</td>
</tr>
<tr>
<td>1990/91</td>
<td>23</td>
<td>863.56</td>
<td>690.74</td>
<td>406.28</td>
<td>2974</td>
</tr>
<tr>
<td>1991/92</td>
<td>38</td>
<td>3508.17</td>
<td>2902.1</td>
<td>597.84</td>
<td>5615</td>
</tr>
<tr>
<td>1992/93</td>
<td>64</td>
<td>17886.22</td>
<td>16210.81</td>
<td>3083.67</td>
<td>13873</td>
</tr>
<tr>
<td>1993/94</td>
<td>38</td>
<td>3733.23</td>
<td>3175.66</td>
<td>1378.76</td>
<td>4734</td>
</tr>
<tr>
<td>1994/95</td>
<td>19</td>
<td>1627.28</td>
<td>1247.85</td>
<td>477.59</td>
<td>2386</td>
</tr>
<tr>
<td>1995/96</td>
<td>47</td>
<td>10047.47</td>
<td>9398.54</td>
<td>2219.86</td>
<td>8032</td>
</tr>
<tr>
<td>1996/97</td>
<td>77</td>
<td>8559.25</td>
<td>6692.15</td>
<td>2395.54</td>
<td>9347</td>
</tr>
<tr>
<td>1997/98</td>
<td>77</td>
<td>5569.38</td>
<td>5142.32</td>
<td>2000.28</td>
<td>4336</td>
</tr>
<tr>
<td>1998/99</td>
<td>50</td>
<td>5324.42</td>
<td>4380.17</td>
<td>1666.42</td>
<td>2146</td>
</tr>
<tr>
<td>1999/00</td>
<td>71</td>
<td>2669.09</td>
<td>1910.24</td>
<td>1417.61</td>
<td>4703</td>
</tr>
<tr>
<td>2000/01</td>
<td>96</td>
<td>7917.62</td>
<td>6122.49</td>
<td>3102.56</td>
<td>6880</td>
</tr>
<tr>
<td>2001/02</td>
<td>77</td>
<td>3318.53</td>
<td>1559.59</td>
<td>1209.65</td>
<td>3731</td>
</tr>
<tr>
<td>2002/03</td>
<td>74</td>
<td>4921.82</td>
<td>3608.25</td>
<td>1793.77</td>
<td>3572</td>
</tr>
<tr>
<td>2003/04</td>
<td>78</td>
<td>4323.78</td>
<td>3775.86</td>
<td>2764.8</td>
<td>2144</td>
</tr>
<tr>
<td>2004/05</td>
<td>63</td>
<td>1796.1</td>
<td>1149.49</td>
<td>1635.77</td>
<td>5559</td>
</tr>
<tr>
<td>2005/06</td>
<td>116</td>
<td>4121.08</td>
<td>3296.95</td>
<td>2606.31</td>
<td>7358</td>
</tr>
<tr>
<td>2006/07</td>
<td>188</td>
<td>3425.57</td>
<td>2650.56</td>
<td>3226.79</td>
<td>7389</td>
</tr>
<tr>
<td>2007/08</td>
<td>213</td>
<td>20406.38</td>
<td>16897.97</td>
<td>9812.6</td>
<td>10709</td>
</tr>
<tr>
<td>2008/09</td>
<td>231</td>
<td>9417.89</td>
<td>7530.02</td>
<td>6255.09</td>
<td>11108</td>
</tr>
<tr>
<td>2009/10</td>
<td>171</td>
<td>13953.78</td>
<td>14987.98</td>
<td>9100</td>
<td>7848</td>
</tr>
<tr>
<td>2010/11</td>
<td>209</td>
<td>11250.19</td>
<td>9375.46</td>
<td>10050.71</td>
<td>10887</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2108</td>
<td>152181.75</td>
<td>129116.39</td>
<td>68049.97</td>
<td>155432</td>
</tr>
</tbody>
</table>

Source: Department of Industry, GoN July 2011.

In country-wise FDI distribution, five countries accounts for about 65 percent of cumulative FDI (table 3). India alone accounts for 47.6 percent, followed by China with 10.34 percent, Canada with 3.18 percent, Japan with 1.72 percent and Norway with 1.67 percent. In total, investors from 70 different countries have invested in Nepal, but the scale and number of projects in most cases is small. Further, the geographical distribution of FDI within Nepal is strongly concentrated in the Kathmandu Valley, which includes the capital city, Kathmandu, and offers the best infrastructure (transportation, power and telecommunications) and proximity to administrative decision centers. Fifty-seven
percent of total FDI-related projects are located in this region, accounting for 63 percent of total project cost and 48 percent of employment. Little FDI is found in Nepal’s hilly and mountainous region, which hosts only 12 percent of projects in operation and 14 percent of employment, although it inhabited by more than half of Nepal’s population. The remainder of FDI projects is located in the Terai region, which runs along Nepal’s southern border (quoted in UNCTAD, 2003:5).

Table 3: Home economy distribution of FDI in Nepal

<table>
<thead>
<tr>
<th>SN</th>
<th>Top Countries</th>
<th>No. of Projects</th>
<th>Total Project Cost</th>
<th>Total Fixed Cost</th>
<th>FDI</th>
<th>Employment</th>
<th>Share in FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>INDIA</td>
<td>501</td>
<td>62725.01</td>
<td>51118.64</td>
<td>32390.31</td>
<td>56407</td>
<td>47.60</td>
</tr>
<tr>
<td>2</td>
<td>CHINA</td>
<td>401</td>
<td>13547.54</td>
<td>10899.31</td>
<td>7036.17</td>
<td>23325</td>
<td>10.34</td>
</tr>
<tr>
<td>3</td>
<td>CANADA</td>
<td>25</td>
<td>5081.87</td>
<td>4892.78</td>
<td>2166.54</td>
<td>1926</td>
<td>3.18</td>
</tr>
<tr>
<td>4</td>
<td>JAPAN</td>
<td>154</td>
<td>3195.03</td>
<td>2713.48</td>
<td>1171.24</td>
<td>6683</td>
<td>1.72</td>
</tr>
<tr>
<td>5</td>
<td>NORWAY</td>
<td>12</td>
<td>8116.59</td>
<td>6766.8</td>
<td>1135.83</td>
<td>726</td>
<td>1.67</td>
</tr>
<tr>
<td></td>
<td>Gross Total</td>
<td>2108</td>
<td>152181.75</td>
<td>129116.4</td>
<td>68049.97</td>
<td>155432</td>
<td>100.00</td>
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Source: Department of Industry, GoN. July 2011.

Prospects

Those sectors which have plenty of raw materials within the country and higher scope for export are lucrative areas for foreign investment. Agriculture and Agro-based industries like meat products, dairy, fruits and other agro product processing industries have both higher degree of potentiality and markets. The huge water resource of the nation is still untapped. Thus another area for foreign investment is hydro power generating projects. Service sector is another area that could attract huge amount of foreign investments. The government should come forward with a concrete plan for tourism sector and can attract investment in hotels, restaurants, airports etc accordingly. Huge amount of forex is spent by Nepalese to get better treatment in foreign land. By promoting foreign investment in establishing hospitals and nursing homes, equipped with a state-of-the-art system, quality treatment facilities can be provided within the nation. Manufacturing Industry, Textile and Apparel industry, Mineral Resources and Mineral-based Industry are some of the sectors in Nepal that has high potential to attract the foreign investment.

The amount of FDI inflow in Nepal is very negligible. As Nepal is the member of various global and regional forums like WTO, BIMSTEC, SAARC, there is an ample of scope to attract more FDI from many destinations. But factors like unresolved structural weakness, institutional bottlenecks, political movements, narrow nationalism and mutual mistrust
are some of the hindrance on the way to tap FDI potential. Nepal should address and rectify these shortcomings by deeper regional diplomacy and strengthening its own efficiency and capacity.

Challenges

FDI can play a vital role to lead the LDCs from poverty to prosperity. There are various challenges for Nepal to attract and retain FDI on a sustainable basis. In international market, most developing countries are competing for FDI. The domestic environment is also not much congenial for Nepal. Political instability, poor infrastructures, labor militancy, power shortage along with unstable legal and financial framework and environment are some worth mentioning challenges for Nepal on her global race in attracting FDI. Foreign investors do not come in Nepal for charity. They tend to invest on those places where security and profit are ensured. Just ten years back, foreign investors were not interested to invest in Bihar, a northern state of India which was famous for weak law and order. But data shows, investment in the state by multinational companies is also increasing with improving situation of law and order. The government, by building confidence in collaboration with private sectors, must turn pro-active and should take concrete measures to attract foreign inflows.

There are no remarkable problems in policies and legal system associated with FDI. It is a high time for the government to identify the sectors with comparative and competitive advantages. The snail paced administrative procedures must be improved. Complex customs, rules and long delays increase the cost and hence competitiveness of exporters affecting not only trade but also efficiency seeking investment. In the name of trade union, practice of garments and recent disturbances seen in hydro power projects are some examples to mention. Unwelcoming behaviors towards foreign investors create negative impression of the country in international area. Of course, the state should not confine the rights of the labors but the tradition of labor militancy could not be encouraged. The politics should not spoil the labor industrialist relation and government must provide foolproof security to tackle present deteriorating security conditions. Full fledge implementations of bilateral treaties and assurances of infrastructures are the responsibility of the state. The FDI trend in Nepal shows that most of foreign investment came for small scale industries. Large scale industries also should attract FDI as they can have better impact on employment generation. It is essential that Nepal take a big stride forward to forge higher volume of FDI.

Importances of FDI in Nepal

Every nation does not have all factors of production. Some nations have plenty of labor whereas other may have sufficient amount of capital. Foreign Capital is required for those countries which have limited internal resources. Such nations must encourage FDI for their economic development. Domestic investment has certain limitations. Only certain level of economic growth can be achieved by mobilization of internal resources. Thus continuous flow of FDI, especially for countries like Nepal with limited market,
technology and resources, is must in order to achieve double digit economic growth.

FDI can play important role in the overall development process of any country by following ways.

I) FDI fulfills the foreign currency requirements of the host nation. FDI focused on export- oriented industries. This is helpful in increasing the manufacture of goods and services that exported. Foreign currencies, thus earned, are helpful to generate a current account surplus in Balance of payment. The surplus in the current account means a comfortable position for a nation to finance the import of necessary things.

II) FDI plays a vital role in accumulating both physical and human capital through Technology transfers and Knowledge spillovers. Spillover effects can have both vertical and horizontal impacts on the host economies. Vertical spillovers refer to inter-industry impacts horizontal spillovers occur when FDI promotes intra-industry competition in local markets through imitation effects and positive effects on human capital, industrial relations, market competition and technology transfer. Both spillovers are helpful to raise efficiency and productivity of human capital including management skills.

III) Inflow of FDI provides opportunities for domestic firms to associate with various Multinational companies. This creates a scope for good marketing networks for local producers in international front. Domestic firms can enjoy higher degree of market access.

Conclusion

In this era of Globalization and privatization, it is worthless to debate whether Nepal needs FDI or not. Unless foreign investors are encouraged, economic development of the country would be difficult to achieve. Without affecting national sovereignty and integrity, the state should create congenial environment to attract more foreign investment. No ambiguity, this is an effective strategy to transform post transitional economy of Nepal.

Inflows of FDI into Nepal accelerated after the economic liberalization of the 1990s but remain low in relation to size of population and economic activity, and also in comparison with other least developed landlocked states in Asian region. The overall inflows are so low that, all in all, FDI has not been a significant development catalyst. It is not necessarily due to lack of potential. Nor it is because FDI has been excluded from most sectors of the economy. The answer is that Nepal has failed to offer investors satisfactory standards of policy, administration of taxes and regulations and stable political environment which are of vital interest to business. Indeed, apart from the important liberalization of power generation, there has been little focus on removing these barriers, even those in selected industries of high FDI potential. Therefore, better performance in attracting FDI requires fundamental changes.

Recommendations

Based on above conclusions, various recommendations are made some of them are reviewed from other works as well:
To promote foreign investment in Nepal, government has to simplify bureaucratic procedures and avoid bureaucratic harassment. The Foreign Investment Promotion Division, which is supposed to provide a “One window service” to foreign investors is not found to provide such services effectively. It, therefore, needs to be given necessary power and responsibilities to provide a real one-window service.

In order to attract foreign investment, the industrial development policy needs to be kept clear and stable. Besides, the foreign investors should be provided the incentives as provided by other South Asian Countries unless cost exceeds benefits. Also the foreign investors should not get difficulties in getting whatever facilities and incentives are being provided legally.

Nepal should attract foreign direct investment by providing better information on investment opportunities with a proper research in her economy. Most of the multinational corporation will be attracted if there is sufficient information on the quality of workforce, infrastructure, and incentives offered by the host country.

Nepal has very poor human resource that led the scarcity of technical and experience personnel, which adversely affects the productivity, which in turn, affects the foreign investment. Hence, country should evaluate her/ his educational & vocational training and other dimensions for the betterment of skilled or efficient personnel. The government should also provide possible help to the industries in their efforts to hire and trained such persons. The government can help in hiring experienced or trained persons and making them available to the industries when they need it.

For boosting up the enterprises, Nepal should develop the entrepreneurs, who will help to find out the new field and area for business & government must have positive attitude for such enterprises with some incentives.

There must be an improvement in infrastructure, incentives, information and inter and intra ministerial and departmental coordination which motivates the foreign investors. We can attract more foreign investors and promote trade if we are able to establish different types of trade offices abroad.

Exports of manufacturing products are important not only for the industrial development but also for the development of the economy as a whole. Therefore, the government should continue to give export incentives. A periodic service of such incentives should also be done so as to motivate the export of more manufactured goods.

The fear of currency devaluation and frequent changes in policies have adversely affected decision on investment in Nepal. Therefore, government should take all possible measures to gain people’s confidence in the Nepalese currency and also not make frequent changes in policies.

The office of foreign investment promotion in Nepal should try to increase its promotional drive and communicate with developed economic
market about the facilities of foreign investment in Nepal. This should be done not only by arranging seminars and meetings but also by arranging discussions worldwide.

All foreign investment not contributes to the economic development. Therefore, all the positive as well as negative aspects of a particular foreign investment should be taken into account before accepting the foreign investment. Nepal gets benefits from improvement in her physical infrastructure. A functioning infrastructure, including roads, power supply, telecommunication facilities, would greatly increase chances of attracting direct foreign investment.

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Application of Internal Marketing in Service Organizations

Santosh Kumar Ghimire*

Abstract

It is a common knowledge that customer satisfaction mainly depends on the process of service delivery and less on the outcome of it. External customer satisfaction cannot be achieved without the fundamental contribution of the customer contact employees who provide the service. Customer service is one of the most crucial aspects of an organization’s competitive advantage and it is the critical element which internal marketing (IM) influences, whatever business or industry the organization operates. This ascertainment highlights the importance of the initiation of Internal Marketing in service organizations. Internal marketing is based on the notion of communicating with internal markets and treating employees like customers. Implementing an internal marketing plan helps in educating, stimulating, guiding and leading workforce to higher levels of performance and gratification. The service employee often represents the organization in the eyes of the customer. Due to this, the role of employee is both complex and multi-dimensional. The internal customer concept is a promising area of study in the marketing and organizational behaviour literature. This article contributes to the understanding of what IM is and focuses on importance of employees in service organizations. Further, the paper focuses on rationale for adoption of this concept within services organizations.

Keywords: Internal marketing, Service quality, Service encounters, Service industry, Internal customer, Customer orientation.

Overview

One of the major trends of recent years is the growth of services and marketing of services is attracting a great deal of attention from academicians and practitioners because of their ever-increasing importance in both developed and developing countries (Cunningham, Young, Ulaga & Lee, 2004). According to Lovelock and Wirtz (2007) services form an important part of today’s economy and also account for most of the growth in new jobs.

Many developed countries have seen a dramatic increase in the importance of services to national economies and to the individual consumer. In the major European countries, the US and Japan, more people are employed in services

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than in all other sectors of the economy put together. A variety of service industries – from banking, insurance and communications to transportation, travel and entertainment – now account for well over 60 per cent of the economy in developed countries around the world. As a nation’s economy develops, the share of employment between agriculture, industry (including manufacturing and mining), and services changes dramatically Lovelock and Wirtz (2007).

This shift towards a service economy is largely attributed to rising affluence, more leisure time and the growing complexity of products that require servicing. Moreover, as companies find it harder to differentiate their physical products, they increasingly turn to service differentiation, seeking to win and retain customers through delivering superior services.

Role of the Employees in Service Encounter

In service organizations employees are vital part of the services offered to customers and hence, there is a need to ensure that they can proficiently deliver the promises made to customers in all service delivery encounters. In literature, service encounters are also labeled as moments of truth. Contact employees have undoubtedly one of the most difficult yet rewarding jobs in the service organizations. Since the service employee works on the boundary of the organization and performs boundary spanning roles (Friedman and Podolny, 1992), the organization has high stakes on how the service employee behaves in service encounters. These service employees are faced with multiple challenges on a daily basis ranging from technical faults to badly behaved customers. It is the manner in which these challenges are dealt with and the degree to which one can cope with the strain of boundary spanning roles, which distinguishes excellent service providers. The boundary spanning role has been defined mas activity which links an organization with the environment within which it operates (Bateson and Hoffman, 1996). It is the task of people in boundary spanning roles to create these links by communicating with those in the outside environment. Those operating in a boundary spanning capacity must be motivated to fulfill two tasks information transfer and representation. Singh et al. (1994) stated that personnel who are operating in boundary spanning roles are prone to high levels of emotional burnout and role conflict.

While interacting with the service, the customer comes not only in to contact with the contact personnel but also with the physical facilities, the other customers and other visible elements. In these cases, customer perceptions of service quality are affected by the physical environment as well as by the behavior of the relevant service personnel (Zeithaml et al 2006). Regardless of whether contact points are visible or not, they constitute moments of truth – points in time during which customers are afforded the opportunity to gauge service quality. If multiple touch points are involved in performing a job function, it may very well be feasible to remove some contact points while still performing the function. Each touch point provides the customer an occasion to
gauge the performance of an organization; leaving in unnecessary touch points increases the probability of an unpleasant evaluation (Spence & Kale, 2008).

From an Internal Marketing perspective, many researchers have argued that by satisfying the needs of their internal customers, firms enhance their ability to satisfy the needs of their external customers. However, both customers and employees need to be seen as part of a virtuous circle in which attention given to one reinforces attention given to the other. George (1990) illustrated that relational exchanges between employees within an organization should be considered a prerequisite for successful exchanges with external markets. The satisfaction of the internal customer is of critical importance as satisfaction will ultimately effect the satisfaction of the external market (Ballantyne, 2003, Heskett et al., 2008). Therefore, good organizations carefully manage employee–customer interactions to mitigate the possibility of an unfavourable encounter which could ruin the overall experience. Contact personnel in the service encounter have an opportunity to customise the service delivered to each customer. Customisation of the service encounter adds value to the customer’s experience of the service and also contributes to the creation of a sustainable competitive advantage (Lewis and Entwistle, 1990).

**Internal marketing**

About 37 years ago internal marketing (IM) was first proposed as a solution to the problem of delivering consistently high service quality by Berry et al. (1976) – a major issue in the services area. Its basic premise was ‘to have satisfied customers, the firm must also have satisfied employees’. This could be best achieved by treating employees as customers, i.e. by applying the principles of marketing to job design and employee motivation. Since then, the concept has seen a number of major developments and its application today is no longer confined to the services area.

The term internal marketing (IM) is used to describe the application of marketing internally within the organization. “Every department and every person is both supplier and a customer, and the organization’s staff works together in a manner supporting the company strategy and goals”. IM relates to all functions within the organization, but it is vitally concerned with the management of human resource (Collins, B., 20011).

The employees who deliver service are of fundamental importance to both the customer that they serve and the employer for whom they work. In many cases, the source of customer dissatisfaction is in fact, the service employee. The employees in turn, deliver less than acceptable service because they are dissatisfied with the way that management runs the company. There are many factors that can contribute to this dissatisfaction – those related to their role, to their lack of empowerment, or to the way that management runs the company.

Generally, the Marketing of products and services has been focused on the detection and the satisfaction of the external customers need. Many researches have
been conducted, globally, with regard to the measurement of external customer’s satisfaction (Codotte et al. 1987, Cronin and Taylor, 1992, Gerson, 1993, Kessler, 1996).

In services, customer’s satisfaction or dissatisfaction takes place during the moments of truth - when customer comes in contact with a front-line employee of the firm (Lewis and Entwistle 1990). Actually, at the moments of truth, the quality of provided services is the customer’s judgment and the result from the discrepancy between customers’ expectations and perceptions (Bitner, 1990, Bolton and Drew, 1991, Parasuraman et al. 1988, Taylor and Baker 1994). So, external customer satisfaction cannot be achieved without the fundamental contribution of the customer contact employees who provide the service. Thus, front-line employees should stay focused on customers’ needs. One methods of creating this work environment which initiate and maintain the culture that may produce the appropriate behavior, is through Market Orientation (Hartline and Ferrell, 1996).

Moreover, because of the importance of the service provided, service firms should inform their customer-contact employees of the customer’s needs, train them in a continual base, support them in order to acquire communication and recovery skills and make them feel comfortable and satisfied with their job. The above ascertainment emerged the concept of Internal Marketing. In that respect enterprises should develop marketing programmes focusing on the internal market (employees) in parallel to those for its external market (customers) (Bansal et al., 2001).

Internal marketing is the process of motivating and empowering the employees of a company to work as a team for the overall wellbeing of the customers and thereby the company itself. This is actually the core to success of a company. A harmonized effort within the company is an utmost necessity to provide customers with services at a desired level. If we don’t deliver the service we promise in our marketing campaign, we will fail for sure. And we only can keep that promise when all of our employees at all levels realize what actually we are going to deliver.

**The link between internal and external marketing**

It is commonly believed that sole role of marketing is to sell products and services outwardly to customers. In fact, the first and most urgent job of marketing is often to sell inwardly toward a company’s people. For, it is only when the people of the company fully understand and are committed to the value proposition of the organization and its brands, that external marketing can reach its full potential.

**The link between internal and external marketing programmes**

The concept of Internal Marketing has evolved and the following definition was proposed by Rafiq and Ahmed (1993):

‘Internal marketing is a planned effort using a marketing-like approach directed at motivating employees, for implementing and integrating organizational strategies towards customer orientation’.

Internal marketing is about how a company can market its mission, vision and values to each of its major stakeholders. The company has to view its customers as its strategic starting point and address them in their full humanity and with attention to their needs and concerns. Employees are the most intimate consumers of the company’s practices. They need to be empowered with authentic values.

Internal marketing evolves from the idea that employees represent an internal market within the organization. This market needs to be educated and informed about the organization’s mission, the benefits of its products and services and the expectations of its customers. The rationale for this is that successful ‘marketing’ to this group will contribute significantly towards achieving ultimate collective success in the delivery of all marketing activity to external customers. Thus, the overwhelming purpose of internal marketing is to ‘involve’ employees in the organization’s mission and strategic direction, and to help them understand and value the corporate objectives. In doing so, it will achieve a ‘balance’ between operational efficiency and management objectives.

**Service Triangle**

Service Triangle, a customer-centric service quality management model is about the co-constitutive relationship of staff, customers and business, can best describe how internal marketing can give external marketing the multiple effects. By external marketing with customers, interactive marketing (The way of collecting the valued information from the customers through one to one conversation and then incorporating their thoughts in the marketing campaign) between staff and customers, and internal marketing between the organization and staff, an organization can ensure external customers’ satisfaction and internal staff’s loyalty toward the organization, and enhance the profit and competition of the organization.

**The relationship between internal marketing, external marketing, interactive marketing and relationship marketing**


As one can see in figure, external marketing, internal marketing and interactive marketing are interrelated and
quite have an impact on the company. Internal marketing is often introduced by the human resources sector providing various management measures to enhance staff’s satisfaction toward their jobs, and let them identify with the organization. By doing so, not only staff turnover can be reduced, staff productivity and service quality can also be enhanced, and produce high value of the services. Thus employees would follow “Customer First” principle to satisfy the customers and bring the organization remarkable profits. The talent of employees is the basis of organizational capability, and can be the key for the core competitiveness of enterprises with marketing oriented connotation.

Rationale for the Adoption of Internal Marketing

It is clear that internal marketing is concerned with more than treating the employee as a customer; it signifies that the organization should constantly endeavour to develop programmes and strategies for enhancing employee satisfaction in much the same way as external marketing plans which are continuously updated and improved to meet external customer demands. Internal marketing is becoming increasingly important and growing recognition as an implementation tool for adoption by all organizations. Prasad and Steffes (2002) mentioned that internal marketing must precede external marketing, if not the organization may offer a service it is unable to provide. From the organizational perspective, the need of the hour is a well-structured and rationalised internal marketing approach that can significantly improve employee relations with management and overall organizational competitiveness and performance. Only then can these organizations hope to respond to the challenges presented by globalization (Budhwar, 2009). There are a number of areas where internal marketing can play a vital role:

Management of change: Many companies are undergoing some form of transformation through mergers, alliances, or downsizing. The need for communication is stronger in these circumstances. Moreover, constant organizational change can loosen the ties between employer and employee. Internal marketing can bring the parties together with shared goals and values. Internal marketing may be used to place, and gain acceptance of new systems such as the introduction of information technology and new working practices, and other changes. It creates good coordination and cooperation among departments of the business.

Building corporate image: When companies change their brand, their name, or their values, it is essential to communicate the change to all stakeholders including employees. Internal marketing can play a key role in creating awareness and appreciation of the company’s aims and strengths - as all employees are potential company ambassadors. It integrates business culture, structure, human resources management, vision and strategy with the employees’ professional and social needs.

Employee empowerment: Internal marketing empowers employees and gives
them accountability and responsibility. Zeithaml and Bitner (1996) stipulated that many organizations accept that in order to be responsive to customer needs, front-line staff need to be empowered to accommodate customer requests, and to recover on the spot when things go wrong. As companies empower staff to build stronger customer relationship, internal marketing underpins the drive for greater involvement, commitment, and understanding.

**Enhancing Organizational Commitment:**
Lack of commitment from employees can be harmful to an organization, resulting in poorer performance arising from inferior service offerings and higher costs. The major thrust of the internal marketing concept is to ensure that employees feel that management cares about them and their needs are met. If these are not met then the satisfaction of external customers is difficult, if they are met then employees become committed, co-operative, and enthusiastic about the organization (Ahmed et al., 2002; Ballantyne, 2003). Internal marketing encourages employees to offer superb service to customers by appreciating their valuable contribution to the success of the business. Hogg (1996) has suggested that internal marketing could be the answer to gaining employee commitment, succeeding where traditional internal communications programmes have failed. Caruana and Calleja (1998) also confirmed a significant relationship between internal marketing and organizational commitment.

**Employee satisfaction:** In service environments in which customers are highly demanding of employees, coupled with employees who in turn hold high expectations from their jobs as sources of self-actualization and self-development. Under these conditions, internal marketing approach can assist in creating more satisfied customer-contact employees who appreciate clearly the logic and benefit of courteous, empathetic behavior when dealing with customers, lead to greater customer satisfaction. Internal marketing which aims at reducing interdepartmental and inter-functional conflict and developing the co-operation and commitment needed to make external marketing strategies work.

Several researchers have criticized this concept of internal marketing and advocated that through internal marketing marketers are trying to extend their influence throughout the organization. Critics of internal marketing argued that the term is simply a synonym for good human resources management. However, internal marketing and human resource effectiveness are distinct and the former represents the antecedent of the latter (Ewing and Caruana, 1999). Gilmore and Carson (1995) criticized the dependence on techniques and concepts, designed for the implementation of external marketing programmes that may be inappropriate for internal markets. Rust et al. (1996) postulated that there is an overemphasis on the importance of frontline personnel, which can potentially create conflict and discontent among other staff members. Rafiq and Ahmed (1993) mentioned that internal marketing is highly incompatible in striving to meet both the requirements of internal and external customers.
simultaneously. Hales (1994) is very critical of the application of internal marketing to HRM. He argues that internal marketing is unable to provide a solid conceptual base emphasising, among others, the point that while HRM focuses on teamwork; internal marketing stresses individualism. Later, Ahmed and Rafiq (2004) criticised the concept of employee as customer. Since it raises the question of whether the needs of external customers have predominance over those of employees.

How can we do internal marketing?

1. Aligning the organizational objective with the employee attitude is the most important step in the internal marketing process. We always should keep our employees informed about our goal. We should clearly convey the message to the employees that “this is the purpose for which we are in the market”. Then we should take necessary steps so that the employees can harmonize their attitude or behavior.

2. Introducing the core values of the organization is another step. Each and every employee must comprehend the core value of the organization.

3. Coordinating the tasks of every employee is another important step in the entire process. Introduction of the total quality management (TQM) is a great way to achieve this coordination. If the employees don’t know what to do; when to do; how to do; for whom to do, then it is very difficult to achieve the organizational objectives. And this lack of coordination parallels to the lack of internal marketing. So coordination must be established.

4. Creating congenial atmosphere is also equally important. We should create such a corporate culture in which every employee can share their views with others, even with the higher authority.

5. Authorizing and empowering the employees facilitate internal marketing. When the employees feel that they are authorized and empowered to take a decision, they can show their intrinsic creativity which ultimately help satisfy the customers. This authorization and empowerment also entail the accountability of the employees.

6. Rewarding the best employee performance is another way to do internal marketing. This also initiates a positive competition among the employees.

7. Nurturing the fair-play policy can ensure active involvement of the employees in the organizatioanl activities which ultimately makes sure the implementation of internal marketing.

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Corporate Social Responsibility: A Review of Managers’ Attitudes in Nepal

Bal Ram Chapagain*

Abstract

Despite the growing attention in corporate social responsibility (CSR) among practitioners and academicians around the globe, a shadow of doubt remains as to whether managers of particular country and industry sector posses a positive or negative attitudes towards CSR. Against this backdrop, this paper examines the attitudes of Nepalese manufacturing and banking sector managers towards CSR and the factors influencing their attitudes towards CSR. A structured questionnaire was developed based on past studies by Abdul Rashid and Ibrahim, Ford and McLaughlin, Gilles and Leinbach and Holmes. A total of 122 responses were used for analysis in this study. The results showed that both manufacturing and banking sector managers of Nepal have positive attitudes towards CSR. However, the degree of positive attitudes on different propositions significantly differ. Analysis also revealed that ‘common practices in industry’, ‘college or university training’ and ‘conduct of superiors’ are the most influencing factors and ‘religious training’ is the least influencing factor for shaping the attitudes of managers towards CSR in Nepal. Interestingly, research also revealed that, besides corporate efforts, the role of government, pressure groups and other stakeholders is also crucial to promote CSR in our context. Thus, it has become imperative to make necessary efforts by the all concerned authorities including the government to promote socially responsible corporate behavior for creating a more equitable and just society in Nepal.

Key words: Corporate social responsibility, Attitudes, Nepal

Background

Corporate social responsibility (CSR) has become a popular topic for management conferences. In public talks and media debates, top managers display their proficiency in the language of CSR. However, this growing attention to CSR does not prove that much has changed in

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managers' attitudes and everyday business practice (Graafland and Ven, 2006).

Some argue that the only social responsibility of business is to do business and earn adequate profits without deception or fraud, nothing else (Friedman, 1970); while others postulate that business is also a social entity and thus it has to go beyond economic responsibilities. According to Peter Drucker, economic performance is the base without which a business cannot discharge any other responsibilities... but economic performance is not the only responsibility of business (Drucker, 1992, cited in Smith, 2008). Likewise, some practitioners and managers believe that CSR is not merely an obligation of business enterprises towards different stakeholders but, more importantly, an opportunity for economic success and sustainability (Chapagain, 2010). Thus, shadow of doubt remains as to whether managers of different countries and industry sectors poses a positive or negative attitudes towards CSR. Against this backdrop, this paper examines the attitudes of Nepalese banking and manufacturing sector managers towards CSR and the factors influencing their attitudes towards CSR.

**Essence of Corporate Social Responsibility**

Corporate social responsibility (CSR) is a concept whereby companies integrate economic, social and environmental concerns in their strategies, policies and practices. The belief transcend from the religious belief of the potential punishment the person will have after his death (in ‘Narka’ – the hell), if he exploits too much and the reward he will enjoy after his death (in ‘Swarga’ – the heaven), if he makes some social or religious contribution (Legal, 2006). With the passage of time, however, the concept of CSR has evolved a lot. Nowadays, it is regarded not just as a moral duty of business firms to give back to society but also as an opportunity to sustain and grow the business.

In essence, CSR is a comprehensive and innovative approach of doing business whereby a company integrates economic, legal, ethical, social and environmental concerns in a way that fulfils the interests of different stakeholders without sacrificing its own interests. Company’s stakeholders are all those who are influenced by, or can influence, a company’s decisions and actions. These can include (but not limited to): employees, customers, suppliers, competitors, creditors, government, local communities, shareholders and the society as a whole.

**Rationale of Corporate Social Responsibility**

Business and society do not belong to different camps; they are in the same boat. If anything goes wrong with either party, both will be affected negatively (Porter and Kramer, 2006). Thus, if we start to think from the premise that business and society are interdependent, CSR becomes an opportunity for business, and not merely a duty. In today's business climate, where organizations are often viewed with suspicion, authentic engagement in CSR policies and practices can directly contribute to the sustainability, profitability and growth of business (Legal, 2006). Among others, CSR specially contributes to 5Rs:

- **Relationships:** Businesses that integrate the concerns of different stakeholders – such as employees,
customers, suppliers, government, local community and the investors – in their mission, vision, values, goals, strategies, policies and practices improve their relationships with these key stakeholders. It is extremely important in the country context like Nepal where industrial relations is very poor.

- **Reputation**: Socially responsible companies are more reputed than their less responsible counterparts. Reputation increases brand equity and customer loyalty which, in turn, triggers to profitability and growth.

- **Recruitment and Retention of talents**: Companies that embed CSR throughout all they do are better able to attract, utilize and retain talented people in the organization. For instance, A study conducted among Stanford University MBA graduates found that they would sacrifice an average of $13,700 (per annum) in salary to work for a socially responsible company. Likewise, Sears found a 20% reduction in staff turnover since implementing their CSR program (Strandberg, 2009).

- **Risk reduction**: Liabilities, claims, fines, penalties and litigations are business risks often incur through environmental or social infractions. A company behaving in a socially responsible manner is actively taking steps to minimize these risks.

- **Return on investment**: CSR is in the enlightened self-interest of business. It is no longer conceived as merely a moral duty of business for greater social good or executives’ discretionary expenditure that could hamper a corporation’s profitability, but as a strategic tool to be used to improve the bottom line performance of the corporation (McWilliams et al., 2006; Lee, 2008).

**Review of Literature**

Despite the numerous perspectives on CSR, the question of whether the corporate leaders and managers of particular country, community or industry sector possess positive or negative attitudes towards CSR is an important question. Some managers may believe that CSR pays off at least in the long run and others may believe that it does not. Some executives and managers may perceive CSR as a moral duty of business regardless the tangible returns on the bottom line of business and others may regard it as a thing that misappropriates valuable corporate resources and thus it is not a business of business.

In a study of the attitudes of a number of US chief executive officers (CEOs) and the business school deans, Ford and McLaughlin (1984) found that there was high agreement (above 50 percent) on eight of the 11 statements for corporate acceptance of social responsibility. The deans agreed more than the CEOs that “the idea of social responsibility is needed to balance corporate power and discourage irresponsible behavior” and that “since business have such a substantial amount of society’s managerial and financial resources, they should be expected to solve social problems.” Deans were less inclined than the CEOs to disagree with the statements that “business will participate more actively in social responsibility in prosperous economic times than in recession” and “consumers and the general public will bear the cost
of business social involvement because business will pass these costs along through the price structure.” Ford and McLaughlin found that the two groups seemed to agree on the major arguments for practicing social responsibility. Disagreements arose over the perceptions of resource costs for conducting these activities and perceptions of the ability of business to make good decisions in social responsibility practices.

Holmes (1976) argued that, in addition to making a profit, business should help to solve social problems whether or not business helps to create those problems – even if there is probably no short run or long run profit potential. Her research showed that the U.S. executives were highly optimistic about business’s social role or the moral duties towards society: 37.6 percent agreed strongly, 40.7 percent agreed more than they disagreed, 20.1 percent disagreed more than they agreed, 0.5 percent disagreed strongly, and 1.1 percent had no opinion on this statement.

In Hong Kong, Gilles and Leinbach (1983) found that there appeared to be little room for the practice of social responsibility. Although there were positive attitudes towards CSR, there were also negative attitudes towards it. Similarly, Abdul Rashid and Ibrahim (2002) examined that although the Malaysian executives and managers had positive attitudes towards CSR, the extent of their involvement in CSR was lower today than a decade ago. Likewise, a study conducted among managers of a multinational corporation in Denmark found that managers have inconsistent and inconclusive views towards CSR. It suggested that CSR is not just a question of instrumentalism or altruism, shareholders or stakeholders, public relations or genuine commitment. Instead, the managerial perceptions of CSR are characterized by a great deal of heterogeneity (Pedersen and Neergaard, 2009).

These all suggest that executive and management attitudes towards corporate social responsibility may differ across countries, communities and sectors; and it can be expected to have different corporate behavior with the difference in their attitudes and perception.

Methodology

A structured questionnaire was developed based on past studies (Abdul Rashid and Ibrahim, 2002; Ford and McLaughlin, 1984; Gilles and Leinbach, 1983; Holmes, 1976). A total of 14 attitudinal statements on CSR (of which, seven were positive and seven were negative statements) were asked on a five-point Likert-Scale, which ranged from strongly agree (1) to strongly disagree (5). Likewise, managers were also asked to rank (1-7) the seven different factors influencing attitudes towards CSR. Finally, an open-ended question was asked to assess the managers’ perception on the need of CSR in contemporary business environment of Nepal.

In total, 125 questionnaires were handed over to the banking sector managers and 100 questionnaires were handed over to the manufacturing sector managers by using simple random sampling technique. Of which, 70 were received from banking sector and 52 were received from manufacturing sector in useable forms. The high response rate (i.e., 56% from banking sector and 52% from manufacturing sector) implies that the outcome can be regarded as representative.
of the complete sample of 225 respondents. However, one of the major limitations of this study is that the samples drawn from only banking and manufacturing sectors and a relatively small sample size may not be representative to the whole Nepalese managers.

In order to analyze and interpret the data collected, both descriptive and inferential statistics were used. Besides, reliability of responses on scaled questions was tested by calculating Cronbach’s Alpha coefficient in the SPSS 13.0 program. It revealed the reliability statistics as 0.853, which is fairly good.

Findings and Discussions

This study basically revolves around examining the attitudes of two major corporate sector managers, namely, manufacturing and banking, towards CSR in Nepal. The analyses of different data collected revealed the following major results or findings.

Managers’ Attitudes towards CSR

Table 1 and 2 depict the managers’ response to the 14 statements regarding the attitudes towards corporate social responsibility. Of the 14 statements, 7 statements were in favor of the concept corporate social responsibility (refer Table 1) and the rest were against the premise of corporate social responsibility (refer Table 2). Though the positive and negative statements are treated here separately, they were actually mixed up in the questionnaire and asked to respond on a five-point scale.

Table 1: Managers’ responses on propositions in favor of CSR

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Statements</th>
<th>Mean Manufacturing Sector Managers</th>
<th>Mean Banking Sector Managers</th>
<th>Weighted Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Socially responsible business behavior can be in the best economic interest of the shareholders.</td>
<td>3.96</td>
<td>4.11</td>
<td>4.05</td>
</tr>
<tr>
<td>2</td>
<td>Efficient production of goods and services is no longer the only thing society expects from business.</td>
<td>4.06</td>
<td>3.86</td>
<td>3.94</td>
</tr>
<tr>
<td>3</td>
<td>Involvement by business in improving its community’s quality of life will also improve long run profitability.</td>
<td>4.23</td>
<td>4.33</td>
<td>4.29</td>
</tr>
<tr>
<td>4</td>
<td>A business that wishes to capture a favorable public image will have to show that it is socially responsible.</td>
<td>4.37</td>
<td>4.47</td>
<td>4.43</td>
</tr>
<tr>
<td>5</td>
<td>If business is more socially responsible, it will discourage additional regulation of the economic system by government.</td>
<td>3.15</td>
<td>2.96</td>
<td>3.04</td>
</tr>
<tr>
<td>6</td>
<td>The idea of social responsibility is needed to balance company’s power and discourage irresponsible behavior.</td>
<td>3.85</td>
<td>3.90</td>
<td>3.88</td>
</tr>
<tr>
<td>7</td>
<td>Businesses are social institutions and as such must live up to society’s standards.</td>
<td>3.98</td>
<td>4.13</td>
<td>4.07</td>
</tr>
</tbody>
</table>

Weighted Mean value on propositions in favor of CSR 3.94 3.97 3.96
Table 1 shows that both the manufacturing and banking sector managers of Nepal have positive attitudes towards CSR. However, the degree of positive attitudes on different propositions significantly differ. Managers strongly believe that a business that wishes to capture a favorable public image will have to show that it is socially responsible. But, they are almost indifferent on the belief that socially responsible business behavior will discourage additional regulation by the government.

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Statements</th>
<th>Mean</th>
<th>Manufacturing Sector Managers</th>
<th>Banking Sector Managers</th>
<th>Weighted Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business already has too much social power and should not engage in social activities that might give it more.</td>
<td>2.04</td>
<td>2.37</td>
<td>2.23</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>A company that ignores social responsibility can obtain a competitive advantage over a company that does not.</td>
<td>2.48</td>
<td>2.56</td>
<td>2.52</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>It is unwise to allow business to participate in social activities where there is no direct way to hold it accountable for business results.</td>
<td>2.54</td>
<td>2.41</td>
<td>2.47</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Business leaders are trained to manage economic institutions (companies) and not to work effectively on social issues.</td>
<td>2.27</td>
<td>2.49</td>
<td>2.39</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Consumers and general public will bear the costs of business social involvement because business will pass these costs along through their pricing structure.</td>
<td>2.92</td>
<td>3.06</td>
<td>3.00</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Involvement in socially responsible activities threatens business by diverting time and money away from its primary business purpose.</td>
<td>1.98</td>
<td>2.26</td>
<td>2.14</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Social responsibility, when it reduces shareholders' equity, amounts to theft. Managers are appropriating and then giving away money which belongs to shareholders.</td>
<td>2.27</td>
<td>1.96</td>
<td>2.10</td>
<td></td>
</tr>
</tbody>
</table>

Likewise, Table 2 reveals that Nepalese managers disagree with the propositions against CSR. However, managers are indifferent with the proposition that “consumers and general public will bear the costs of business social involvement because business will pass these costs along through their pricing structure”. Analysis also revealed that there is no significant difference in attitudes with respect to statements for and against corporate acceptance of social responsibility between manufacturing and banking sector managers of Nepal.
Factors Influencing Managers’ Attitudes towards CSR

Figure 1 portrays the factors influencing Nepalese managers’ attitudes towards CSR whereby ‘1’ being the most influential factor and ‘7’ being the least influential factor. Freedom was given to consider any of the proposed factor(s) as ‘not a factor’.

Figure 1: Factors Influencing Managers’ Attitudes towards CSR (manufacturing and banking sectors combined)

From the above figure it can be inferred that ‘common practices in industry’, ‘college or university training’ and ‘conduct of superiors’ are the most influencing factors and ‘religious training’ is the least influencing factor for shaping the attitudes of manufacturing and banking sector managers towards CSR in Nepal. This figure also reveals that all managers, with no exception, consider ‘common practices in industry’ as a factor influencing attitudes towards CSR whereas majority of managers regard ‘religious training’ as not a factor in our (i.e., Nepalese) context.

CSR Need Assessment

In an attempt to assess managers’ views on the need of promoting CSR in contemporary business environment of Nepal, diverse type of responses were obtained. Majority of the respondents from both banking and manufacturing sectors strongly agreed with the need of CSR in contemporary business environment of Nepal, but their rationalization was different. Some of the respondents, particularly from manufacturing sector, remarked that it is a moral duty of business to give something back to society within its capacity regardless of its contribution to the company’s bottom-line. It should be a business
culture, not a means to advertise. Others, particularly from banking sector, put forwarded their views that it is an essential thing both for business and society; but, it is not the sole responsibility of companies to promote CSR. Government and pressure groups such as NGOs and INGOs should encourage companies to develop and follow CSR policies and practices through providing incentives and undertaking awareness campaigns. Otherwise, it becomes only a nice thing to talk.

Conclusions
The findings of this study showed that Nepalese managers, at least from two prominent corporate sectors, are clearly aware of the company’s duty towards different segments of society. Likewise, it can also be inferred that they are convinced enough with the fact that CSR and profit maximization are not the conflicting goals of the firm.

Interestingly, research also revealed that despite the positive attitudes of Nepalese managers towards CSR, the role of government, pressure groups and other stakeholders is crucial to promote CSR in Nepal. Likewise, since ‘common practices in industry’ and ‘college or university training’ have much influence in shaping the managers’ attitudes towards CSR; it is imperative to make necessary efforts by the concerned authorities to promote socially responsible corporate behavior. For this, Nepalese government may consider introducing a social performance index and tax benefit or incentives for companies to benefit from such moves. Such moves would also enhance the level of participation and support by the private sector towards a more equitable and just society. Similarly, university systems should also adequately incorporate and update CSR concepts and practices in their curricula.

References


Strategic Performance Analysis of Nepalese Commercial Banks

Gyaneshwor Sharma*

Abstract

Since 1990, Nepalese commercial banks have been delivered a new banking experience in Nepal. Looking to the growing popularity of services, provided by them, their public sector counterparts have started emulating them. In this regards, it is questionable that how have these banks performed in term of financial as well as non financial parameters? One attempt has been made in this paper to have insight into the financial and non financial operation of these institutions. This study reached some results, such as the existence of a relationship between application of the balanced scorecards and the Nepalese commercial banks performance with its four perspectives. There is a constructive relationship between the strategic vision perspective in the balanced scorecard model and the Nepalese commercial banks performance. Therefore, it has been shown that applying the balanced scorecard model is the best tool and criterion to measure the commercial banks performance because it takes into consideration the financial and non financial standards. It also found that there is awareness and conception relationship of commercial banks’ employees regarding application of the balanced score cards, in order to improve the performance measurement and achieving the planned objectives.

Key Words: Commercial Bank, Balance Score Card, Financial and Non-Financial Performance, Key Performance Indicators

1. Introduction

Every society needs some mechanism through which savings are channel from savers to investors, on the basis of guarantee, repayment and return. Therefore, the commercial banks act as financial intermediary between the ultimate savers to investors, offer the savers various types of deposits withdrawal facilities and guarantee returns by way of interest (Uddin, 2001). Thus, the bank plays decisive role in the allocation of financial recourses available within the society. In this context, in any developing country, with rapid change and more sophisticated customers, it has carried important results that financial institutions are escalating and customers are getting more and more sophisticated advantages from those financial institutions.

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Performance measurement is a regular and traditional accounting and financial activity of financial institutions. To measure the output of any economic activity, different techniques of performance measurement are used. Different economic decisions are taken on the basis of performance of an organization. So a continuous effort is going on to devise a flawless and dependable system of performance measurement. The need for a sound system of performance measurement for financial institutions cannot be over-emphasized (Bhattia and Verma 1999). As these organizations are run by public money, their accountability is more than that of a general trading concern. So, special attention is required to be given to this aspect of financial institutions. A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm’s overall performance health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales.

The financial measures alone in performance measurement and control system are inadequate tools for strategic decision-making as they are unable to ensure goal congruence between management decisions and actions (Parker, 1979). The lack of ‘strategic focuses in its design and implementation led to a plummet in firm performance (Venkatraman and Ramanujam, 1986). Chakravarthy (1986) found that classic financial measures (return on assets, return on sales, and return on capital employed) failed to distinguish between Peters and Waterman’s (1982) ‘excellent’ and ‘non-excellent’ firms. The performance management systems should have strategic focus and should include both financial and operating measures. Dale (1996) found that investment analysts who considered both financial and non-financial measures were more accurate in their earnings forecasts than those who considered only financial indicators.

2. Performance Measurement through Traditional Method

The use of financial ratios helps the evaluation of banks’ performance. Accounting ratios may be used in order to interpret financial accounting and management accounting data. Mainly, there are two reasons for using ratios as a tool of analysis are to allow comparison among different size bank and to control the comparisons of individual’s bank’s ratios with some benchmark for these sector. The use of these accounting–based financial ratios to measure bank’s financial performance has been criticized. Basically, accounting data ignores the current market value of the bank and does not represent economic value– maximizing behavior. So that financial ratios rely on accounting data not on market values. But it is believed that the financial ratios are one of the powerful techniques to measures of bank’s financial performance.
3. Performance Measurement through Balance Score Card

Kaplan and Norton (1992) developed an innovative multi-dimensional corporate performance scorecard known as the Balanced Scorecard (BSC). The BSC is a strategic management system that aims to clarify strategy and to translate it into action. It is widely used by organizations as a tool to assess and manage their companies’ organizational performance. It also provides a framework for selecting multiple key performance indicators that supplement traditional financial measures with operating measures of customer satisfaction, internal business processes, and learning and growth activities. It makes the firm to align its performance measurement and controls with the customers’ internal business processes and learning and growth perspectives and investigate their impact on the financial indicators.

Currently, many business executives believe that the traditional measurement criteria of performance are misleading in situations that require continuous improvement and innovation in a competitive environment. In such a situation, achievement of short-term financial soundness is not enough; rather emphasis should be given on the achievement of long-term strategy. So, the BSC is introduced as a superior combination of financial and non-financial measures of performance (Kaplan and Norton, 1996). The use of BSC has gained increasing popularity and attention among industry practitioners and researchers over the years. Nevertheless, it has received strong criticism for its novelty and efficiency as the dominant framework in performance management (Marr and Schiuma, 2003; Smith, 2005). It also safeguards from sub-optimization in the decision-making process by forcing the managers to consider the four perspectives of business performance to have a complete picture. The implementation of the Balanced Scorecard is a process whereby the organization’s strategy is translated into a set of key performance indicators (Kaplan and Norton, 1996). The four perspectives of BSC refer to the learning and growth, internal business process, customer value and financial performance perspective.

4. Perspectives of Balance Score Card

During a year-long research venture with 12 companies at the leading edge of performance measurement, Kaplan and Norton (1992) developed a “balanced scorecard”- a set of measures that provide top managers a fast but comprehensive view of the business. Kaplan and Norton (1992) understood that as the business landscape changed from agricultural to industrial to informational; performance measures must adapt as well. Balance Scorecard includes financial measures that tell the effects of actions already taken. And it complements the financial measures with operational measures on customer satisfaction, internal processes, and the organization’s innovation and enhancement activities- operational measures that are the drivers of future financial performance (Kaplan and Norton, 1992). The four perspectives of BSC are Learning and Growth Perspective, Internal Business Process Perspective, Customer Perspective and Financial Perspective.
4.1 Learning and Growth Perspective
This perspective emphasized on innovation, creativity, competencies and capability. It refers to the most important intangible assets in strategy formulation and implementation. According to Cohen et al. (2008), the objectives of this perspective are to identify the human capital, information capital and the organizational climate required to support the internal processes. It also focuses on people and their attitude, knowledge, development and ability to learn and improve.

4.2 Internal Business Process Perspective
This perspective identifies the critical processes, skills, competencies and technologies that will deliver a value proposition to customers, current and future organizational success (Atkinson, 2006). Gartrell (1990) reported that investment on Research and Development (R&D) is a critical factor in contributing to superior economic performance. On the other hand, Aboody and Lev (1998) observed that capitalization on R&D is significantly positive associated with firm future earnings. Bhagat and Welch (1995) found a significant positive relation two-year lagged stock return and current R&D expenditures. The majority of the process improvement studies attempted to associate quality management and firm performance.

4.3 Customer Value Perspective
This perspective defines the value proposition used to generate sales and loyalty from targeted customers (Kaplan and Norton, 1996). It requires managers to identify the potential customers in the targeted segments and consequently choose the value parameters to deliver to the customers. The wide spectrum of marketing literatures have provided evidences that perceived customer value determines the level of customer satisfaction, which leads to customer acquisition, retention and ultimately customer profitability and market share (Malina, 2001).
4.4 Financial Performance Perspective

This perspective describes the tangible outcomes of the corporate strategy in traditional financial terms such as profitability, return on capital employed, residual income, economic value added, sales growth, market share etc (Atkinson, 2006). In other words, the financial objectives are retained as company goals but they represent the long-term aims of the organizations. Financial measures are considered the ‘lagging’ indicators in the sense that they are the results of other former actions mostly of qualitative nature (Cohen et al., 2008). Empirical evidence on performance measures used in practice is sparse, particularly for the UK. However, the evidence shows that the most common measures of performance used are the rate of return on investment (ROI) and residual income (RI) (Fitzgerald, 2007). Extensive research in the marketing, corporate strategy and management accounting literatures have studied the relation between market share and firm performance. Buzzel et al. (1975) found a strong and positive relation between market share and profitability.

5. Relationship between Balance Score Card and Commercial Bank

In the rapid development of financial markets, commercial banks are facing with intense competition. The traditional performance management appears to be inadequate in how to measure all-round performance to meet the banking needs of strategic development. Performance management of commercial banks is an important aspect of banking business management. Traditional performance management ignored the nonfinancial factors, with the result that the conclusion can not be fully reflected the overall operations of the bank. At the same time, financial indicators can only reflect the performance of banks in the past and does not reflect the bank’s future operating conditions.

In the rapid and complicated changing of business environment, banks are facing with challenges from the external environment. If the banks don’t correctly analyze the external environment and reflect what it is during the process of performance management, banks can not give an accurate analysis of their own strengths and disadvantages, it can not understand the opportunities and threats facing either, so it is difficult to win in the fierce competition( Simons, 2000). Implementation of balanced scorecard in banks and financial institutions is a very tricky thing as there is huge temptation to focus on financial indicators only. As known, banks, mortgage and insurance companies, credit unions and other financial institutions work with money to make more money. So, it is very easy to disregard non-financial indicators that, however, have a direct impact on financial performance of the above mentioned organizations (Ittner, 2008).

6. Rational of the Study

A lot has been changed since, the accelerated financial institutions are established and function after the restoration of democracy in 1990 as well as the people’s movement at 2005. After this period, banking is being one of the most
important constituents of the financial sector as well as they have delivered a new banking experience towards the public in Nepal. The banking business is one of the fastest growth financial businesses in Nepal. Most of the investors are ready to invest their capital in financial sectors. When we compare the market price of shares among the different companies, most of the private bank’s shares carries large amount and they are frequently traded in Nepal stock exchange market (Nepal stock exchange ltd. 2012). Most of the new commercial banks have promptly delivered a new banking experience by providing sophisticated technology, A-class services and customer centric approach towards the customers so that the rate of growth of financial institutions are mushrooming. In this background it is questionable how these commercial banks have performing strategic performance. Despite the recognition that both balance score card and banking performance, there are no in depth studies which explicitly examine the joint effect of relationship between balance score card information and banking performance. This study is, therefore, designed to address this existing space in the balance score card literature in Nepalese commercial bank. Thus, the study has explored the idea about performance measurement system using balance score card.

7. Objective of the Study

This study intends to capture the strategic performance analysis of commercial banks of Nepal. However, to attain main objective the study has covered the following specific points.

1. To evaluate the performance of banks using financial ratios and balanced scorecard method.

2. To identify the key performance indicators of four perspectives of the balance scorecard.

3. To explore whether commercial banks use all the basic perspectives of balance score card.

4. To analyze the bank’s performance indicator using ratios with balance score card.

8. Method of the Study

This study was based on both primary and secondary data. For primary data, structured questionnaire were used and necessary information were collected through banks’ annual report as secondary data. Each questioner was evaluated by five-point Likert-type scale. All respondents were asked to response by circling a number from 1 to 5 on the scale for each of the items. Seven sample banks which are listed in Nepal Stock Exchange (NPSE) were the study unit. A sample of forty five employees working as CEO, branch manager, and credit manager who are working in different branches, were selected randomly and surveyed. The data were coded, categorized, tabulated, analyzed, interpreted and compared using mainly SPSS-18 Version software.

9. Reliability of Data

The data collected through questionnaire that was distributed to 65 officer level employees of selected organization. Out of them 45 (70 percent approximately) were answered and reported their views.
Conbach’s alpha was used to test the reliability. The results of Cornbach’s alpha value were compared to the published estimates of Nunnaly’s in 1967, the minimum value of consistency test is 0.50 for pre-existing scales used in the study. The calculated value is 0.921 which is greater than the published estimate of Nunnaly. It strongly describe internal consistency estimate of reliability of summated scale. Thus, it is claimed that the instruments used in this research is reliable enough.

10. Analysis and Findings

10.1 Gender and Designation Distribution

Table 10.1 shows that the majority of the respondents are male. More specifically, 62 percent of the respondents are male, while only 38 percent are female. It shows that there are a greater number of male than female employees in the workforce of the organization under study. This table also shows that 49 percentage of respondent are branch head and only 18 percentage respondents are CEO and 33 percentage respondent are falls in credit manager, cash manager and loan manager.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Designation</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CEO</td>
<td>Branch Head</td>
<td>Others</td>
</tr>
<tr>
<td>Male</td>
<td>5</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Female</td>
<td>3</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>22</td>
<td>15</td>
</tr>
</tbody>
</table>

10.2 Knowledge about Balance Score Card

The researcher has asked to respondents that how were knowledgeable about balance core card. The following table shows that majority of the respondents have minimally knowledge regarding balance score card. More specially, 75.6 percentages of respondents are minimally knowledgeable regarding balance score card and only 24.4 percentage respondents are more knowledgeable about balance score card.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very</td>
<td>11</td>
<td>24.4</td>
</tr>
<tr>
<td>Minimally</td>
<td>34</td>
<td>75.6</td>
</tr>
<tr>
<td>Not at all</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100</td>
</tr>
</tbody>
</table>

10.3 Customer Satisfaction Perspective:

Choosing measures for the Customer Perspective of the BSC depends on the type of customers desired and the value that the organization provides to them (Niven,
The purpose of the customer perspective is to focus on the target customers. This will allow organizations to create strategies consistent with the type of customers they want to attract.

Table: 10.3: Descriptive Statistic of Customer Satisfaction Perspective

<table>
<thead>
<tr>
<th>Key Performance Indicators of Customer Satisfaction Perspective</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>S.D.</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank uses the customer satisfaction survey through their e-mail, vital for improving quality of services offering and development</td>
<td>1</td>
<td>4</td>
<td>2.24</td>
<td>0.981</td>
<td></td>
</tr>
<tr>
<td>Bank meets their customer to discuss their suggestions and problems</td>
<td>1</td>
<td>3</td>
<td>2.07</td>
<td>0.72</td>
<td>0.661</td>
</tr>
<tr>
<td>Bank uses the home banking service to save more time required to complete the action</td>
<td>1</td>
<td>5</td>
<td>2.60</td>
<td>1.176</td>
<td></td>
</tr>
<tr>
<td>Bank uses the customer relationship management system</td>
<td>1</td>
<td>5</td>
<td>3.04</td>
<td>1.397</td>
<td></td>
</tr>
<tr>
<td>The internal process improvement retains customers</td>
<td>2</td>
<td>5</td>
<td>3.71</td>
<td>0.991</td>
<td></td>
</tr>
<tr>
<td>Improvement in customer services increases product quality</td>
<td>3</td>
<td>5</td>
<td>3.96</td>
<td>0.767</td>
<td></td>
</tr>
</tbody>
</table>

From the above table shows that the respondents are more focus on customer services improvement increases product quality indicator, which has 3.96 as mean value with 0.767 of standard deviation. Similarly, the internal process improvement retains customer indicator has place in second position with 3.71 mean value and 0.991 standard deviation. The third, fourth, fifth and sixth position place by the indicators are banks uses the customer relationship management system with mean value 3.04, Bank uses the home banking service to save more time required to complete the action with mean value 2.60, Bank uses the customer satisfaction survey through their e-mail, vital for improving quality of services offering and development has mean value 2.24, and Bank meets their customer to discuss their suggestions and problems has mean value of 2.07 respectively.

10.4 Financial Perspective:

Financial Measures, has been the traditional method of analyzing organizational success and involves such elements as profitability, sales growth, and revenue per sales visit. Although the BSC stresses the need to incorporate additional measures to determine success, the need for Financial Measures is still an extremely strong element to determine success (Niven, 2002).
### Table 10.4: Descriptive Statistics of Financial Perspective

<table>
<thead>
<tr>
<th>Key Performance Indicators of Financial Perspective</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>S. D.</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank uses the financial control system to achieve clear financial results.</td>
<td>3</td>
<td>5</td>
<td>4.11</td>
<td>.682</td>
<td></td>
</tr>
<tr>
<td>Bank prepares budget to provide long term strategic plan to increase profit and decrease cost</td>
<td>3</td>
<td>5</td>
<td>4.49</td>
<td>.695</td>
<td></td>
</tr>
<tr>
<td>Bank uses financial information system to more accurate financial analysis and increase efficiency</td>
<td>1</td>
<td>5</td>
<td>3.51</td>
<td>1.236</td>
<td>0.865</td>
</tr>
<tr>
<td>The distributed dividends to the stockholders meet their expectation</td>
<td>2</td>
<td>5</td>
<td>3.71</td>
<td>.895</td>
<td></td>
</tr>
<tr>
<td>Bank believes better quality improves profit margin</td>
<td>3</td>
<td>5</td>
<td>3.89</td>
<td>.532</td>
<td></td>
</tr>
<tr>
<td>Bank considers superior quality results in greater market share</td>
<td>3</td>
<td>5</td>
<td>4.02</td>
<td>.783</td>
<td></td>
</tr>
<tr>
<td>The bank financial indicators to measure the efficiency and effectiveness</td>
<td>3</td>
<td>5</td>
<td>4.22</td>
<td>.765</td>
<td></td>
</tr>
<tr>
<td>Bank use the financial measurements as a feedback for the performance of the previous works</td>
<td>1</td>
<td>5</td>
<td>3.76</td>
<td>1.131</td>
<td></td>
</tr>
</tbody>
</table>

The above table finds that banks prepare budget to provide long term strategic plan to increase profit and decrease cost with mean value of 4.49 and SD 0.695 as first preferences under the financial perspective. The commercial banks are also highly sensitive in financial perspective because all above indicators have mean value is more than 4 and some cases almost 4. This result explains that banks use the financial control system to achieve the clear financial result. They consider superior quality results in greater market share and the financial indicators to measure the efficiency and effectiveness. The banks also positively analyses that it believes better quality improves profit margin as well as bank uses the financial measurements as a feedback for the performance of the previous works. The banks are also highly associated with financial information system to more accurate financial analysis and increase the efficiency.

### 10.5 The Internal Process Perspective

Overall, the review of the literatures above supports the notion that organizational learning and growth activities drive to improve internal business processes and appear to be directly related in contributing to greater customer value. If target customers are dissatisfied when delivery is late, an organization must concentrate on the internal process of developing a more efficient delivery system or refining the system currently
used. To accomplish this, managers are undertaking a rigorous internal analysis not only assessing the internal processes of the organization, but reviewing innovation since global competition has decreased the amount of time organizations can bring their products to market to be successful (Bose & Thomas, 2000).

### Table:10.5: Descriptive Statistics of Internal Process Perspectives

<table>
<thead>
<tr>
<th>Key Performance Indicators of Internal Process Perspectives</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>S. D.</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank applies the strategic information system to achieve goals</td>
<td>3</td>
<td>5</td>
<td>3.60</td>
<td>.654</td>
<td></td>
</tr>
<tr>
<td>Bank applies electronic document systems to facilitate its process</td>
<td>3</td>
<td>5</td>
<td>4.04</td>
<td>.852</td>
<td>0.790</td>
</tr>
<tr>
<td>Bank uses the communication systems to make its process</td>
<td>3</td>
<td>5</td>
<td>4.20</td>
<td>.894</td>
<td></td>
</tr>
<tr>
<td>Bank applies the monitoring systems to develop financial performance, and protects information</td>
<td>3</td>
<td>5</td>
<td>4.29</td>
<td>.787</td>
<td></td>
</tr>
<tr>
<td>Bank applies the total quality management to achieve continuous improvement</td>
<td>2</td>
<td>5</td>
<td>3.64</td>
<td>1.004</td>
<td></td>
</tr>
<tr>
<td>The current information system provides all the required information serves the decision taking process</td>
<td>3</td>
<td>5</td>
<td>4.20</td>
<td>.588</td>
<td></td>
</tr>
</tbody>
</table>

From the above table finds that banks are highly aware in the factor on the monitoring systems to develop financial performance, and protects information of banks operation with mean value of 4.29 and SD value is 0.787. Under the internal process perspective the given six indicators are equally important. Banks use the communication systems to make its internal process. They are also responsive regarding the current information system which provides all the required information serves the decision taking process and they are also applying the electronic document system to facilitate its internal process and banks have used the total quality system to achieve continuous improvement and the strategic information system to achieve the organizational goals as satisfactory level.

### 10.6 Learning and Growth Perspective

According to Kaplan and Norton (1996), this perspective is the backbone to a successful scorecard because it involves employee skills and information systems. Learning and Growth can include such issues as employee satisfaction, alignment of employee skills with jobs, number of employee suggestions implemented, and hours of employee training. Depending on the actual employee skills and desired employee skills, some organizations change job descriptions, relocate employees to other departments, and/or implement incentive programs designed to motivate employees to provide suggestions, receive education or training, and/or gain tenure through continued employment (Niven, 2002).
Table: 10.6: Descriptive Statistics of Learning and Growth Perspective

<table>
<thead>
<tr>
<th>Key Performance Indicators of learning and Growth Perspective</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>S. D.</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank applies employee’s suggestion System to participate employees in decision-making process</td>
<td>1</td>
<td>5</td>
<td>2.56</td>
<td>1.358</td>
<td></td>
</tr>
<tr>
<td>Bank applies the knowledge management System to improve/ increase the employees’ knowledge</td>
<td>1</td>
<td>5</td>
<td>2.73</td>
<td>1.074</td>
<td></td>
</tr>
<tr>
<td>Bank provides the learning opportunities to improve performance</td>
<td>2</td>
<td>5</td>
<td>3.67</td>
<td>0.879</td>
<td>0.72</td>
</tr>
<tr>
<td>Bank uses the disciplinary and grievance code to provide clear information on how the bank will manage employee problems</td>
<td>2</td>
<td>5</td>
<td>3.27</td>
<td>1.156</td>
<td></td>
</tr>
<tr>
<td>Bank uses learning communication system for training employees how to provide services</td>
<td>1</td>
<td>5</td>
<td>3.24</td>
<td>1.151</td>
<td></td>
</tr>
<tr>
<td>Bank uses new technology to improve customer services</td>
<td>3</td>
<td>5</td>
<td>3.87</td>
<td>0.694</td>
<td></td>
</tr>
</tbody>
</table>

10.7 Objectives of Performance Management System

The respondent firms want to balance profit, growth, and control through their present performance measurement and control systems and the Balanced Scorecard user firms plan to balance performance expectations of different stakeholders as is evident from Table 10.7. The other objectives of performance management systems are: balancing short-term results against long-term capabilities and growth opportunities, balancing opportunities and management attention, and balancing the motives of human behavior.

Table: 10.7: Descriptive Statistics of Performance Measurement System

<table>
<thead>
<tr>
<th>Key Performance Indicators of performance Measurement System</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>S. D.</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balancing profit, growth, and control</td>
<td>3</td>
<td>5</td>
<td>4.18</td>
<td>0.614</td>
<td></td>
</tr>
<tr>
<td>Balancing short-term results against long-term capabilities and growth opportunities</td>
<td>2</td>
<td>5</td>
<td>4.00</td>
<td>0.879</td>
<td>0.938</td>
</tr>
<tr>
<td>Balancing performance expectations of different stakeholders</td>
<td>2</td>
<td>5</td>
<td>3.44</td>
<td>1.139</td>
<td></td>
</tr>
<tr>
<td>Balancing opportunities and management attention</td>
<td>2</td>
<td>5</td>
<td>3.56</td>
<td>1.056</td>
<td></td>
</tr>
<tr>
<td>Balancing the motives of human behavior</td>
<td>1</td>
<td>5</td>
<td>3.29</td>
<td>1.254</td>
<td></td>
</tr>
<tr>
<td>Balancing the jobs and tasks according to the employees’ specializations and qualifications</td>
<td>1</td>
<td>5</td>
<td>3.16</td>
<td>1.296</td>
<td></td>
</tr>
</tbody>
</table>

10.8 The CAMEL Model and Use of Balance Score Card

To evaluate the performance of banking sector one of the important method which has chosen the CAMEL model that measures the performance of banks from each of
the important parameter like Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality and Liquidity. The CAMEL covers five areas of performance measurement viz., ‘C’ for Capital Adequacy; ‘A’ for Asset Quality; ‘M’ for Management Capacity; ‘E’ for Earning Available and ‘L’ for Liquidity. This performance measurement technique is more equitable than the previous techniques measuring the management capacity in addition to the financial measurement of performance. However, this CAMEL rating has not proved to be a comprehensive measure of performance from the viewpoint of corporate strategy. Quantitative factors (financial ratios) under CAMEL method and both quantitative (financial ratios) and qualitative (customer, internal business and innovation and learning perspective) factors under BSC were compared in order to measure the comprehensive of banks performance.

### Table 10.8: Comparison of Ratios under CAMEL and Use of BSC

<table>
<thead>
<tr>
<th>Perspective of Performance Measurement</th>
<th>Ratio Analysis with CAMEL Model</th>
<th>Measure Under BSC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Perspective:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank financial indicators to measure the efficiency</td>
<td>NA</td>
<td>Yes</td>
</tr>
<tr>
<td>Earning per share</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Non-performing loan to total loan</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Earning per employee</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Bank believes better quality improves profit margin</td>
<td>NA</td>
<td>Yes</td>
</tr>
<tr>
<td>Earning per branch</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Loan to deposit</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Customers’ Perspective:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uses the customer relationship management system</td>
<td>NA</td>
<td>Yes</td>
</tr>
<tr>
<td>Satisfaction survey through their e-mail, vital for improving quality of services offering and development.</td>
<td>NA</td>
<td>Yes</td>
</tr>
<tr>
<td>Improvement in customer services increases product quality</td>
<td>NA</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Internal Business Perspective:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementation of credit policy</td>
<td>NA</td>
<td>Yes</td>
</tr>
<tr>
<td>Bank applies the strategic information system to achieve goals</td>
<td>NA</td>
<td>Yes</td>
</tr>
<tr>
<td>Bank uses the communication systems to make its process</td>
<td>NA</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Innovation and Learning Perspective:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introduction of new product</td>
<td>NA</td>
<td>Yes</td>
</tr>
<tr>
<td>Bank uses learning communication system for training employees how to provide services</td>
<td>NA</td>
<td>Yes</td>
</tr>
<tr>
<td>Contribution of new products to total revenue</td>
<td>NA</td>
<td>Yes</td>
</tr>
<tr>
<td>Introduction of new technology</td>
<td>NA</td>
<td>Yes</td>
</tr>
</tbody>
</table>
10.9 Overall Comparison of Financial Performance

On the basis of financial operation, profitability, liquidity and productivity parameters in absolute terms, it was found that the Standard Chartered Bank is the best performer bank than other sample banks such as Nabil Bank, Himalayan Bank, Nepal SBI Bank, Bank of Kathamandu, Nepal Bangladesh Bank and Nepal Industrial & Commercial Bank and it was also found that the Nabil Bank is the closest competitor to Standard Chartered Bank.

Table-10.9: Overall Comparison of Financial Performance of Private Banks

<table>
<thead>
<tr>
<th>Financial Performance Parameters</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
</tr>
<tr>
<td>Ratio of Lending to Deposit (%)</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
</tr>
<tr>
<td>Net Profit to Income</td>
<td>HB</td>
<td>HB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
</tr>
<tr>
<td>Net Profit to Total Assets</td>
<td>NB</td>
<td>SCB</td>
<td>SCB</td>
<td>NB</td>
<td>NB</td>
</tr>
<tr>
<td>Interest Rate Spreads</td>
<td>HB</td>
<td>SBIB</td>
<td>NBB</td>
<td>NBB</td>
<td>NBB</td>
</tr>
<tr>
<td>Dividend per Share</td>
<td>NBB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
</tr>
<tr>
<td>Market Price per Share</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
</tr>
<tr>
<td>Non Performing Credit to Total Credit</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
</tr>
<tr>
<td>Cash Reserve Ratio</td>
<td>NB</td>
<td>NBB</td>
<td>NB</td>
<td>NB</td>
<td>NICB</td>
</tr>
<tr>
<td>Operating Profit per Employee</td>
<td>NB</td>
<td>NB</td>
<td>SCB</td>
<td>NB</td>
<td>NB</td>
</tr>
<tr>
<td>Operating Profit per Branch</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
<td>SCB</td>
</tr>
</tbody>
</table>

Where:  SCB: Standard Chartered Bank,  
        HB: Himalayan Bank,  
        NB: Nabil Bank,  
        NBB: Nepal Bangladesh Bank  
        NICB: Nepal Industrial and Commercial Bank

The Standard Chartered Bank emerged as a leader in this analysis of the five years ended 2010/11. Its closest competitor was Nabil Bank. The performance of the remaining six banks, no doubt, lagged behind them, but it was, by no means depressing. These banks obviously, have to focus more on improving parameters like credit quality and cost control for them to emerge as the top performers.

11. Conclusion

Performance of financial institutions is generally measured by applying quantitative techniques of financial measurement. However, to know about the existence of performance drivers in an institution, both quantitative and qualitative aspects of performance measurement are to be considered. There is a positive relationship between the strategic vision perspective in the balanced scorecard model and the Nepalese commercial banks performance. Therefore, it has been shown that applying the balanced scorecard model is the best tool and criterion to measure the commercial banks performance because it takes into consideration the financial and non financial standards such as: the customers,
the internal processes, and the growth, it also was shown that there is awareness at the Nepalese banks employees regarding applying the balanced scorecard, in order to improve the banks performance measurement in order to achieve the planned targets, also the sample individuals supported applying this method.

The balanced scorecard approach to performance management is an attempt to achieve different kinds of balance between short and long run, between different perspectives of the scorecard, between measuring change and the present position. It is useful for both strategic and operational purposes. To implement it successfully, it must enjoy wide spread support from the company. The history of the balanced scorecard is short with mixed experiences. But it is widely accepted as a management tool, critics have challenged its basic assumption of cause and effect relationship and the right choice of measures. In the Nepalese context, there have been very limited studies on the aspect of balanced scorecard.

References


E-Banking in Nepal– Past, Present and Future!

Usha Koirala*

Abstract

E-Banking is the preference of most of the Banks because of its efficiency and cost effectiveness worldwide. However, it is at the very primitive stage in Nepal. This article highlights the present scenario of e-banking in Nepal and the factors hindering its success in Nepal.

Introduction

E-Banking may be defined as the mechanism for a consumer to manage, access or control their bank accounts and transact on them through electronic means. However, the primary function a consumer would seek in e-Banking is to be able to transfer funds online to a third-party to whom a payment needs to be made.

History – Global Perspective

The history of e-Banking begins from 1981 when four major banks in New York started the service of banking via “Teletex” – a technology almost obsolete now, except for France, where it was somewhat popular as “Minitel” on account of strong subsidy provided by one of the telecom providers.

Later in 1983, UK’s Prestel standards were used by Bank of Scotland to provide a system where customers could view their bank statements on their Televisions by connecting to the bank though modems.

This is where one of the aspects e-Banking was first achieved – ACCESS to the bank account by viewing its details. Up till this point in time, electronic processing of transactions were undertaken by the bank’s officials only upon written request from the customers.

The next major leap in the history of e-Banking was when Stanford Federal Credit Union offered online banking service to all its members in the year of 1994. Stanford FCU was the industry leader for electronic banking in USA which was among the first to offer checking accounts and credit cards early in the 1970s. In the early 1980s, it was the first to introduce ATMs and Banking by Telephone. The bank included utility bill payment services in 1997 and account aggregation in 2002 – along with Mobile Banking. Come to think of it, Online Banking was first introduced in Nepal in 2002 when two Commercial Banks– Kumari Bank and Laxmi Bank, introduced the service to its customers.

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Mobile Banking – though introduced early on, saw the scale, disruptive expansion and unmatched benefits to the customers at large when SafariCom introduced the system in Kenya under the brand name of M-Pesa. Similar models were tried at the Philippines and Brazil and demonstrated equal amount of success in developing countries while failing or not being taken up at all in most developed countries. An alternative improvement to mobile banking has been evolving in the Scandinavia in recent days through NFC (Near Field Communication) technology where proximity of the device to communication censors will undertake the transaction. Just tap your mobile phone on the machine put out on the parking lot and your parking ticket is paid for – that simple!

And then a new era of banking had evolved for the customers, where many banks started to offer ‘Electronic-Only’ banking services while most even charge for branch based transactions and while service cheque transactions. Going paperless and reduced need of human/other resources to service the customers, such banks have started passing on the higher benefits to their customers in terms of more attractive interest rates and appropriate offers.

Security
As technology was working to make things simpler for us through eBanking, hacking attacks and viruses were working to make it more complicated. Thus the need for complicated passwords, two factors of authentication (For example, An ATM card comes with a Code, both are needed for any transaction), encryptions, One Time Passwords (OTP) (A new password for every transaction, provided to customers via an alternate channel that a hacker may not have access to), and so on.

While online technology was built to bring efficiency and a sense of control over one’s account, the cost of keeping the process secure is growing by the day. However, considering the rate at which physical access is getting more expensive with increase in time-value of money per minute, eBanking definitely looks like it is here to stay!

Present – Nepalese Perspective
Of Course – the present of Electronic Banking in Nepal is a mere reflection of global practices at present. With Cyber-Law only on its first draft and yet scarcely exercised by the law-enforcement authorities, and Nepal Rastra Bank introducing its broad directives on Electronic Banking only several months back, Nepal is yet to evolve and mature on its eBanking activities where both bankers and customers have a lot to learn and accept.

While there is no publication by the Central Bank on what Nepal’s electronic transaction volumes are (though NRB requires all banks to submit its monthly e-Banking data to the regulator, NRB is yet to publish industry data reports for general public), it is a fair estimate that not more than 5% of total consumer transactions on all banks are through electronic means. If you consider remittance transactions through Financial Institutions and Remittance Agents combined, this ratio would come further slim.
Following are a few reasons for this poor penetration of eBanking channels within the financial industry:

1. **e-Literacy**: An individual would need to grow from regular literacy of reading and writing and move further with Financial Literacy to understand where money is stored by banks, how the banks can be held accountable and what determines one’s deposit’s safety. In a culture that is so dependent on paperwork where digitization of National ID remains a challenge for the government to put through, it would be too much to expect the population at large to put their faith on binary digits. Money is all about trust. And unless consumers trust the electronic currency, it is not going to grow. Aggressive exercise from the government is needed to improve consumers’ e-Literacy.

2. **Regulation**: Nepal’s regulations to control online communication and financial transaction is on its first draft and yet un-exercised and un-tested on various fronts. The generation within the bureaucracy was suddenly introduced to this electronic epoch without a warning and they suddenly have to cope with the surge of global demands and advancements that they weren’t wary of in the past days. This requires the regulation-makers to go back to their home-work tables and do some deep studies on the matter and come back with confidence and cognition on the matter. A current directive issued by the Nepal Rastra Bank dictates that each eBanking implementation first has to be directly sanctioned by it, irrespective of any guidelines it may have set on what can be done and what not. This not only creates a gap on creating a level-playing-field for the service providing banks, but also creates a level of distrust even among the customers aware enough to go through the policies that shape the e-banking services they use.

3. **Infrastructure**: Electronic communication infrastructure is very much limited in Nepal as we struggle to keep pace with the global economy. Various projects are still underway in Nepal to provide at least one Optic Fiber connection linking every district in Nepal. Experts estimate that at least half a decade would go when this vision is realized. While telecom networks are spreading out to provide digitized wireless connection and data links to remote villages where road access still is a decade long dream to realize and mobile banking services are rapidly expanding in this country, stability of mobile networks still cannot be relied upon. With bandwidth overlaps and interference between signals from different telecom, along with power and security issues for telecom towers, the problem still demands several years to mitigate itself. A customer needs to trust a new technology, something that cannot be seen, and on top learn a behavioral change that is never promoted by the government or any social group for that matter. On such a scenario, if the technological infrastructure is not dependable, failure of the system is inevitable. Poor dependability of ATM network for all Financial Institutions in Nepal is just another example of how weak the infrastructural support is.

4. **Security**: A recent compromise in the ATM network of several banks has left but a small mark in the consumer mindset.
This is because the number of victims was less and the financial impact was relatively negligible and well compensated by the bank before it could float up. A few similar security breaches have been witnessed in the past as well, but without major impact in the industry or in the consumers’ mind. This very absence of potential threat maybe a good enough reason to fear the security infrastructure of eBanking in Nepal. Nevertheless, consumers do feel a security threat to start using e-Banking services, not because they question the robustness of the system, but because they question their own security discipline and knowledge. This, again would boost up upon educative campaigns from the government or the development sector. Any bank would NOT invest in such educative campaign where their individual investment would help boost the industry for all – including their competition.

5. **Eco System:** The banking industry in Nepal is probably the most fragmented in the world with so many banks, and yet a lot more Cooperatives to service the customers. Moreover, there is no central depository or a clearing house that electronically settles payments between accounts of different banks. This means, each bank may have their electronic banking channels, but they are limited to payments within the accounts of that particular bank. Multi-bank networks of Visa and SCT do prevail, but they only allow a customer to withdraw the funds and do nothing else. Nepal Clearing House (NCH) has been established with certain stakes from the Central Bank as well. However, its current operations are limited to electronic cheque clearing for certain bank’s limited number of branches only.

A system works when there are a significant number of users riding on it together. But in the fragmented industry where one bank’s customer cannot make payment to that of another directly, the system is bound to succumb if not totally fail

6. **Cost:** In most developed countries where eBanking is the primary currency of transaction, customers are rewarded for electronic transactions by means of higher interest on their accounts, minimum charges on other activities, etc. as electronic banking reduces the queue on their branches and reduces the bank’s administrative costs in general. However, electronic banking is treated in Nepal with a premium where a customer pays either an annual premium on a per transaction fee or a combination of both while availing eBanking services.

7. **Utility Payments:** In all countries where electronic banking has picked up, the first and foremost use of eBanking has been to pay utility bills – gas, electricity, telephone, etc. and other payments like tax, etc. However, all utility providers except NTC is yet to enable electronic payment. Cable TV and Satellite TV providers have geared up to an extent by allowing online bill payments through select banks.NEA has enabled regional digitization of bill payment process. However, electronic bill payment through online banking or mobile banking is yet not possible at NEA. Other bodies like gas, water-supply, etc. are much far behind.
Since the commencement of Online Banking in Nepal in 2002 by two banks, Nepalese Banking Industry has witnessed the present day where all commercial banks are offering a full suite of online banking within their individual silo.

Mobile Banking was introduced in 2009 by Laxmi Bank, again in such silo – limiting transactions within the bank’s accounts. As of date, over 20 and growing number of commercial banks are offering similar service. Much later in 2012 a central platform for mobile banking was introduced by the name of Hello Paisa where five different banks joined together to allow inter-bank transaction between accounts of different banks, along with promoting rural access to finance through mobile based branchless banking. In the mean time, few other banks were piloting card-based biometric authentication system to disburse cash to rural beneficiaries.

In the meantime, several payment gateways and online merchants have surfaced to boost up the industry. Payment gateways like eSewa, Payway, iPay are evolving by following the footsteps of international players like Paypal. However, utility payments (except for Nepal Telecom) still are all paper-based.

Despite the challenges sited above, the gamut of banks and consequent competition in the industry has led to stiff competition and eagerness among banks to adopt new technology.

**Future of e-Banking in Nepal**

Nepal is far behind on technology and its innovation. However, on the other side, it is lucky enough to wait and learn from global advancements, practices and even the mistakes they have made - allowing us to handpick the good policies and practices while letting go of the rest. And global examples show that technological evolution far supersedes regulatory intervention for any successful implementation. Take India for example, where mobile banking projects have failed one after the other, because stiff regulations were introduced much before the innovation could start to breathe.

In the local context, take remittance as an example. After over a decade of establishment, the central bank has introduced its regulation for international remittance only a year ago. It is only evident that for a technology to evolve and a system to work in place, regulations should follow innovation. On the murky grounds of poor infrastructure, nascent market and weak understanding of technology by the law-makers, Nepal’s Financial sector runs the risk of regulations being too dominant over innovation and keeping eBanking from fostering itself. On the other hand, there is an equal amount of risk of security mis-management by the service providing institutions that may destroy public trust on electronic channel for a very long time to come.

If we compare over 75 years of Banking in Nepal that was able to gain less than 25% market coverage with double digit growth in mobile phone’s penetration within the country, we are bound to get excited about the potential of mobile banking to change the face of Banking Industry in Nepal. However, same six factors of friction listed...
above that have slowed down the growth of eBanking in Nepal shall prevail in this aspect as well. With the potential of the upcoming mobile banking platform – Hello Paisa, several of these frictions could be addressed as it allows inter-operability between banks for the first time.

The Ministry of Federal Affairs and Local Development has recently called for a Bid from different banks to make Government to People (G2P) payment through these banks for their social benefits being distributed by the government. While payments will be made in cash, such beneficiaries receive the sums in their accounts through electronic means. With over a million beneficiaries receiving over a billion rupees in sum, it has to be through eBanking.

NCH is expanding to regions outside Kathmandu valley with its successful implementation inside. This check clearing body could expand to become the settlement body for inter-bank fund transfers as well. While the timeline or the mere possibility cannot be guaranteed, should this happen, people’s need to maintain several bank accounts across different banks would no longer be there. And consumers can easily transact between bank accounts in different banks irrespective of which bank they belong to.

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