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CONTENTS

Comparative Study of Customer Perceived Value of Service s and Organizational Value Proposition in Airline Industry in Nepal: A Case Study of Yeti Airlines Pvt. Ltd.
Mahim Singh & Vickrant Gurung 1

The Relationship between Stock Market Returns and Rates of Inflation: Evidence from Nepal
Madhu Sudan Gautam, Vineet Goel & Vickrant Gurung 12

Financial Sustainability of Microfinance Development Banks in Nepal
Ritesh Kumar Thakur, Sandeep Phuyal and Khusiman Pun 20

Impact of Gender Based Policies on Female Employees' Job Satisfaction: A Case Study of Standard Chartered Bank Limited, Nepal
Supriya Tamang & Khusiman Pun 30

Customer Satisfaction Level of Nepalese Banking Industry: A case study of Everest Bank Limited, Nepal
Sudeep Shrestha & Khusiman Pun 37

The Impact of Social Media Mix on Brand Equity
Ritesh Kumar Thakur & Milan Gautam 45

Performance Analysis through CAMEL Model: A Case Study of Joint Venture Banks in Nepal
Madhu Sudan Gautam & Smile Bansal 54

Impediments in the Development of Nepalese Bond Market
Jashmina Pradhananga & Vickrant Gurung 66

A Study on Causes and Impact of Non-Performing Loans in Nepalese Commercial Banks
Madhu Sudan Gautam & Mamta Shrestha 73

Entrepreneurial Ventures, Family Businesses and Access to Finance in Metal Handicraft in Kathmandu Valley
Ritesh Kumar Thakur & Sanjina Shakya 84

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Comparative Study of Customer Perceived Value of Services and Organizational Value Proposition in Airline Industry in Nepal:

A Case Study of Yeti Airlines Pvt. Ltd.

New Perspective
Journal of Business and Economics

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Abstract

The recent airline industry seems to have deviated from what they ought to do. Instead of focusing on creating superior value for customers, they are more focused on beating their rivals and reaching the position of market leader and earning maximum profits. The research basically tries to identify the differences in the value perceived by the customers and the organization in domestic airline industry, specifically Yeti Airlines. This research has utilized the modified form of SERVQUAL model for measuring of total customer value and service quality. It was found that there were differences in values perceived by the customers and the organization in terms of various attributes as well as in terms of holistic approach. The organization as per the changes in the needs of the customers ought to evaluate their services by themselves at regular intervals.

Keywords: *Airlines, Service Quality, Satisfaction, Customer Perceived Value, Service Gaps, Organization Value Proposition*

Introduction

Understanding what and how buyers value a given offering, creating superior value for them, and then handling it over time have long been recognized as essential elements of every market oriented firm's core business strategy (Drucker P. F., 1985; (Porter M.1998; Descarbo, Jedidi, & Sinha, 2001).

Companies are searching for new and better ways to create value and differentiate their market offerings to attract and retain customers and make profit (Bendapudi & Leone, 2003). Many firms have been interested in Customer Value Analysis, which involves a structural analysis of the factors of perceived value (i.e., perceived quality and perceived price) to assess their relative importance in the perceptions of buyers.

Creating value through excellent service has become the central objective of management in service organizations. Suitable, well timed and consistent service create an ultimate sustainable value for customers. This in turn creates loyal customers. This is quintessential for airline companies that rely on customer loyalty to survive and succeed.

Global Airlines Industry Scenario

The airlines industry is considered one of the most dynamic, challenging and brutal industries in the world. With the common purpose of taking people and goods to places faster, more comfortably and with greater safety, numerous airlines around the world tussle against each other to provide the best service and value for customers and establish themselves as market leaders. With sky-rocketing fuel costs, ever tightening regulations and complex customer needs, the industry virtually operates on the edge of the sword. High quality service is the cornerstone of any successful service industry, which is why marketing strategies implemented by airlines must take into accounts the different expectations and perceptions of passengers(Sultan Jr. & Simpson, 2000).

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Nepalese Airline Industry Scenario

In Nepal, although the mainstream airline industry has been here for not more than a few decades, competition among companies is very hard. As of 2014, there were over 21 airline companies operating at various locations Nepal. Besides Yeti Airlines and Buddha Air the major players in the industry, other companies like Nepal Airlines, Tara Air, Sita Air, Simrik Air, Air Dynasty, etc. also have their presence in the market. They compete in terms of fares, network as well as timings of flight.

Yeti Airlines Domestic Pvt. Ltd. is an airline company headquartered in Kathmandu, Nepal. The company was established in May 1998 and received its operating license on 17 August 1998. Tara Air is the sister company of Yeti Airlines. Together both the airlines have become the largest domestic flight operator in Nepal, with flights covering the widest network.

Statement of Problem and Objective of the Study

Due to aggressive competition and the battle for supremacy, airline companies tend tooverlook their true purpose and objective. Instead of focusing on customer value creation and better services, they are focused on opportunities to beat their competitors. Customers are getting unnecessary value added services just for the sake of adding services for them. This deviation from the main motive has critical and significant implications on the future of airline industry and customer needs. This provides ample space for research of the gap between customer's needs and organization's value proposition and ways to reduce that gap. Therefore, the study tries to find out the following.

- If there are differences in value between the customer's needs in an airline service and the services provided by the organization.
- Issues the airline companies need to focus on and ways to reduce the gaps, if any.

Literature Review

Services are deeds, processes, and performances provided or co-produced by an entity or person for another (Zeithaml, Bitner, & Gremier, 2009). Services include all the economic activities whose output are not physical products or construction; is generally consumed at the same time it is produced, and provides added value in forms that are essentially intangible concerns of its first purchaser (Quinn, Baruch, & Paquette, 1987). People are accustomed to measuring the physical attributes of a product: dimensions, angles, power, hardness, tensile strength, colour, and many other characteristics. Often there are no physical attributes to measure, or they don't clearly affect the essential nature of the service. Although this is the case with both goods and services, it takes on special significance with a service (Cochran, 2012).

Services differ from goods and products in their characteristics. Goods are tangible whereas services are intangible i.e. services cannot be inventoried or displayed. Services are heterogeneous compared to goods which are standardized. Services are consumed and produced simultaneously whereas goods are produced at a different place and time and consumed elsewhere. Lastly, goods are usually non-perishable in contrast to services which are perishable.

These above mentioned characteristics of service (intangibility, heterogeneity, inseparability and perishability) make it very difficult to measure service quality unlike product quality which is measured objectively using factors such as durability and number of defects because of its tangible nature or quality (Parasuraman, Zeithaml, & Berry, 1988).

According to Asubonteng, McCleary, & Swan, 1996, due to intense competition hostile environmental factors, service quality has become a cornerstone marketing strategy for companies. This highlights how important improving service quality is to organizations for their survival and growth since it can help them tackle these challenges they face in the competitive market. This means that

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service based companies are compelled to provide excellent services to their customers in order to have a sustainable competitive advantage. There is however, a need for these organizations to understand what service quality is in order to attain their objectives (Daniel & Berinyuy, 2010).

There are a number of different "definitions" of service quality. One view commonly defines service quality as the extent to which a service meets customers' needs or expectations (Asubonteng, McCleary, & Swan , 1996).Another, definition sees service quality is simple defined as overall assessment of a service by customers (Eshghi, Roy, & Ganguli, 2008). Parasuraman, Zeithaml, & Berry, 1985 later defined service quality as *"The discrepancy between consumers' perceptions of services offered by a particular firm and their expectations about firms offering such services"*.

Value concept appears to be the most current and most prevalent trend. In recent years, customer value has become a major emphasis among strategists and specialists who see it as a vital component of a firm's competitive strategy (Ravald & Grönroos, 1996). Customer value is an important concept in marketing and operations management. The emphasis in airline management seems to be on efficiency and quality management. Customer value concepts in air transport shows us clearly that there have been rapid change in focuses, not always driven by customer needs but more by technical and other market influences (Atalık, 2009).

It is a fact that managers sometimes impose switching costs on their customers to stop them from going to new suppliers(Yang & Peterson, 2004). In any competitive situation such as the online market, where competition is just one click away, the possibility of switching costs as an exit barrier and a required elements of customer loyalty can change. For this, it is seen that influence of switching costs on customer loyalty is due to both satisfaction and perceived-value. The results from a Web-based study of online service users show that companies that attempt to gain customer loyalty should emphasis chiefly on satisfaction and perceived value. The effects of switching costs on to the link between customer loyalty against customer satisfaction and perceived value are noteworthy only when customer satisfaction or perceived value of the service is above average.

The World Bank defines the service industry as a sector that produces intangible goods. These can be basically government, health services, education or communications, information and other business services (World Bank). The bureau of Economic analysis claims that in the US alone service comprises 70 % (Amadeo, 2006). This highlights the importance that the service sector has in its contribution to GDP, not only in US, but all over the world.

Understanding, creating, communicating and delivering customer value and satisfaction are at the heart of modern marketing practice. The customer, rather than marketing, is at the center of the neo-business models and philosophy as well as customer satisfaction from services is the primary focus. In service industries such as the airline industry, the distinctive features of services require that managers understand needs and expectations, and keep promises. However, most companies do not recognize the importance of this approach (Safak Aksoy).

In a research(Ahmad, Wasay, & Malik, 2012), motivation has been identified as an important factor, which is directly or indirectly connected to customer satisfaction. If the employees are motivated, they perform better. Similarly, if employees work professionally and provide better services, customers are satisfied. They believe employee motivation is influenced by personal attitudes, perceptions as well as office environment. If employees provide better service, behave nicely, the customers feel good and perceive the company to be showing respect and providing value.

Archana & Subha, 2012, in their editorial about service quality and passenger satisfaction on Indian airlines, have researched the factors that influence customer satisfaction. They have identified that in-flight services that provide comfort and safety along with other

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factors have a significant role in creating customer satisfaction. They have said that customer satisfaction relies on personal entertainment, which can or is a vital factor in the choices of passenger while flying with an airline company. According to their study, various peripheral services such as online seat booking, customer care facilities and reservation/cancellation is the most influential factor in the decisions that customers make.

In their studies, (Rafati & Shokrollahi), speak about the gap between customer expectations against their perceptions about services. They said that educational level influences expectations of customer differs. They have also said that gap that exists between customer expectations and perceptions in airline service quality help top managers comprehend which services are central to customers and which services can be reliable in terms of customers' perceptions.

The airline industry is considered an industry that highly influences environmental impact (Ohman & Lundgren, 2010). Although some people state and argue that it only produces a small portion of the world's total gas emissions, it is still an industry that is strongly regulated by institutions and customers. Sustainable value is a non-conventional concept and approves the company or a responsible person to measure a company's social and/ or environmental performance. This alters the way companies work to provide better services and also creates a better image in the eyes of customers and well as its regulatory bodies and competitors alike. This in turn compels organization to work efficiently.

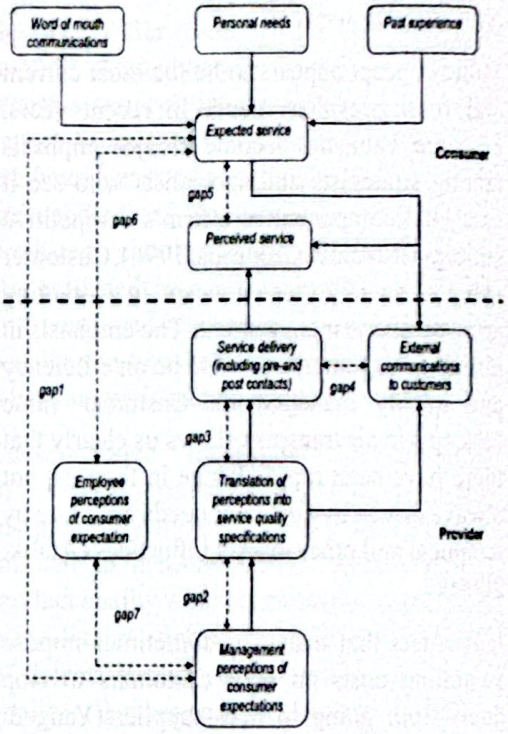
Methodology

The methodology applied in this research attempts to collect data from customers who've flown via Yeti Airlines and to measure the overall value proposition the customers perceive about the company's service and compare with it the perceived value of its service by the company itself.

Through review of literature, a list of service attributes provided to customers by most airline companies was made. Among them, twelve quintessential attributes were selected for research questionnaire to understand how important customers perceived those attributes to be and how they rated Yeti airlines' service. Similarly, employees' were also asked the same questionnaire attempting to find out how they felt regarding their own services and which service attributes they felt were important.

Conceptual Framework

Parasuraman, Zeithaml, & Berry, 1985 have stated that the SERVQUAL model helps measure the gap between customers' expectations and perceptions of service quality in service organizations. The model identifies five dimensions of services.(Kotler & Keller, 2006). These five dimensions are reliability, empathy, responsiveness, tangibles and assurance.



Source: (Shahin A. , 2006)

Figure 1: Model of service quality gaps (Parasuraman, Zeithaml, & Berry, 1985; Curry, 1999; Luk & Layton, 2002)

According to this research and model developed and created by Parasuraman, Zeithaml, & Berry, 1985, there are seven major sources of gaps or breaches in the service quality concept, which have been

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shown in the above figure (Shahin A. , 2006).

Gap 1: Customers' expectations against management perceptions: This is a result of the shortage of a marketing research, insufficient communication and many levels of management.

Gap 2: Management perceptions against service specifications: This occurs as a result of insufficient commitment to service quality, inadequate task benchmarking and a lack of goal setting.

Gap 3: Service specifications against service delivery: This happens as a result of role vagueness and conflict, meager employee-job fit as well as poor technology-job fit, unsuitable managerial control systems, shortage of perceived control and scarcity of teamwork.

Gap 4: Service delivery against external communication: It is caused due to inadequate parallel communications and tendency to over-promise.

Gap 5: The inconsistency between customer expectations against their perceptions of the service delivered: This is a result of pressures and influences experienced from the customer side and the deficit on the part of the company that provides the service. In this case, customer expectations are formed by the degree of personal needs, attitudes and influences of peers and family members.

Gap 6: The inconsistency between customer expectations and employees' perceptions: This is a result of variations in the understanding of customer needs and expectations by front-line service providers.

Gap 7: The inconsistency between employee'sperceptionsagainstmanagement perceptions: This occurs as a consequence of the variances in the understanding of customer needs and expectations between decision making managers and front-line service provider

The six gaps (Gap 1, Gap 2, Gap 3, Gap 4, Gap 6 and Gap 7) are identified as purposes of the way services which services are delivered and how they are delivered Gap 5 relates to the customer and therefore is regarded as the correct measure of service quality (Shahin A. , 2006). The Gap which the SERVQUAL practice has influence is Gap 5.

Gap 5 = (gap 1 + gap 2+ gap 3 + gap 4 + gap 6 + gap 7)

To reduce the real measure of service i.e., gap 5, we must reduce the other six gaps.

Data Source

Due to limitations of time and finances, 200 customers who recently flew via Yeti Airlines were approached through a mail self–administered questionnaire for this study. Among 200 respondents who were approached a total of 116 respondents responded to the questionnaire form. They were 67 customers who had travelled onYeti Airlines and 49 employees who work at Yeti Airlines. The respondents filled the form with enthusiasm as they wanted to contribute to better knowledge of how domestic companies could better their services and satisfy customers.

Data collection of data was done at two places via two methods. First, the data was collected at the airport where customers were asked to fill up the questionnaire form. Secondly, data was collected in the office of Yeti Airlines where employees were asked to fill a similar questionnaire. Employees working in "Sales and marketing department" were mostly targeted as they were the ones who were in constant contact with customers and understood their needs. Similarly, data collection was done online as well. Respondents who had access to internet were asked to fill the form online.

Collection Tools

Data and information were collected via a questionnaire survey which focused on what customers regarded as important and what they felt about their flight experience with Yeti airlines. The Questionnaire took the form of a modified version of SERVQUAL. The data was collected via weighted average and their evaluation to the service attributes.

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Analysis Tools

The data collected via the questionnaire was then measured by use of following tools:

- **The Modified Form of SERVQUAL**

This analysis tool measures the importance customers attach to the factors and perceived ratings of the factors and calculates the score for each factor forming the score as per the tool used by Atalık in 2009. Similar questions were asked to employees to know their views on what they regarded as important and how they rated their services.

- **Expectation Grid**

This report developed by Martilla & James , 1977, was prepared to evaluate the data obtained from customer's need analysis. Firstly, it lays the ground for giving importance to the factor of the attribute and, second by it focuses on the performance or the quality of the same.

Results

The data collected and analyzed from the respondents has been presented as graphical representations as well as tables.

Data Analysis

Importance Weightage Rating of Various Service Attributes

According to the objective of the report, respondents were asked to score in terms of how important each service attribute was to them while flying with any airline and not just specifically Yeti Airlines. Similarly, employees of Yeti Airlines were also asked to fill this form to know how much importance they attached to those services to be important. The respondents were to give weightage to each service attribute at a rating of 1 to 5. If the respondents perceived the service attribute to be "Least Important" they had to score "1", if they perceived the attribute to be 'Extremely Important" they had to select "5".

Looking at table 1, customers' score in each service attributes were more than what employees scored. It seemed customers regarded "consistency of overall service", "aircraft comfort and cleanliness", "assurance of safety" and "on time performance" most important. Their mean weightage score representing all the attributes was 4.09 out of 5. Employees did not score much on the weightage on all these factors. They perceived "assurance of safety" and "frequent flyer benefits" to be most important. Their mean weightage score representing all the attributes was 3.72 out of 5.

If the results are closely observed, customers' needed a bundle of everything and did not want to compromise in the service received by them, whereas, employees felt these services could be bargained except assurance of safety.

Table 1: Comparative Weightage Scores of Employees and Customers while flying any airline.

Service Attributes	Customers' Weightage Average	Employees' Weightage Average
Flight schedules	4.19	3.89
Ticket fares	3.62	3.31
On time performance	4.43	3.93
Behavior of the staff	4.25	3.77
Baggage service	4.15	3.56
Assurance of safety while flying	4.51	4.06
Ticket reservation and procurement	4.3	3.7
Frequent flier benefit	3.77	4
In-flight services	3.6	3.35
Frequent communication	3.62	3.41
Aircraft comfort and cleanliness	4.33	3.85
Consistency of overall service delivery	4.28	3.79

Source: Field Survey

Service Quality Rating of Various Service Attributes

There were low differences in scores of few attributes such as "in-flight services" and "frequent flyer benefit". Customers mostly were dissatisfied with "in-flight services whereas happy with "aircraft comfort and cleanliness and flight schedules". Employees scored more than what customers perceived

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the results to be. They scored highest in attributes such as "assurance of safety", "aircraftcomfort and cleanliness" and "on time performance".

Looking closely at the results in Table 2, though customers have scored less than employees ,we can interpret that people are more or less content with the service because most of the scores of various attributes cross the minimum level of requirement and the score is just their own perception.

Table 2: Comparative Average Service Quality Evaluation of Employees and Customers regarding Yeti Airlines.

Service attributes	Employees' Service Quality Evaluation	Customers' Service Quality Evaluation
Flight Schedules	4.31	3.87
Ticket Fares	3.67	3.53
On Time Performance	4.52	3.5
Behavior of The Staff	4.25	3.84
Baggage Service	3.89	3.62
Assurance of Safety While Flying	4.64	3.59
Ticket Reservation and Procurement	4	3.75
Frequent Flier Benefit	3.83	3.48
In-Flight Services	3.52	3.36
Frequent Communication	4.06	3.2
Aircraft Comfort and Cleanliness	4.47	3.69
Consistency of Overall Service Delivery	4.08	3.59

Source: Field Survey

Gap between Customers' Perceived Value and Organizations' Perceived Value

The final result is the gap/variance seen in customers' perceived value and the organizations' rating of their services. The value collected here is done using the basic value formula i.e. importance/weightage of each service attribute multiplied by the evaluation of the services.

Weighted Average Perceived Value = Avg. Importance Weightage x Avg. Service Quality Score.

Observing Table 3, in some attributes such as "assurance of safety", "on time performance" and frequent communication", the gap seen is bigger than other attributes. Similarly, attributes such as "ticket fares", "behavior of the staff" and "ticket procurement" have outdone the expected value of customers. Here, scores of customers exceed what employees perceive. Attributes where the gaps are the lowest are "consistency of service delivery", "in-flight services" and "behavior of the staff".

Table 3: Comparative chart depicting difference in perceived values of services provided by Yeti Airlines.

S.N	Service attributes	W.A.C.P.V	W.A.E.P.V	Variance
1.	Flight Schedules	16.22	16.77	-0.55
2.	Ticket Fares	12.78	12.15	0.63
3.	On Time Performance	15.51	17.76	-2.26
4.	Behavior of The Staff	16.32	16.02	0.30
5.	Baggage Service	15.02	13.85	1.17
6.	Assurance of Safety While Flying	16.19	18.84	-2.65
7.	Ticket Reservation and Procurement	16.13	14.80	1.33
8.	Frequent Flier Benefit	13.12	15.32	-2.20
9.	In-Flight Services	12.10	11.79	0.30
10.	Frequent Communication	11.58	13.84	-2.26
11.	Aircraft Comfort and Cleanliness	15.98	17.21	-1.23
12.	Consistency Of Overall Service Delivery	15.37	15.46	-0.10
	Average Perceived Value	14.65	15.26	-0.60

W.A.C.P.VWeighted Average Customer Perceived Value

W.A.E.P.VWeighted Average Customer Perceived Value

Source: Field Survey

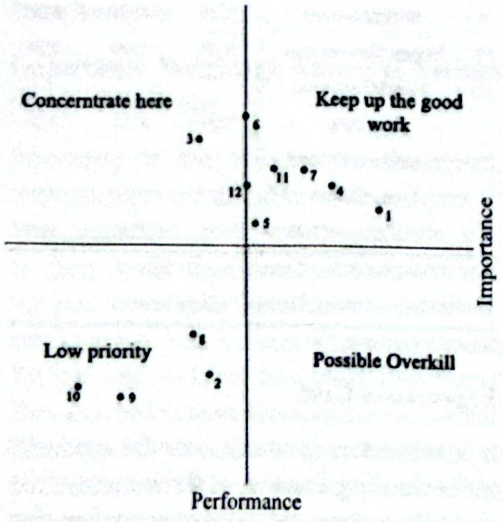
Expectation Grid

It is mandatory to check how the attributes are performing. Looking at the analysis of the grid below, there are some observations that need to be interpreted. These outcomes can alter the idea about the gaps seen. Similarly, expectation grid gives an idea about which services are low in priority for customers and those attributes which are getting more focus more than required. The threshold scores required by customers for each of the service

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attributes is "4.09" and "3.59" for importance and service quality respectively which is the minimum average required by the customers. Attributes such as "behavior of the staff", "baggage service", "ticket reservation and procurement" exceed customers' minimum accepted score and liein "Keep up the good work" region of the grid. Although attributes such as "flight schedule", "aircraft comfort and cleanliness" have negative scores, they lie in the "Keep up the good work" portion of the expectation grid which means that Yeti Airlines is doing a good job in those attributes and negative scoring won't make a huge impact.

Attributes such as "ticket fares" and "in-flight services" have no gaps and lie in the "Low priority" region of the grid. These attributes are not regarded as so important by customers. Attributes such as "frequent flyer benefit" and "frequent communication" have low scores as well as lie in the "low priority" region. These are deemed less important and performance of the company seems to be poor. "On time performance" must be seriously focused on by the company as it lies in the "concentrate here" zone which is the most critical zone of the grid.



Source: Field Survey

Figure 2: Expectation Grid

Lastly, attributes such as "Consistency of Service Delivery" and "Assurance of Safety" are regarded as important but the quality/ performance factor of these attributes seem to be just average, therefore it has to be focused on too. The company should not ignore this condition of these attributes.

Discussions

First, although overall, the customers' perceived value of services as lower than what the company thought, the customers are moderately satisfied with performance with regard to consistency of delivery. This has happened due to various reasons that cannot be neglected.

Primarily, the current achieved satisfaction level of customers has been due to the work ethics of front-line staff who have been putting their best effort day in and day out with the amount of resource they have. They have been honest and focused on giving customers good value for their money and time. The "consistency of overall service delivery", "aircraft comfort and cleanliness" as well as "baggage service" have been given a decent value and can be backed by the fact that "behavior of the staff" also has been given a good score. Implications that can arise due to better performance by the employees are that customers can choose Yeti Airlines over its competitors in spite of extra cost just due to better service delivery and their consistency.

Similarly, the current state of "frequent flyer benefits", "assurance of safety" and "frequent communication with customers" show the highest gap between customers' perceived value and organizations' value. Customers perceive the value to be much less than what organization claims. This may be due to ineffective communication strategy. It seems at customers are not receiving the benefits of the service. Yeti Airline's frequent flyer benefits has been one of the best with its immense offers and privileges. Yet it has been ranked poor by the customers. Similarly, "assurance of safety" has suffered due to similar negative perception, though Yeti Airlines has a record of zero accidents in its trunk route service. Talking with customers, it was obvious that they too are less aware of Yeti Airline's services and quality. Therefore, this is undoubtedly due to ineffective or poor communication with the customers. This issue can cause Yeti Airlines to lose its

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opportunity to gain customers who would choose Yeti for its frequent flyer benefits and assurance of safety as well as create a sense of positive image with its better communication with customers.

Finally, aspects of service such as "flight schedules", "ticket fares", "in-flight services" as well as "ticket reservation and procurement" have received mixed opinion from customers and employees alike. An important factor such as ticket fare has been seen as low priority to customers and they are not very sensitive to it, whereas ticket reservation systems have been deemed very valuable and hence it is ascoring of those attribute.

These factors are more or less determined by the management and the respective managers. Introducing new ways to buy or reserve tickets or maintaining flexible flight schedules or superior in-flight services such as refreshments, etc. are more or less determined by the managements andhence, is responsible for their current state. The company meeting objectives or coordinating with aviation authorities is a major reason. The customers see the in-flight service as very inconsistent and have given it low value. Although deemed a low priority area, this can lead to a major letdown or can be a secret weapon for tapping customers. Yeti Airlines with its statement of being a "premier airline" company should focus more on this aspect as well as innovate the ticket buying system to ensure better service delivery.

Overall, the current quality and performance of service of Yeti Airlines cannot be called mediocre. It has been more or less satisfying customers. The reasons for the current situation, good and bad, arises from various sources ranging from employees' commendable work ethics to poor communication of the company's objectives, co-ordination with the airport and compliance eithregulations of the aviation authority. The implications of these conditions are diverse. From what has come to light it can either lead to customers choosing or leaving the service. Therefore, it would be wise to tap the strengths and plug the weakness and ensure good service quality that is comprehended by potential, current and former customers.

Conclusion

After observing and analyzing the results, it is clearly evident that there are gaps between the customer perceived value of services and organizational value proposition in the Airlines Industry, specifically Yeti Airlines. Although the results showed people were satisfied, the level of quality has not reached the mark that people require. It may be because of less number of competitors in the industry and people having no other choice but to than fly with them.

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The Relationship between Stock Market Returns and Rates of Inflation: Evidence from Nepal

New Perspective
Journal of Business and Economics

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Abstract

Nepal's inflation is always seen as surpassing double digits in spite of various fiscal and monetary measures. From an investor's point of view, such inflation reduces the real rate of return on stocks if the stocks do not serve as a hedge against inflation. This research examines the relationship between stock market returns and inflation by employing regression models of stock market returns on expected inflation using Nepalese data. The basic hypothesis being tested is that the return on the stock market consists of a real return plus the expected inflation and that the real rate of return is independent of the expected inflation. With the results observed, it is advisable for domestic and foreign investors to invest in the stock market of Nepal as stock market returns serve as a hedge against inflation but if the investors require a stable real return, then investment would not be advisable.

***Keywords**: Stock Market, Inflation, Fisher's Effect, Rate of Return, Risk, NEPSE,*

Introduction

Financial sector plays a key role in smooth functioning of the economy by intermediating funds from individuals and corporations with surplus funds to individuals and corporations with deficit of funds. An efficient financial sector ensures that resources are channeled to their most productive uses and accelerates the real growth of an economy(Mishkin & Eakins, 2011).

The financial system in developing countries consists of institutions such as banks, insurance companies, pension funds, and mutual funds, but the stock markets are not developed in such countries as fund raising through the stock market would be costly and uncertain for companies. People are willing to invest in stocks but a major consideration against such a decision is the inflation. An investor requires a decent return on his investment adequate to the risk assumed. Though nominal returns may look good as percentages, they are substantially affected by high inflation usually prevalent in developing countries. If nominal returns do not compensate the inflation in the economy, the real rate of return an investor receives becomes too low, sometimes even negative, thereby discouraging the investor but according to implications derived from the Fisher hypothesis, the returns on common stocks do serve as a hedge against inflation since common stock represent claims on real assets. However, empirical tests conducted with the data of various countries provide mixed results on the issue.

Nepalese Stock Market

Nepal is a developing country with a poor stock market and high inflation. NEPSE (Nepal Stock Exchange) is the only stock exchange in Nepal and uses a market capitalization weighted system to calculate its index value. With just 20 years since its commencement, the exchange has still not become robust. Although the stock market has introduced Central Depository System and Dematerialized Accounts, the cost of raising funds through the stock market is still high, uncertain and difficult. Moreover, the volatility of the stock market in recent years and the high inflation has made investors reluctant to invest in stocks since they fear they might not be appropriately compensated for the risk they take.

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Although the government has instituted various fiscal and monetary measures to control the inflation it persists due to several reasons. First, the high inflow of remittance into the country increases the money supply and therefore the inflation. Second, high inflation that persists in the Indian economy gets transferred to Nepal due to substantial imports from India. The third reason is the substantial depreciation of INR against USD. This situation has affected the purchasing power of individuals and the returns as well as costs incurred by businesses.

Problem Statement and Objective

The foundation of the understanding of the relationship between stock market returns and inflation is commonly attributed to Irving Fisher. Fisher (1930) hypothesized that the nominal interest rate consists of a real rate plus the expected inflation rate where the expected real rate is determined by real factors such as the productivity of capital, time preference and risk aversion but is independent of the expected inflation rate. This hypothesis is commonly referred to as the Fisher Effect and has gained wide acceptance with the hypothesis being generalized to rate of returns on other assets including common stocks.

Many research works have been conducted on the relationship between stock market returns and inflation in different parts of the world. However, the results of such studies have not been consistent. The results of the research could be classified into three categories. One category refers to the research that have found a positive relationship between inflation and stock market returns thereby providing evidence for the Fisher Effect. Another category refers to research that have found a negative relationship between inflation and stock market returns thereby refuting the Fisher Effect. The last category of research provides mixed results on the relationship between inflation and stock market returns.

Belonging to the first category is a research wherein Firth (1979) examined the relationship between inflation and rates of return on common stocks by employing regression models using British data for the period 1955-1976. The hypothesis tested in this research, more commonly referred to as the Fisher Effect, was expected rates of return on common stocks consist of a real return plus the expected rate of inflation and that the real rate of return is independent of the expected rate of inflation. The results of the study provided some support for the Fisher Effect showing that stock market returns in Britain had provided some hedge against inflation.

Further, Gultekin (1983) used Livingston survey of expectations to test the Fisher Effect and got results which were contrary to the results of his own previous research. He found a positive relationship between stock market returns and expected inflation though the relation held much better for ex ante expectations than ex post realizations. Further it was found that the expected real rate of return on common stocks was positively related to expected inflation and was not constant over time.

Similarly, Ibrahim and Agbaje (2013) found that there was the existence of a long run relationship between stock returns and inflation in Nigeria based on data from January 1997 to 2010. It was also found that inflation had a positive and significant effect on stock returns implying that inflation is a vital macroeconomic variable that influences the flow of investment and determines the direction and changes that were noticed in stock returns.

Belonging to the second category is a research wherein Fama and Schwert (1977) found that U.S. government bonds and bills as well as private residential estate served as a hedge against expected inflation but common stock returns were negatively related to expected inflation and did not serve as a hedge against expected inflation.

Further, Bodie (1976) found that the real rate of return on U.S equity was negatively related to expect and unexpected inflation, at least in short run thereby coming to the conclusion that an investor would need to sell the common stocks short to use them as a hedge against inflation.

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Similarly, Nelson (1976) found that a negative relationship existed between stock market returns and both expected and unexpected inflation with the implication that past rates of inflation could be used to generate trading rules which would help an investor generate better returns than a simple buy and hold policy for the period.

Further, Miller, Jaffe, and Mandelker (1976) found that the negative relationship between anticipated inflation and returns on risky assets in U.S. was possibly suggestive of market inefficiency and the results persisted when the one month risk free rate and past rates of inflation were used as substitutes for expected inflation.

Belonging to the third category is a research wherein Anari and Kolari (2001) found that the long-run stock prices were positively related to goods' prices thereby supporting the Fisher hypothesis but the response of stock prices to a shock in goods' prices was initially negative but turned positive over longer periods.

Similarly, Pearce and Roley (1988) found that time varying characteristics determined the effect of unexpected inflation on a stock's rate of return. They also found that a firm's market beta, debt equity ratio and its inventories were essential in determining the response to the inflation. The research provided mixed results on the relationship between stock market returns and inflation. **Methodology**

The research study employed causal-comparative research design to investigate the relationship between nominal stock market rates of return and expected inflation as well as the relationship between real rate of return on the stock market and expected inflation.

Theoretical Framework

Literature review indicates that stock market returns and expected inflation are related and that inflation has an impact on stock market returns. As per implications derived from the Fisher Effect, nominal stock market rate of return would seem to have a positive relationship with expected inflation because stock market represents claims on real assets and hence serves as a hedge against inflation. On the other hand, real rate of return on the stock market would seem to have no relationship with expected inflation.

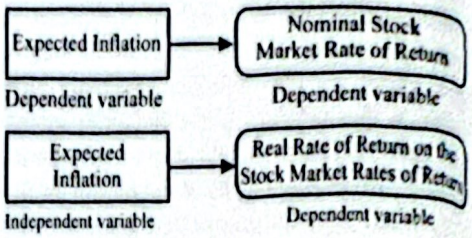


Figure 1: Theoretical Framework

Variables and Measures

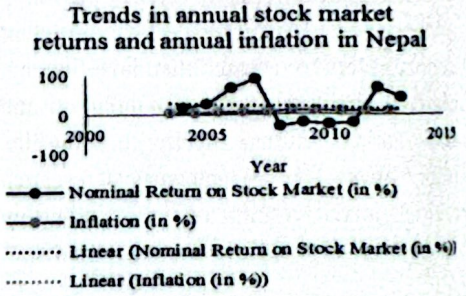
Annual nominal stock market rates of return on NEPSE were measured by calculating the percentage change in the closing NEPSE index from the last trading day of one Gregorian calendar year to the next.

Similarly, monthly nominal rates of stock market return on NEPSE were measured by calculating the percentage change in the closing NEPSE index from the last trading day of the Gregorian calendar month to the next.

Annual real rates of return on the stock market and monthly real rates of return on the stock market were calculated from the data on nominal returns by using the following formula:

$$r_{mT} = \frac{1 + R_{mT}}{1 + I_{AT}} - 1$$

where r_{mT} is the real rate of return on the stock market in time period T, R_{mT} is the nominal rate of return on the stock market in time period T and I_{AT} is the expected rate of inflation in time period T.



Source: Field Survey

Figure 2: Trends in annual stock market returns and annual inflation in Nepal

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The rates of inflation were measured by calculating the percentage change in Consumer Price Index of Nepal. In order to test the Fisher hypothesis, empirical measures of expected inflation rate based on past inflation data were required. In the analyses which follow, expected inflation has been represented by past rates of inflation as these embody information on expectations. This autoregressive method of expectations was used in studies by Miller, Jaffe, and Mandelker (1976), Nelson (1976), and Firth (1979).

Data Collection Procedure

Data on the Consumer Price Index was extracted from the Quarterly Economic Bulletin published by Nepal Rastra Bank. The data on Consumer Price Index has been published by Nepal Rastra Bank for each month of the Nepalese calendar since Mid-July 2001 AD and for each year of the Nepalese calendar since Mid-July 1972 AD.

The closing NEPSE index values on the last trading day of each Gregorian calendar month and the closing NEPSE index values at the last trading day of each Gregorian calendar year were obtained from the database of NEPSE.

Data Analysis

The study employed regression models of stock market returns on expected inflation for the period 2004 to 2013 for annual analysis and for the period February 2003 to October 2013 for monthly analysis.

The 'Fisher Effect' was examined by regressing nominal stock market rates of return on expected rate of inflation in accordance with the model proposed by Firth (1979), that is

$$R_{mT} = \propto + \beta I_{AT}$$

where R_{mT} is the nominal rate of return on the stock market in time period T and I_{AT} is the expected rate of inflation in time period T. For the Fisher hypothesis to hold true, β is expected to have a value of +1 to show that investors have been fully compensated for expected inflation.

Moreover, the hypothesis also implied that the real rate of return on common stock is independent of the expected inflation. The second regression equation is

$$R_{mT} = \propto + \beta I_{AT}$$

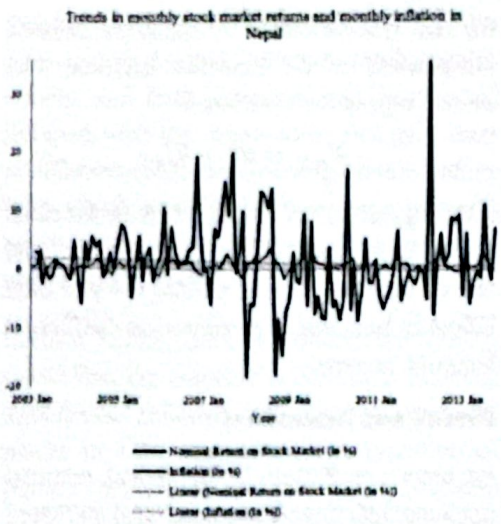
where r_{mT} is the real rate of return on the stock market in time period T and I_{AT} is the expected rate of inflation in time period T. For Fisher Effect to hold true, the regression coefficient β should be zero.

Results and Discussions

As shown in Figure 1, the annual nominal stock market rates of return in Nepal increased for the period 2004-2007 AD. after which the returns declined significantly for the next four years because of several reasons which include political instability and overexposure to real estate in the banking sector. The returns recovered in 2012 AD and have been positive ever since. On the other hand, annual inflation in Nepal increased in the period from fiscal year 2003/04 to 2005/06 but declined in fiscal year 2006/07. The annual inflation continued to increase and reached double digits in the fiscal year 2008/09 after which it declined for the next three years followed by an increase in fiscal year 2012/13. Considering a linear trend, the annual nominal stock market rates of return in Nepal are on a decreasing trend but the returns have been positive since 2012 AD. However, the annual inflation in Nepal is in an increasing trend with inflation reaching 9.85 percent in the fiscal year 2012/13.

As shown in Figure 2; considering a linear trend, the monthly nominal stock market rates of return in Nepal are in a decreasing trend. However, the monthly inflation in Nepal is on an increasing trend.

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Source: Field Survey

Figure 3: Trends in Monthly Stock Market and Monthly Inflation in Nepal

The Relationship between Nominal Stock Market Rates of Return and Expected Inflation

Table 1: Bivariate Regressions of Nominal Monthly Stock Market Rates of Return on Lagged rates of inflation

Period	β	P value	R^2
t	1.59579	0.014	0.0463
t-1	0.1406533	0.829	0.0004
t-2	-0.4138329	0.521	0.0032
t-3	-0.0528968	0.935	0.0001
t-4	-1.122939	0.09	0.0225

Source: Field Survey

Table 1 summarizes the results of the relationship between Nominal stock market rates of return and expected inflation. According to data presented in Table 1, although the coefficient of determination for expected inflation based on t1is low, the regression coefficient is positively in line with the 'Fisher Effect' as seen in Firth (1979) and in contrast to the significantly negative coefficients reported by Miller, Jaffe, and Mandelker (1976) and Nelson (1976). The regression coefficient was statistically significant at the 0.05 level. The coefficient is greater than unity, thus indicating that investors were more than compensated for the expected rate of inflation.

Stock market returns were found to be not significantly associated with their rate of inflation in period t-1, t-2, t-3, t-4 at 0.05 level of significance. Since t-2, t-3 and t-4 had negative coefficients but the period t-1 had a positive coefficient, there wasn't any consistency in the sign of the coefficient across the periods. This again is in contrast to the American studies where Miller, Jaffe, and Mandelker (1976) and Nelson (1976) found significant negative relationships between stock market returns and rates of inflation in period t-1, t-2 and t-3. Unlike the previous studies, the current research studies suggest that inflation in period t-1, t-2, t-3, t-4 cannot be used to earn superior stock market returns.

Table 2: Bivariate Regressions of Nominal Yearly Stock Market Rate of Return on Lagged rate of Inflation

Period	β	P value	R^2
t	-5.783557	0.34	0.1142

Source: Field Survey

Table 2 summarizes the results of Table 5 presented in Annex A. The results from Table 2 differ significantly from that of Table 1 for the period t. With yearly data, the regression coefficient is negative indicating that the stock market is not a hedge against inflation but the coefficient is not statistically significant and the sample size of 10 is too small. So the results cannot be taken as substantial evidence to contradict the results presented by the regression of monthly nominal stock market rates of return on expected rate of inflation.

The Relationship between Real Rates of Return on the Stock Market and Expected Inflation

Table 3: Bivariate Regressions of Monthly Real Rates of Return on the Stock Market Stock Market on Lagged Rates of Inflation

Period	β	P value	R^2
T	0.5792631	0.365	0.0065
t-1	-0.8382983	0.195	0.0132
t-2	-1.387873	0.032	0.0358
t-3	-1.032531	0.108	0.0202
t-4	-2.116493	0.002	0.0766

Source: Field Survey

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Table 3 summarizes the results of Table 12, 13, 14, 15 and 16 presented in Annex B. The results of Table 3 do not provide support for Fisher's hypothesis. The regression coefficient is not zero in any of the periods and the results for period t, t-1 and t-3 are not statistically significant. On the other hand, most of the coefficients are large, negative and few are even statistically significant (for periods t-2 and t-4) which is similar to the American study. It shows that the real rate of return is significantly associated with the expected rate of inflation and therefore contradicts Fisher Effect.

Table 4: Bivariate Regressions of Yearly Real Rate of Return on the Stock Market on Lagged rate of inflation

Period	β	P value	R^2
t	-6.292152	0.267	0.1508

Source: Field Survey

Table 4 summarizes the results of Table 6 presented in Annex A. The results of Table 4 differ significantly from that of Table 3 for the same period t. With yearly data, the regression coefficient is substantially negative indicating that the real rate of return is negatively impacted by the expected inflation but the coefficient is not statistically significant and the sample size of 10 is too small. So the results cannot be taken as substantial evidence to contradict the results presented by the regression of monthly real rate of return on expected rate of inflation.

The results of regression analysis based on monthly data imply that investors are more than compensated for the expected rate of inflation. This is because the stock market represents claims on real assets which are independent of monetary events. The results also present a positive relationship between the real rate of return on the stock market and expected inflation for period t and a negative relationship for the period t-1, t-2, t-3 and t-4. The results are also statistically significant for period t-2 and t-4. This result contradicts Fisher Effect which states that the real rate of return is independent of the expected inflation.

NEPSE was established in 1994 AD and only about 20 years have elapsed which is a relatively short time. Hence, the lack of data for a longer time horizon limits the scope of this research. The consideration of only one independent variable also limits the scope of this research. Future research could be conducted on the issue by taking into consideration other relevant independent variables. Moreover, research could be conducted into the reasons behind the paradoxical results of stock market returns serving as a hedge against inflation but the real rate not being independent of the expected inflation.

According to the results of this research, it is advisable for domestic and foreign investors to invest in the stock market of Nepal despite the high inflation as nominal returns on the stock market have served as a hedge against inflation and have more than compensated investors; but there is an important factor that the investors need to consider. If investors require a stable real return, then investment in the stock market in Nepal would not be advisable as the real rate of return is not independent of the expected inflation. Moreover, the results of the research show that past data on inflation cannot be used to earn superior market return which does not make investing in Nepal attractive for those who seek to take advantage of such market inefficiencies.

Conclusion

In developing countries, much of the funds intermediation is carried out by banks and only a small proportion by the stock market (World Bank Group, 2012). People are willing to invest in the stock market but a major consideration against such a decision is the inflation in the economy. If the nominal returns do not compensate for inflation in the economy, the real rate of return an investor receives isn't attractive.

Inflation in Nepal is high with inflation rates frequently reaching double digits. Despite various fiscal and monetary measures, the government has not been able to control it. High inflation could serve as a deterrent to

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domestic investment as well as potential foreign investment if returns don't compensate for the existing high inflation.

Many research have been conducted on the relationship between stock market returns and inflation in different parts of the world but the results of such studies have not been consistent. The results of research could be classified into three categories. One category refers to research that has found a positive relationship between inflation and stock market returns while another category refers to research that has found a negative relationship between inflation and stock market returns. The last category of research provides mixed results on the relationship.

This research seeks to check whether the nominal stock market returns serve as a hedge against inflation and whether the real return is independent of the expected inflation. It also seeks to identify the trends in stock market returns and inflation in Nepal.

This research employs a causal comparative research design. It employs regression models of stock market returns on expected inflation for the period 2004 to 2013 AD for annual analysis and for the period February 2003 to October 2013 AD for monthly analysis using Nepalese data.

According to the results of the research, the stock market returns and rates of inflation are seen to be highly volatile in Nepal. Considering linear trends, it is seen that inflation in Nepal is rising whereas stock market returns are decreasing. The results of regression analysis based on monthly data imply that the investors were more than compensated for the expected rate of inflation. However, the result of regression analysis based on yearly data shows a negative relationship between the variables but the result is not statistically significant. The results of the regression analysis based on monthly data present a positive relationship between real rate of return on the stock market and expected inflation for period t and a negative relationship for the period t-1, t-2, t-3 and t-4. The results are even statistically significant for period t-2 and t-4. The result contradicts the Fisher Effect. The result of regression analysis based on yearly data shows a negative relationship between variables but the result is not statistically significant.

This research paper does provide some support for the Fisher Effect as the nominal returns on the stock market served as a hedge against inflation, but the real rate of return was not found to be independent of the expected inflation which contradicts the Fisher Effect.

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New Perspective
Journal of Business and Economics

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Abstract

An enduring problem facing microfinance institutions is how to attain financial sustainability. Several studies have been conducted to determine the factors affecting financial sustainability of microfinance institutions in various countries but not in Nepal.Similarly, factors affecting such sustainability arenot yet known clearly. Therefore, this study was carried to understand thesituation utilizing Operational Self-Sufficiency (OSS) as a measure for financial sustainability. In addition, this study makes of relationship between the factors affecting sustainability and OSS of Microfinance Development Banks (MDB). It was found that microfinance operating expenses/ loan portfolio, and portfolio at risk are significant factors that affect the financial sustainability of microfinance institutions in Nepal.Similarly, MDBs possessed high Average Loan Balance per Borrower as well as excellent repayment rate. The PAR (Portfolio at Risk) of MDBs was also found to be high which signifies that they are exposed to high risk. At last,MDBs were seen being financially sustainable in terms of OSS.

Keywords: *Microfinance Development Bank, Operational Self-Sustainability, Portfolio, Risk, Loan Portfolio*

Introduction

In developing economies such as Nepal, where exists a huge unfulfilled demand for financial services, making finance accessible to the poor is a significant mechanism for reduction of poverty and wealth creation. The informal financial alternatives such as family loans, moneylenders, and traders are usually limited in amount, and in most of the cases involve very high interest rates (Hulme & Mosley, 1996). Microfinance has come into existence to help poor and financially deprived who are economically active but financially constrained in low-income communities.

The goals of microfinance institutions are to serve the financial needs of unserved or underserved markets groups as a means of meeting development objectives such as to reduce poverty, create employment, and help existing business grow, encourage the development of new business and empower women or other disadvantaged population groups (Ledgerwood, 1999).

Microfinance institutions have emerged in large numbers in Nepal in the past decades. But, in various aspects of the financial sector, the question of their sustainability is looming. Sustainability of MDBs (Microfinance Development Banks) can be viewed as an ability of MFIs to cover all its transaction costs (loan loss, financial and operational cost) and increase the flow of benefits or services through internally generated income or funds and consequently function without subsidies (Okumu, 2007).

A continuing problem which is faced by many MDBs is to attain financial sustainability. It is doubtful that MDBs will be able to sustain their operation without constant donor supported for funding and technical assistance.

Thus, this study investigates empirically the factors affectingfinancial sustainability of microfinance development banks in Nepal using OSS approach as well as ways to sustain these institutions.

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Problem Statement and Objectives

Over the recent few years, delivery of financial services to the poor and low-income people has changed significantly. The tradition that the poor cannot be good clients of the financial institutions have been challenged by the fact that low-income clients can use small loans productively to pay higher rates of interest on their loans (Ledgerwood, 1999).

In countries like Nepal not much of study has been conducted exclusively focused on these issues. The past study measures are not reliable and valid. Therefore the objective of this study is to examine the financial sustainability of Nepalese MDBs as well as identify the factors affecting the OSS in these institutions.

Literature Review

Microfinance has been defined by various literatures in various different ways but the major theme of all the definitions are the same. It can be defined as the provision financial services that are provided to the poor and low income group households or clients who don't have access to the other financial sources and commercial banks (Woldeyes, 2012). As the name suggest, it means small entrepreneurs are provided with small amount of credits, particularly to the poor clients to ease their financial constraints in income raising activities and production. (Morduch, 1999). It is also considered as one of the best alternative for the generation of self-employment (Shrestha, 2009).

The term microfinance was used in Nepal only in late 1900s. In Nepal, rural credit started with the inception of Credit Cooperatives in Chitwan in 1956. Its goal was to provide loans and funds to the people who came to live there from different parts of the country. Cooperative Bank was established by the government in 1963, which was converted in Agricultural Development Bank (ADB) in 1968. Because of various issues like shortage of funds and misuse of funds by officials government commissioned a fact-finding mission in 1968. The mission recommended for its liquidation as most of them were at defunct stage. In 1971, government introduced Cooperative Revitalization Program, which authorizes ADB to run cooperatives under its guidance and management. With the establishment of Eastern and Far- Western Grameen Bikash Banks (GBBs) in 1992 the Grameen Bank model of Bangladesh was replicated in Nepal. Banks and Financial Institutions Ordinance ,which was introduced by government in 2004, has the condition for licensing microfinance banks as class 'D' banks (Shrestha, 2009).

Most of the literatures have explained financial sustainability of microfinance institutions as its capabilities to earn enough revenue to cover its cost. Financial sustainability of the Microfinance Development Banks can be seen by measuring Operational Self-Sufficiency, Financial Self-Sufficiency and Subsidy Dependency Index. (Woldeyes, 2012).

OSS is the ratio of operating income over the total cost of MFIs. Operating income includes interest, fees and other service income from loans and investment; similarly the cost includes operating cost, financial cost and loan loss provisioning. If OSS is above 100% it indicates that MFIs are earning enough operating income to cover its cost. (Madiya, Olivares-Polanco, & Ramanan, 2012).

Financial Self-Sufficiency indicates whether or not enough revenue has been earned to cover both, direct costs - including financing costs, provisions for loan losses, and operating expenses - and indirect costs, including the adjusted cost of capital (Tehulu, 2013). The adjusted cost of capital is considered to be the cost of maintaining the value of the equity relative to inflation (or the market rate of equity), and the cost of accessing commercial rate liabilities rather than concessional loans (Ledgerwood, 1999).

Subsidy Dependency Index is used to measure the financial sustainability like OSS and FSS but it includes the implicit and explicit subsidies received by MFIs when computing financial sustainability (Arunachalam, 2006).

The term sustainability is used interchangeably with other concepts such as profitability,

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self-sufficiency, financial self-sufficiency, self-sustainability, financial sustainability, financial efficiency, institutional sustainability, and viability (Ledgerwood, 1999); (Hulme & Mosley, 1996); (Rhyne & Otero, 2006).

OSS is preferred as the means to measure the financial sustainability of microfinance development banks than other advanced measures such as financial self-sufficiency and subsidy dependency index because when using these advance measures we need to calculate the concessional funds and the opportunity cost associated with it (Madiya, Olivares-Polanco, & Ramanan, 2012), for these computation there are problem of data constraints. So, the use of OSS model was preferred.

There have been various research conducted to determine the factors affecting OSS. According to literature, there are various factors that influence the OSS of MFIs. These can be classified in seven broad categories that include Revenue generation factor, Portfolio Risk factor, Capital structure factor, Development factor, Institutional factor, and Growth factor and cost Efficiency factors. (Madiya, Olivares-Polanco, & Ramanan, 2012). From the literatures, some of the major factors affecting the OSS are as follows:

i. Average Loan Balance per Borrower

Outreach is probably the major readily available measure of microfinance contributions in poverty alleviation. Outreach is commonly measured by the number of active borrowers, number of loans, gross loan portfolio, number and percentage of women borrowers and the average loan size. Average loan balance per borrower is an outreach indicator which shows the ratio of gross loan portfolio to number of active borrowers. According to the research conducted, average loan balance per borrower has negative effect on the OSS (Madiya, Olivares-Polanco, & Ramanan, 2012).

ii. Lending Interest Rates

The rate of interest is the price of borrowed money. To a financial institution, this rate is charged to the institution when borrowing money or the rate institution charges when lending money to its clients. Three types of lending interest rate can be distinguished: nominal, effective and real. Each of this interest rate has different implications for sustainability. For example, the real effective lending rate positively affects sustainability (Okumu, 2007).

iii. Borrowers per Loan Officer

The performance of an MFI can also be measured by the number of borrowers per loan officer. This is a ratio of borrowers to total loan officers indicating staff productivity. All things being equal, the larger the number of borrowers a staff serves, the higher will be his or her productivity (CGAP, 2003). It indicates how much productive the staffs are.

iv. Operating Expenses Ratio

One of the most commonly used measures of microfinance efficiency is operating expenses ratio (CGAP, 2003). According to Nyamsogorom, it has significant effect on the financial sustainability. According to the study conducted there is negative relationship between operating expenses ration and financial sustainability and is statistically significant at 1 % significant level (Woldeyes, 2012).

v. Average Loan Size

It can be defined as the average gross loan portfolio divided by number of active borrowers. Greater depth of outreach can be indicated by the smaller loan size. According to Nyamsogoro's findings, average loan size and OSS are positively related. His findings explain that profitability of microfinance is associated with higher loan size, in addition to that, more than interest rate, amount of outstanding loan improves financial sustainability (Woldeyes, 2012).

vi. Repayment Rate

Simply, repayment rate is explained as that proportion of the loan issued that is eventually recovered. The repayment rate is the opposite of default rate. Both of the rates indicate the extent to which an MFI is able to recover its loan portfolio (Ledgerwood, 1999).

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The relationship between repayment rate and sustainability can be accessed through two channels: a decrease in repayment rate leads to lower OSS and vice versa, assuming that disbursed loans are the only major source of income. This means that repayment rate is positively related to sustainability. The second channel through which repayment rate affects sustainability is via cost which means that a low repayment rate (high default rate) is a cost to the institution (Okumu, 2007).

The efficiency of microfinance institutions in collecting loans from its clients will lead to higher repayment rates and all things being equal, higher profitability (Schreiner, 2000).

vii. Portfolio at Risk

Portfolio at risk (PAR) is another variable that could influence MFIs' financial sustainability. The PAR measures how efficient an MFI is in making collections. This includes the total unpaid principal balance, which includes both the past due and future installments, but not accrued interest. Higher PAR indicates low repayment rates and MFI's risk in term of financial sustainability (Ledgerwood, 1999). According to study by Nyamsogoro, there is negative relationship between PAR and financial sustainability (Woldeyes, 2012).

viii. Liquidity Ratio

The organization's ability to meet (pay) its short term obligation is explained by the liquidity ratio. According to the Nyamsogoro, OSS and liquidity is positively related and is statistical significant at 5 % significant level (Woldeyes, 2012).

The above mentioned factors (repayment rate, liquidity ratio, PAR, average loan size etc.) are some of the major factors that affect the operational self-sufficiency of MFIs.

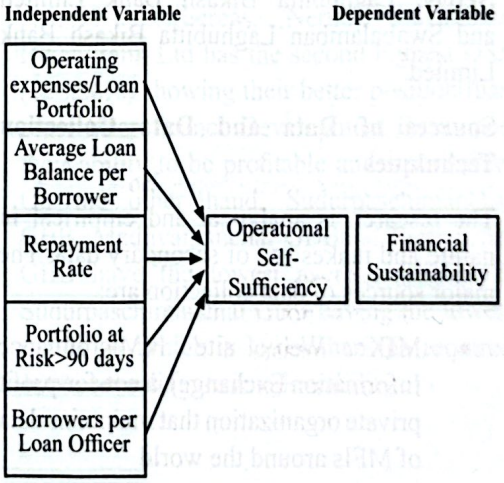
Methodology

This chapter highlights the research design and methodology used for the study of financial sustainability of Microfinance Development Banks in Nepal.

Theoretical Framework

In this research, the variable of primary interest is the OSS. Five independent variables that affect OSS are used. They are operating expenses/loan portfolio, Average loan balance per borrower, Repayment Rate, Portfolio at risk>90 days and borrowers per loan officer.

Operating expenses/Loan Portfolio measures the efficiency of a MFI by measuring the amount of expenses it needs to maintain its loan portfolio. **Average Loan Balance per Borrower** is an indicator of outreach. The less the average loan size the more is the outreach. **Repayment rate** is defined as that proportion of the loan lent out (principal) that is eventually recovered (Ledgerwood, 1999). The efficiency of microfinance institutions in collecting loans from its customers will lead to higher repayment rates and all other things being equal, it will lead to higher profitability. **The portfolio at risk** measures how efficient a MFI is in making collections.**Borrower per loan officer**indicates staff productivity. All things being equal the larger the number of borrowers a staff serves the higher will be his or her productivity (CGAP, 2003).



Source: Field Survey

Figure 1: Schematic diagram of the Theoretical Framework

Research Design

This research study seeks to perform a quantitative analysis of the data. In order to obtain accurate and complete description of the situation this study follows descriptive research design. Historical research is used for the evaluation, systematic and objective

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location and synthesis of evidence in order to establish facts and draw conclusions about the past events regarding the impacts of variables on OSS (Gweyi, n.d.).In addition to descriptive research design, comparative research design is also applied in this study. This design helps to show relationship among the variables

Size of Population and Sample

Since this study is about the financial sustainability of Microfinance Development Banks, the population for this study comprises all the NRB licensed Microfinance Development Banks but due to the difficulty in availability of data, a sample will be selected from the population. Study of 9 MDBs out of 31 has been taken as the sample. The name of the sample MDBs are:

Purbanchal Gramin Bikas Bank (GBB), Paschimanchal GBB, Madhya Paschimanchal GBB, Sudur Paschimanchal GBB, Madhyamanchal GBB, Deprosc Microfinance Development Bank Limited, Chhimek Laghubitta Bikash Bank Limited, Nerude Laghubitta Bikash Bank Limited and Swabalamban Laghubitta Bikash Bank Limited.

Sources of Data and Data Collection Techniques

The research is analytical and empirical in nature and makes use of secondary data. The major sources of data collection are:

- MIX Web site (Microfinance Information Exchange), a not-for-profit private organization that maintains data of MFIs around the world
- Nepal Rastra Bank website
- Annual reports, text books, publications and other thesis and dissertations

Data Analysis Tools

Different kinds of statistical tools have been applied for the analysis purpose. The data are analyzed using Microsoft Excel. Following tools are used to analyze and interpret the data:

- **Descriptive Statistics:**
  - Mean calculation.
- **Inferential Statistics:**
  - Hypothesis Testing
  - Multiple Regression Analysis

A multiple regression equation in this analysis can be expressed as:

$$Y = \beta o + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + \beta 4\ X4 + \beta 5\ X5 + E$$

Where,

Y	dependent variable (Operational Self Sufficiency (OSS) in percentage)
βo	Constant
β1	Regression coefficient of operating expenses/loan portfolio,
X1	Independent variable operating expenses/ loan portfolio
β2	Regression coefficient of average loan balance per borrower
X2	Independent variable average loan balance per borrower
β3	Regression coefficient of repayment rate,
X3	Independent variable repayment rate
β4	Regression coefficient of portfolio at risk>90 days,
X4	Independent variable portfolio at risk>90 days
β5	Regression coefficient of borrowers per loan officer
X5	Independent variable borrowers per loan officer
E	Error term

Results and Discussions

This chapter deals with the empirical analysis of the secondary data to understand the impacts of various variables in OSS.

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Mean and Standard Deviation

Table 1 presents descriptive statistics of the dependent variable (OSS) and independent variables. It is shown that three categories of statistics are reported for each variable: mean, standard deviation and the number of observations in the sample.

As indicated in Table 1, from a total of 36 observations, the mean of OSS is 117.88% which is higher than the required (100%) level in order to be financially sustainable. It reveals that the MDBs are financially sustainable and can recover all of its cost from the financial income generated. In addition this also reveals that they do not have to rely on grants for their operation. The higher level of OSS indicates that they can increase their loan portfolio from the excess income. However, the standard deviation of OSS is 23.78% indicating the existence of dispersion in the sustainability of microfinance institutions studied.

The mean for Operating cost ratio is found to be around 11.65%. It is assumed that lower this variable, the more efficient is the MDBs. the standard deviation of this variable is 5.51% indicating the existence of dispersion in the sustainability of microfinance institutions studied.

Average loan balance per borrower being an indicator of depth of outreach, which means lesser the average loan size, the higher is the outreach as well as there is more number of loans made resulting in higher loan maintenance cost. Hence the OSS is affected. The mean for this variable is 16709.94 which is more in depth of outreach under the MIX bench mark methodology (average loan size <USD 150 or <15000 NPR). It is an indication of serving non- poor clients.

In addition, results alsoshow excellent repayment rate (101.90) of MDBs i.e., loan loss rate is negative and their exposure to risk is minimal. They are efficient in collection of their loans and possess enough liquidity for further growth and expansion. Its standard deviation is also minimal at 3.31% which is good since it has less variability in the value.

Similarly, the mean for PAR>90 days is calculated to be 7.65% which means, out of the total loan portfolio, 7.65% of it bears risk.

The results show the mean number of borrower per loan officer for the MDBs was 336.55.

With the literature reviews and understandings, MDBs should have OSS at least 100% or above to be sustainable. Table 2 shows the avg. OSS of the sample MDBs from year 2008-2011. Similarly, we during the interval 2008-2011, on an average. Deprosc Microfinance Development Bank Ltd has the highest OSS (146.97%) whereas, Nerude Laghubitta Bikas Bank Ltd has the second highest OSS (136.26%) showing their better position than other Microfinance Development Banks and their ability to be profitable and sustainable. On the other hand, Sudurpaschimanchal GBB, Madhyamanchal GBBand Purbanchal GBB have the lowest average OSS with Sudurpaschimanchal GBB having the lowest (74.41%), which is lower than the required 100% revealing their vulnerability.

Table 1: Mean and Standard Deviation of Overall Sample

	OSS	Op. Exp/loan portfolio	Avg. loan balance per Borrower	Repayment Rate	Portfolio at Risk>90 days	Borrowers per Loan Officer
N	36	36	36	36	36	36
Mean	117.88	11.65	16709.94	101.90	7.65	336.55
Standard Deviation	23.78	5.51	7392.48	3.31	10.41	80.26

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Table 2: Bank wise Average OSS (%)

MDB	Average OSS (%)
Deprosc Microfinance Development Bank Ltd	146.97
Nerude Laghubitta Bikas Bank Ltd	136.26
Chhimek Laghubitta Bikas Bank Limited	132.16
Paschimanchal GBB	125.10
Swabalamban Laghubitta Bikas Bank Ltd.	124.99
Madhyapaschimanchal GBB	110.47
Purbanchal GBB	106.73
Madhyamanchal GBB	103.82
Sudurpaschimanchal GBB	74.41

Table 3: OSS (%) of MDB in 2008

MDB	OSS (%)
Deprosc Microfinance Development Bank Ltd	148.95
Chhimek Laghubitta Bikas Bank Limited	134.42
Nerude Laghubitta Bikas Bank Ltd	131.36
Swabalamban Laghubitta Bikas Bank Ltd.	123.28
Madhyamanchal GBB	120.92
Paschimanchal GBB	117.59
Madhyapaschimanchal GBB	106.65
Purbanchal GBB	99.68
Sudurpaschimanchal GBB	91.05

Table 4: OSS (%) of MDB in 2009

MDB	OSS (%)
Deprosc Microfinance Development Bank Ltd	153.05
Nerude Laghubitta Bikas Bank Ltd	130.6
Chhimek Laghubitta Bikas Bank Limited	130.42
Swabalamban Laghubitta Bikas Bank Ltd.	125.69
Purbanchal GBB	120.71
Paschimanchal GBB	116.72
Madhyamanchal GBB	107.72
Madhyapaschimanchal GBB	100.89
Sudurpaschimanchal GBB	60.23

Table 5: OSS (%) of MDB in 2010

MDB	OSS (%)
Paschimanchal GBB	154.53
Deprosc Microfinance Development Bank Ltd	147.16
Nerude Laghubitta Bikas Bank Ltd	137.98
Chhimek Laghubitta Bikas Bank Limited	131.1
Madhyapaschimanchal GBB	127.6
Swabalamban Laghubitta Bikas Bank Ltd.	119.72
Purbanchal GBB	100.7
Sudurpaschimanchal GBB	100.2
Madhyamanchal GBB	86.33

Table 6: OSS (%) of MDB in 2011

MDB	OSS (%)
Nerude Laghubitta Bikas Bank Ltd	145.11
Deprosc Microfinance Development Bank Ltd	138.72
Chhimek Laghubitta Bikas Bank Limited	132.69
Swabalamban Laghubitta Bikas Bank Ltd.	131.25
Paschimanchal GBB	111.55
Madhyapaschimanchal GBB	106.73
Purbanchal GBB	105.81
Madhyamanchal GBB	100.32
Sudurpaschimanchal GBB	46.17

Adding on, table 3, 4, 5 and 6 show the OSS of the sample banks and their performance from 2008 to 2011. We can observethat the Deprosc Microfinance Development Bank Ltd had the highest OSS i.e. 148.95% and 153.05% in year 2008 and 2009 respectively. Similarlyin 2010, Paschimanchal GBB had the highest OSS of 154.53%. In 2011, Nerude Laghubitta Bikas Bank Ltd had the highest OSS (145.11%).

Likewise, in 2010, Madhyamanchal GBB was in the worst position with OSS of only 86.33% which is much less than 100%. In year 2008, 2009 and 2011 Sudurpaschimanchal GBB had the lowest OSS i.e. 91.05, 60.23 and 46.17 respectively (all of these are less than 100%). It indicates that Sudurpaschimanchal GBB, in all these three year, was not able to earn

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enough revenue to cover its organizational cost.

Inferential statistics

Inferential statistics focuses on knowing the relationship between variables. The following results were obtained by the use of the inferential statistics.

Multiple Regression Analysis

The multiple regression analysis allows the use of more information to estimate the dependent variable. Table 7 summarizes the fitted model for OSS and its independent variables.

Table 7: Adjusted R-square

Adjusted R Square	0.674

Table 7 shows that the value of adjusted R^2 is 0.674. This indicates the proportion of variance in the dependent variable (OSS) which can be explained by the independent variables. Thus, 67.4% of total variation in dependent variable, which is OSS has been explained by the selected five independent variables.

Relationship between OSS and Variables under study (Test of Hypothesis)

This result shows how determinants of financial sustainability affect the OSS is presented. The highlights of the relationship between the OSS and its variables observed through multiple regression analysis are presented in Table 8.

The VIF of all the variables is less than 10% indicating no problem of multi-collinearity among the independent variables.

Table 8: Regression Coefficients

	Coefficients	P-value	VIF
Intercept	20.63	0.87	
Average loan balance per borrower (Rs.)	-0.00019	0.58	1.18
Repayment rate (%)	1.45	0.28	1.34
Portfolio at risk>90 days (%)	-1.45	0.00000063	1.35
Borrowers per loan officer (No.)	0.0020	0.95	1.26

Hypothesis 1:

H_0: There is no significant relationship between operating expenses/loan portfolio and OSS.

H_1:There is relationship between operating expenses/loan portfolio and OSS.

The p-value of the operating expenses is 0.0000707155, which is significant (p-value<α) at 5 percent significance level and coefficient for operating expenses ratio variable is-3.10. This indicates that, the more MDBs are efficient in reducing the operating costs at a given level of outstanding loan portfolio the more profitable they become and, therefore, financially sustainable. Thus the null hypothesis was rejected. This means OSS and Operating expenses/loan Portfolio are negatively related.

It implies that lower the cost higher will be OSS. The cost of outreach from the lenders perspective means the costs incurred by a microfinance institution to reach the poor. Higher cost incurred to serving its clients means a reduced profitability to a MDB. This ratio shows the efficiency of the MFIs.

Hypothesis 2:

H_0:There is no significant relationship between Average Loan Balance per Borrower and OSS.

H_1:There is relationship between Average Loan Balance per Borrower and OSS.

As the result shows, the p-value for Average Loan Balance per Borrower (0.58) is greater than 0.05, which is not statistically significant at 5% significance level, the Average Loan Balance per Borrower is not significant as the increase or decrease in the number of active borrowers or average loan balance per borrowers does not affect its financial sustainability. Thus, $H_0$was accepted.

Hypothesis 3:

H_0:There is no significant relationship between Repayment Rate and OSS.

H_1:There is relationship between Repayment Rate and OSS.

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Although, the coefficient of Repayment rate has positive relationship with OSS but the p-value for Repayment Rate (0.28) is greater than 0.05, which indicates that it is not statistically significant at 5% significance level, we can assume that higher repayment rate is significant to the financial sustainability and also have positive relationship with the OSS. This may be because of other factors such as loan loss ratio, interest rates, loan loss reserve ratio that were not taken into consideration in the research. Also here, null hypothesis was accepted that there is not a significant relationship between Repayment Rate and OSS.

Hypothesis 4:

H_0: There is no significant relationship between Portfolio at Risk>90 Days and OSS.

H_1: There is relationship between Portfolio at Risk>90 Days and OSS.

Though results show a negative relationship between PAR and OSS i.e. the Beta is -1.45, the coefficient for the PAR variable was strongly statistically significant (p-value= 0.00000635371) at 5 percent level of significance. This shows that, the less efficient the MDBs are (higher PAR) the less will be its financial sustainability. Thus H_0 is rejected andH_1 is accepted.

Hypothesis 5:

H_0: There is no significant relationship between Borrowers per Loan Officer and OSS.

H_1: There is relationship between Borrowers per Loan Officer and OSS.

Although results show that the relationship between coefficient of Borrowers per Loan Officer is positively related to OSS, it was not statistically significant (p-value = 0.95) at 5% significance level. Although literature reviewsarticulatesabout staff efficiency being crucial for sustainability of Nepalese microfinance (Sharma, 2008), this study say otherwise. This may be caused due to non-inclusion of factors such as active member per staff, loan client per staff ratio, outstanding ratio per staff etc. Thus, $H_1$was rejected and H_0 is accepted.

Summary

Microfinance has become a major policy tool for promoting access to financial services, financial system development and poverty reduction. As a result, a clear understanding of the determinants of sustainability is important for institutions development, public policy formulation and implementation as well as to promote access to financial services for the majority of low-income earners on a sustainable basis.

This study mainly provides a basis for understanding the determinants of financial sustainability in Nepal. On the basis of this study, the initial variables that can affect the sustainability are the income and expenses of the MDBs. Similarly, this study found that MDBs have higher Average Loan Balance per Borrower which is good for attaining financial sustainability, but it also means that they might not be reaching the poor. The result also depicts that operating expenses/ loan portfolio; portfolio at risk related to OSS and was statistically significant whereas borrowers per loan officer, average loan balance per borrower and repayment rate are positively related to OSS but were not significant statistically.

Therefore, the MDBs must shift their focus on the factors that affect them the most and try to be as sustainable as they can. In addition, this research can be a platform for bigger and better research for comprehensive knowledge about the issue.

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Impact of Gender-based Policies on Female Employees' Job Satisfaction: Case Study of Standard Chartered Bank Limited Nepal

New Perspective Journal of Business and Economics

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Abstract

Gender-based policies refer to the attitudes or actions relate to many gender issues. It is a plan made by the organization that is used as a basis for making decisions on gender related issues. This report provides an analysis and evaluation of the job satisfaction of female employees in terms of gender-based policies; maternity leave, sexual harassment and flexible working hour. Methods of analysis include thematic analysis using key words used by respondents as a base for analysis focusing on three types of gender-based policies which are sexual harassment policy, maternity leave policy and flexible workinghour's policy. Results show that gender-based policies of the organization helps increase female employees' job satisfaction, but the policies must be implemented in the workplace. The report finds that female employees are satisfied with the maternity leave and speak of policies of the organization, but sexual harassment and flexible working hour policies need to be implemented properly in order to have job satisfaction.

Keywords: *Policies, Gender, Satisfaction, Motivation, Working hours, Work environment, Gender equality*

Introduction

Job Satisfaction is how happy or contented an individual is with his or her job. It can be evaluated at the facet level and global level. Facet level measures the individual's satisfaction with different aspects of the job, whereas, global level measures the individual's overall satisfaction with the job. There are many facets measuring job satisfaction and some of them are related to nature of the work, organization, promotion opportunities, appreciation, job conditions, policies and procedures and others. Job satisfaction also reflects the degree of pleasure or happiness the job induces in general.

Policy is a principle or protocol for guiding decisions and achieving rational outcomes. Policies are generally adopted by the Board of senior governance body within an organization whereas procedures or protocols are developed and adopted by senior executive officers. Gender-based policies refer to the attitudes or actions regarding many gender issues. It is a plan made by the organization that is used as a basis for making decisions on gender related issues. This research has focused on three types of gender-based policies. They are:

- Sexual harassment policy,
- Maternity leave policy and
- Flexible working hour policy.

In the Ontario Human Rights Code (the Code), sexual harassment is "engaging in a course of vexatious comment or conduct that is known or ought to be known to be unwelcome" (Ontario Human Rights Commission, 2011).

Maternity leave, now often called parental or family leave, is the time a mother (or father) takes off from work for the birth or adoption of a child" (L.L.C). Maternity leave is an employee benefit that provides paid or unpaid time off work to care for a child or make arrangements for the child's welfare.

Flextime or flexible work hour is a variable work schedule, in contrast to traditional work arrangements requiring employees to work a standard 9 a.m. to 5 p.m. day.

In Nepal, there are 30 commercial banks including Standard Chartered Bank Nepal Ltd., which was registered as joint venture operation since 1987.It enjoys the status of the

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largest international bank currently operating in Nepal. Standard Chartered Bank Nepal was chosen for the research on gender-based policies and their impact on female employees because of the curiosity to know if a multi-national organization like Standard Chartered Bank Nepal Ltd. has addressed gender-based issues or not and how it makes an impact on female employees' job satisfaction.

The gender-based policies was chosen as the only factor to measure the female employees' job satisfaction because of the interest in this particular topic.

Problem Statement and Objectives

There are clear cases of bias among the genders in an organization. Equal rights to women are not given although a lot has been talked about it. Similarly, various gender-based policies are the result of a need for a healthy and safe working environment. These issues, when not properly addressed by the organization, discourages women from working in that particular organization, it also impacts their job satisfaction. The working environment will not be good in the absence of such policies.

Therefore, the objective of the study is to explore how gender-based policies will make an impact on female employees' job satisfaction. Specifically, this study intends to:

- Explore gender-based policies of the organization as well as observe how the organization has address problems related to female employees.

Literature Review

Studies show the importance that women and men place on distributive and procedural justice. The relation of our findings in justice perceptions are to other research on gender differences in interpersonal styles and perceptions (McFarlin, Paul D.Sweeney and Dean B., 2009).

The impact of gender difference has increased the value of different policies of the organization that focuses on the gender-based issues. The problems need to be addressed in order to reduce the gender differences in organizations. If such policies are not issued then, female employees might be abused by male employers or employees. This idea is also suggested by Laband and Lentz saying, "The reported job satisfaction of female lawyers is influenced more than twice as strongly by sexual harassment by supervisors than by their annual income". Laband and Lentz also say that this is due to lack of policies in the organization to reduce sexual harassment in the workplace; policies that penalize supervisors and co-workers engaging in sexual harassment of their female employees must be enacted in the organization.

The importance of flexible working hour system has become popular among employees and this has made organizations rethink their policies. The study says that organizational policy-makers are beginning to realize the effect of the changing demographics of their workers and are responding with the implementation of family-oriented programs (Galen M., Palmer A.T., Cuneo A. and Maremont M.;, 1993).

There are many types of programs with part-time job or flexible work hours that are being offered to female employees by organizations in many countries. "These types of programs are designed to help employees manage their work and family responsibilities. Under the flexible working hours system, employees may choose when they come to work and when they leave, as long as they work during certain hours referred to as 'core hours." (Terri A. Scandura and Melenie J. Lankau, 1997). Further Scandura and Lankau, 1997 argue that their results have revealed that the perception of women about flexible working hours affects organizational commitment and job satisfaction for those having family responsibilities, if they feel flexible working hour is provided, then they have higher level of organizational commitment and job satisfaction.

Flexible working hours is more important to women who have children less than five years old and who have high family responsibility.

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Talking about mothers, maternity leave is very important as they have to take care of their child for at least six months after delivery (breast feeding period). "The extension of job-protected leave entitlement has given more time to new mothers to spend with their children and therefore provides a basis for an impact on children's well-being" (Milligan, 2008). The longer maternity leave helps women take care of their child properly when they are young, so that they don't have to worry about them while in the work place. Thus, longer maternity leave has a positive impact on female employees' job satisfaction.

Methodology

Theoretical Framework

The variables that need to be measured or evaluated are the gender-based policies of the organization and the job satisfaction of female employees of that organization. Here, the independent variable is gender-based policies of the organization. They are: sexual harassment related, maternity leave related and flexible work-time related. The dependent variable is the job satisfaction of female employees.

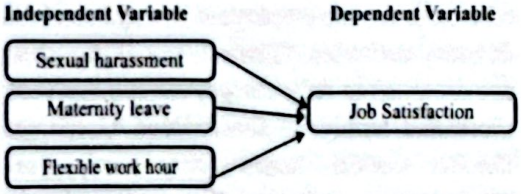


Figure 1: Schematic Diagram

This research has focused on three types of gender-based issues which are maternity leave policy, sexual harassment policy and flexible working hour policy for female employees in the organization. The higher the number of gender-based policies addressed by the organization, the more positive impact is seen on female employees' job satisfaction. There are also other factors that impact the job satisfaction of female employees such as nature of work, organization, promotion opportunities, appreciation, job conditions and others. But gender-based policies are also one of the factors that affect the female employees' job satisfaction.

Data Source and Sample

The population for this study comprised middle-level female employees of different departments of SCB Nepal head office where 50% of total employees are female. Of the middle level employees, 25 samples were selected using stratified random sampling as potential participants for their willingness to take part in the survey. The stratification was made on the basis of their departments.

Data Collection Tools

All the data collected for the research was done through interview by asking open-ended questions to the selected sample of female employees of the organization. The open-ended questions were used to obtain deep information from the participants in this research. These questions include both general and specific questions about the variables used in the research. All the demographic data were collected through telephone interview of each selected sample of female employees of the organization which include: age, marital status, number of children, age of the youngest child, and years of experience at SCB Nepal.

Data Collection Procedures and Analysis

A list of the sample was prepared with their mobile number and their extension number of the office. An interview schedule was designed as per the requirement of the data. Only 16 of the female employees, who were approached, readily agreed to respond to the questions that were mailed to them. A total of 10 employees were ready for the interview after going through the questionnaire provided through mail.

Analysis was done by selecting the key words used by employees during the interview as a base is for analysis. These answers related them to the theme of the research, which is gender-based policies and job satisfaction. All other information which were not related to the research was avoided.

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Results and Discussions

Diversity and Inclusion Committee

D&I committee is entitled to make policies for all areas of the organization, including gender-based policies. The D&I committee members come from different cultural backgrounds and incorporate employees, both male and female. It is also responsible for forming, circulating as well as amending policies for employees of the organization. For example, the change in maternity leave from 45 days to 90 days was also affected by this committee. They take care of all problems related to employees as well as seek a balance in the ratio of male and female employees in the workplace and provide equal treatment to every employee. Gender issues are also highlighted, for example, looking for problems that hinder women from reaching top management, post, etc. All the issues that arise in the workplace or the complaints are looked into by D&I committee, which decides on the further action to be taken. To motivate female employees and encourage them, this committee also organizes different programs and activities for female employees like Teej, Women's day, Bhai Tika and others. D&I committee holds meeting once every month where issues raised and different topics are discussed with the team.

Maternity leave and Job Satisfaction

The response on the period of revised maternity leave policy varied among employees. Almost all of the respondents were satisfied with 3 months (i.e. 90 days) maternity leave policy of the organization which is fully paid, all medical bills are also paid and some of them also gave recommendations to make it more appropriate for women during pregnancy. Doctor's recommendation or prescription is vital, if female employees need leave for longer than 3 months (90 days). The responses about use of health benefits during maternity leave varied among the respondents, which is shown in Table 1, whereas there were no vacation benefits for employees of the organization.

Table 1: Variation on responses about extra leave

Responses	Frequencies
Sick leave	6
Block leave (annual leave)	4

Six employees responded that they could use sick leave, which was not paid for by the organization, whereas four employees said that they were allowed to use 10 days block leave only if the doctor's recommendation is provided. The organization had no policy of granting maternity leave for single women, according to the responses of respondents. But 90% of the women responded that maternity benefit for single women was much more important.

A measure of job satisfaction from the responses recorded from female employees indicates that maternity leave policy of the organization has been able to increase the level of job satisfaction of all the participants of the research. Sixty percent of the participants are satisfied with the policy of maternity leave of the organization and 40% of the participants expect further changes in the policy but are also neutral on the present maternity leave policy of the organization.

Sexual Harassment and Job Satisfaction

Different opinions on sexual harassment were noted from each respondent. There was huge variation in the response about the policy of the organization on sexual harassment issue. There is a different policy other than sexual harassment policy which looks at all of the issues, also related to gender issues. The importance of the sexual harassment policy to be focused by the organization was discussed with respondents who were positive about the idea.

The "Speak Up" policy of the organization helps employees to talk to line managers or human resource manager or D&I team in case any issue raised by employees is not just a sexual harassment issue. Most of the participants considered this policy as sexual harassment policy as where some responded negatively to the presence of a sexual harassment policy in the organization. During the meeting held by the D&I committee,

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employees are encouraged to speak about issues they have faced and are often reminded about the "Speak Up" policy.

One of the respondents said "There are certain codes of conduct signed every year which maintains discipline among employees and it also governs employees. But I've not heard of any such cases on sexual harassment as this is a very advanced institution and people are educated."

The responses of participants differed when they were they were asked about the presence of the sexual harassment policy which is shown in Table 2.

Table 2: Responses of sexual harassment policy

Responses	Frequencies
Yes	3
No	4
Speak Up policy	3

According to the responses, there are no preventive measure policies or any action to be taken if any case of sexual harassment arises, but female employees were assured that if they talked to their line manager or HR manager or D&I committee then they may give warnings or handle it separately as misconduct in the workplace. Before reading a particular conclusion a thorough analysis will be done to understand the situation properly without being biased.

The respondents agreed to the idea that the problem of sexual harassment must be addressed by the organization in their policies to make the working environment much safer for female employees. All the participants agreed that the 'Speak Up' policy of the organization encourages them to speak about any kind of issue they have or the problems they face; not only sexual harassment issues. There are improvements that need to be made in the policies of the organization; as per the responses collected.

Sixty percent of the participants were satisfied with the policies of the organization regarding sexual harassment issue, whereas 40% said they are happy with, the policy but thought improvements were needed. All the respondents agreed that sexual harassment policy of the organization definitely increases their level of job satisfaction and also said there are other factors which were also important to consider terms of job satisfaction.

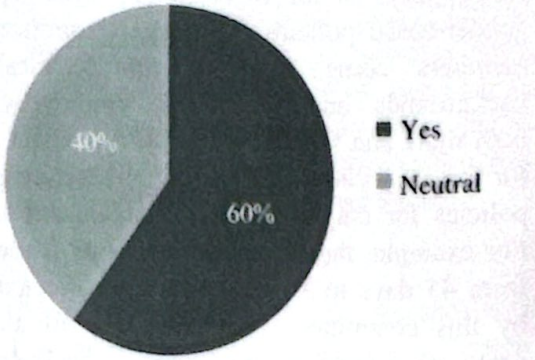


Figure 2: Responses of satisfaction to policies

Flexible working hour and Job Satisfaction

Flexible working hoursis a very important factor for female employees. This became known after the interviews with the respondents. The organization does not have a specific flexible work hour system. It was known that flexible working hour is not so viable in an organization like SCB Nepal. It can be applicable only in a few departments of the bank; but for the employees interacting directly with the customers it is quite impossible. The participants have suggested a few ways to make it possible to implement flexible working hours in the organization.

The normal work time of the participants is 9.30 am to 5.30 pm, but the time frame is not stable as employees have to stay extra hours for completion of work and this happens almost every day. The organization has provided five working days to each individual, which is not specific, needs to be managed between employees only on Sunday and Friday. A few participants said that the employees at the back office are provided flexible work hour as they don't have to deal with customers directly and only when the work can be done from home.

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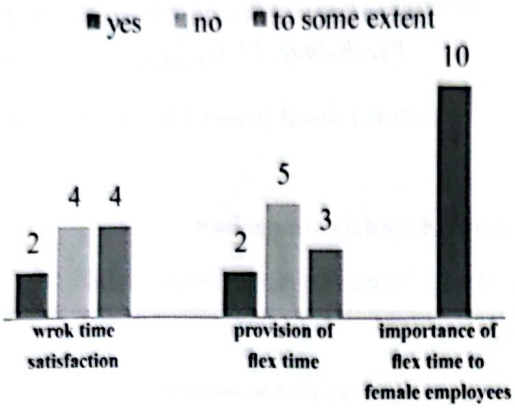


Figure 3: Responses to flex time

The major issues seen are that changes in policies of the organization focusing on gender-based issues are not sufficient to increase the overall job satisfaction of employees. This study shows that flexible working hour's policy is very important for female employees because of family and1 household responsibilities, child care and other social factors. In countries like Nepal, women, married or unmarried, working late in the office is very unwelcome in society. If flexible working hours policy is implemented in the organization, women can balance work and family responsibilities and can work from home rather be late at office and can also have satisfaction on the job.

The study shows evidences of many female employees feel satisfied with maternity leave policy of the organization, while some feel that improvements in the policy would be helpful for women. The organization has provided a child care centre on the premises of the office, including a room for pregnant women to rest whenever required. Despite these facilities, the need to extend maternity leave to six months, the breast feeding period, and leave for the pre-maternity period must be considered. Depressive symptoms can directly affect performance of the employee and if longer maternity leave can help reduce these depressive symptoms, then performance also improves and female employees will also be satisfied with the policies of the organization.

Similarly, it has been found that maternity benefits should also be provided to single mothers as it is more important for them to take care of the child alone and it is their personal choice which should not be misjudged by the organization. We all are aware about the complex issues of single mothers in our country where society does not support the idea of a single mother. In spite of all these problems the organization should have policies for single mothers, which can give moral support to those women enabling them balance between home and work.

In the meantime, results indicate that sexual harassment policy is necessary the organization to avoid unwanted activities. The idea of sexual harassment differed among interviewees; all have their own opinion about what sexual harassment is and how they perceive it. They said it is not about rape or physical contact only, but also includes loose remarks, looks, touch, being talked down to, verbal abuse, abusive emails, lowering morals, sex request for reward, unwelcome behavior and many other opinions. If the working environment is not good or not safe then there will be lack of job satisfaction and overall performance will decrease. So, to avoid such disturbing environment at the work place, some policies must be implemented in the organization which may lead to higher level of job satisfaction of female employees and male employees as well.

The results suggest that these policies can create a safe and good working environment for female employees. It will be easier for them to balance work and family responsibilities which result in job satisfaction.

Conclusion

After going through a rigorous study interviewing employees at SCB Nepal, reviewing various literatures as well as analyzing the responses from sample employees, the result has shown that there are policies in the organization regarding maternity leave but sexual harassment and flexible working hours has not been focused by policies of the organization. In order to have job satisfaction all the policies must be implemented in the organization, cultural and other factors such as work environment, placement, promotion, incentive and so on

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must also be looked into by the organization.

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Customer Satisfaction Level of Nepalese Banking Industry: A case study of Everest Bank Limited

New Perspective Journal of Business and Economics

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Abstract

Customer satisfaction in service industry is a match between the expectations of service quality desired by consumers and the service delivered to them. Customer expectations in banking industry is showing boundless increment in the present day and banks face a challenge fulfilling these needs for survival and growth. This research study seeks to know the current satisfaction level of EBL clients, their expectations from the bank and help management close any gap found between customer's expectation and EBL service quality. Similar studies conducted so far identify tangibility, responsiveness, reliability, assurance and empathy as the key factors that influence customer satisfaction with the banking industry. The findings of this study are useful for EBL to enhance their service quality for better attainment of customer satisfaction.

Keywords: *Customer Satisfaction, Banking, Expectations, Service Quality, Customer Perceived Value*

Introduction

Customer satisfaction is imperative for the long-term success of any organization (Mandal & Bhattacharya, 2013). It is one of the key issues that is given utmost importance in every business sector. Businesses these days are more customer oriented as building a poo11 of satisfied customers is the essence of business survival and growth. For organizations to build and retain such customer base; they have to ensure that the customer's needs are being listened to; their expectations are being matched or surpassed and their complaints are handled carefully.

Banks being in a service sector, customer satisfaction is very important and should be given the top priority. The bank services have widened from deposit taking to mobile and internet banking facilities and they are still seeking ways to unbundle more services for their clients. No matter how technology is aiding the banks to service its customers, the front desk employees are still the key for customer satisfaction so employees should be given good care for enhancement of customer satisfaction.

Nepalese Banking Scenario

Nepalese banks are also in pressure to improve their service quality and increase the services they offer as the competition in banking industry has become more intense. The banks are offering attractive schemes and services to lure the customers and customers are in the position to choose bank for their banking requirements. For long term sustainability and profitability, customer satisfaction has become a must.

In such scenario, banks needs to know the current customer satisfaction level and act to close any gap before unsatisfied customers, if any, opt for other banks.

Problem Statement and Objectives

The arrival of new technologies, entry of new competitors, growing demands of clients and birth of substitutes to banking such as co-operatives and finance companies brings new challenges for the banks. These factors have made the consumers less loyal towards any bank and financial institution. Thus, customer satisfaction is one of the important factors for overall profitability in banking sector.

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Therefore the objective of the study is to find out "whether the services/products provided by Everest Bank Limited are adequate to keep their customers satisfied."

Literature Review

Customer satisfaction is an abstract term which signifies positive feelings towards the service/product rendered by the supplier/ service provider. It is a match between consumer expectation and the service/product delivered to them, any negative gap between the expectation and experience results in customer dissatisfaction. Pairot(2008) defined customer's satisfaction as the company's ability to fulfill the business, emotional, and psychological needs of its customers.

Determinants of customer satisfaction in banking sector

According to Lau, Cheung, Lam, & Chu(2013), the factors that influence customer satisfaction are tangibility, responsiveness, reliability, assurance and empathy. Tangible factors is observed in terms of physical facilities, equipment and appearance of the employees. Responsiveness is measured by the willingness of employees to assist the customers and provide quick service. Reliability dimension is the perceived value of clients, it is ensured when banks delivers what they promise. Assurance is the degree of trust and confidence customers depends on the service quality offered by the bank. Empathy is the ability to understand the feeling of others.

But for Shah (2012), the determinants of customer satisfaction in banking industry are services provided by the banks, the image of the banks, risk and privacy implemented by the banks, banking convenience felt by the consumers, pricing policies of the banks, charges taken by the bank and maintenance of relationship with the customers.

Similarly Dhakal in 2012 identified quick service, billing clarity, helpful employees, service quality, competitive pricing, billing timeliness, knowledgeable employees and courteous employees as factors affecting customer satisfaction.

Whereas Miller (2010) says customer satisfaction in banking sector is function of branch facilities, perceived value, electronic banking, service delivery, staff attribute, service product, branch convenience and compliant handling.

For Titco &Lace (2009) the factors are quality of bank products, bank safety, waiting time, bank opening hours, simplicity of information acquisition and variety of bank offered products and services.

Therefore, perception on customer satisfaction vary across various ideologies and situations.

Verdicts of customer satisfaction

Research conducted by Lau, Cheung, Lam, & Chu(2013) showed that empathy, reliability, tangibility, responsiveness and assurance were significant factors of customer satisfaction. All of these factors have a positive influence on customer satisfaction. However, the study showed that empathy has the least importance in clients mind though positive as they perceive a low level of interaction with employees in banks.

Research conducted on SBI Bank by Dhakal(2012) showed that the bank customers were fairly satisfied. SBI clients were satisfied with the product and service level but stayed neutral on the loan products and online banking system. Most of the respondents were unaware about the internet banking services and considered it to be an unnecessary product.

Research conducted on Punjab National Bank by Kanojia & Yadav(2012) showed that, with little or no distinction in the product offerings, it is the speed of rendering service that sets apart one bank from the other banks in the industry. Quick service is comparable to quality service. Banks that provide internet banking services are more popular so it is essential for the banks to set up systems that cut the service time to deliver instantaneous service to customers.

Titco &Lace (2009) in their research study on Latvian Retail Banking found that the important factors which will lead to customer

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discontinuity with their banks are increased charges for service, poor service quality and operational errors made by employees.

Methodology

Clients show satisfaction towards the bank whose service delivery is quick and efficient. Similarly, the more products offering the bank has to offer that meets the needs of many target groups the more satisfied the consumers are towards the bank. In the same fashion, the higher the quality of service delivered by the bank to its customers the more better experience they will receive increasing their satisfaction level. The employee behavior towards the customers is also an important factor for customer satisfaction, treating the customers with respect and dignity increases their satisfaction level. Finally, the customer perception of the physical appearance of the banking facilities has direct relations with their customer satisfaction.

Conceptual framework

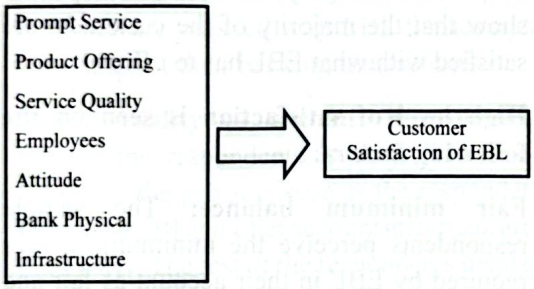


Figure 1: Conceptual framework

Research design

This research follows descriptive research design. It is a type of study which is conducted to assess the opinion, behaviors and characteristics of EBL deposit account holders and to describe their present satisfaction level with Everest Bank Limited.

Qualitative approach to data analysis and interpretation is taken i.e. no mathematical calculation is involved to interpret the data gathered through survey.

Study Area

The area selected for study is Everest Bank branch located at Chabahil. The researcher is a regular customer of this branch and has good relations with the branch employees. In addition, Chabahil area is a mix of both business and residential area so it offers a greater opportunity to encounter both business as well as retail customers at the same branch. Thus, this branch became a favorable area for study.

Data collection Tools

The main tool used to collect data from the existing deposit account holders of Everest Bank Ltd was questionnaire. Likert scale question was used dominantly in the questionnaire followed by multiple choice and open ended questions.

The questionnaire was developed using the factors derived from literature review of similar studies conducted so far, consulting with research supervisor and branch manager of Everest Bank, Chabahil Branch.

Pilot study

Before conducting the final survey, the questionnaire was pre-tested on five respondents with similar nature to that of the actual respondents. The respondents were briefed about the purpose of the research to ensure their proper understanding. Based on the problems faced by these respondents some questions were either modified or removed.

Sampling procedure

To represent the total population of EBL deposit holders, 60 samples were selected. Out of the 60 samples, 40 were chosen at convenience from Everest Bank Chabahil Branch and remaining 20 respondents were made to fill the online questionnaire.

Convenience sampling was done because all the approached clients did not have time to respond despite their willingness to support the research study. Only those clients who provided their time for questionnaire were surveyed.

To accumulate the input of Everest Bank clients besides the Chabahil branch few known clients who were a patron of Everest **Bank who filled the online questionnaire.**

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Data collection & sources

The data for this research study is collected solely from primary source i.e. first hand data is collected from the respondents.

The data collected from Chabahil branch are interviewer-administered. The researcher himself went to the branch and filled the questionnaire as per the respondent responses.

The data collected from online questionnaire are self-administered by the respondents themselves. The respondents filled the questionnaire based on their understanding.

Tools employed for data analysis

Qualitative analysis of data approach is used for interpreting the responses by presenting them in pie charts and bar diagrams.

Results

The responses collected show that the customers of EBL are satisfied with most of the variables used to measure customer satisfaction.

Prompt service

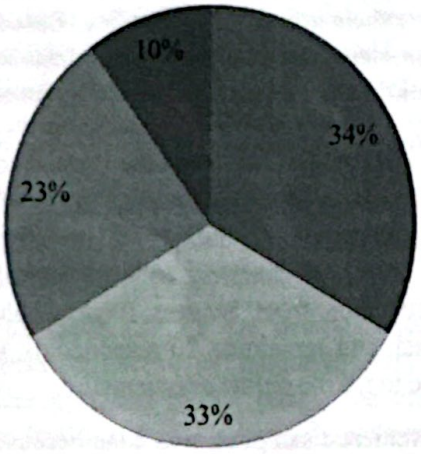


Figure 2: Waiting time

In terms of prompt service, Everest Bank deposit holders are not satisfied as 66% of them have to wait in queue for more than 10 minutes to complete their transaction. 68% of the respondents are unsatisfied with waiting time and feel that it must be improved.

Most of the feedback received from the respondents suggest the bank to open more counters and implement token system for queue so that they don't have to stand in line

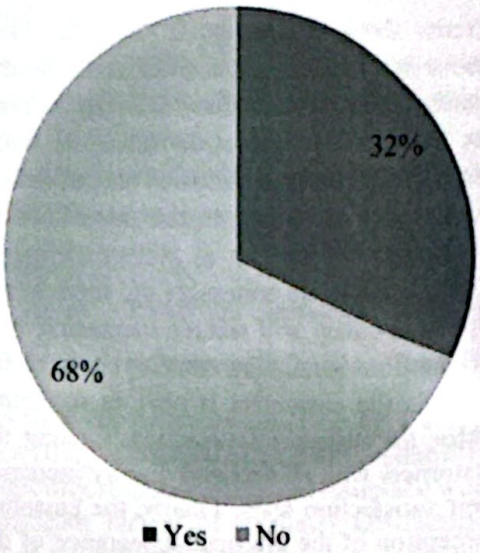


Figure 3: Waiting time acceptability

Product

In product category, the overall responses show that the majority of the customers are satisfied with what EBL has to offer.

High level of satisfaction is seen on the following factors:

Fair minimum balance: The sample respondents perceive the minimum balance required by EBL in their account as fair and justified in comparison to other commercial banks.

Variety of deposit account options: The sample respondents believe that EBL has sufficient variety of account options available to fulfill the needs of different customers with different banking requirements.

Easy to open: As most of the respondents opened their bank account with EBL before the implementation of Know Your Customer (KYC) policy imposed by Nepal Rastra Bank (NRB) they found the account opening process to be easy and quick. But the respondents who opened their account in EBL after the implementation of KYC policy stayed neutral or dissatisfied with the account opening procedure

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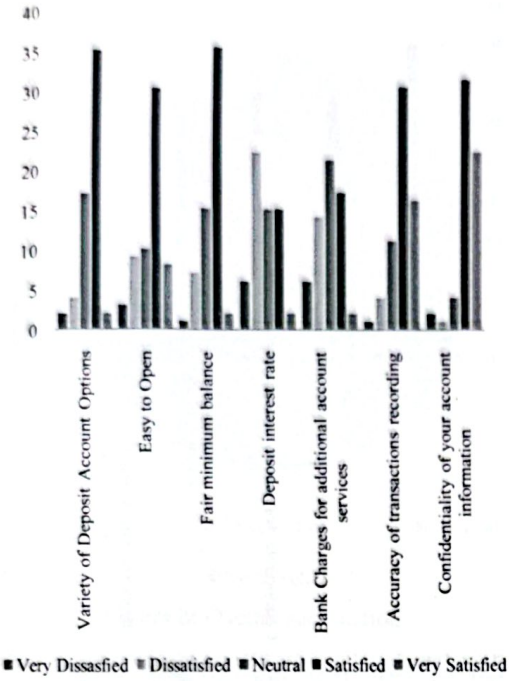


Figure 4: Product factors responses

Accuracy of transactions recording: In this factor, EBL did well as none of the sample respondents faced any problem of misreporting done of their balance amount so far. They are satisfied with EBL for accurate recordings of their banking transactions.

Confidentiality of account information: One of the respondents is very dissatisfied regarding the privacy issue as the respondent found that EBL gave her account information to third party. The rest of the respondents display high level of satisfaction as they believe that EBL keeps their account information within themselves and the account holders.

The sample respondents remained dissatisfied or neutral on the following factors:

Deposit interest rate: Majority of the respondents perceive the deposit interest rate offered by as less than that of other banks and financial institutions. They recommend the bank to increase their deposit rate offering for deposit holder's motivation.

Bank charges for additional account services: Additional services involve debit/ credit cards, SMS banking and internet banking. From the responses, it can be seen that the major portion of the respondents have remained neutral, dissatisfied or very dissatisfied regarding this matter. It indicates that these charges are higher than other within the banking industry.

Services

In case of service, the survey shows that respondents use check and credit/debit cards but other services were not in use by most of the sample respondents.

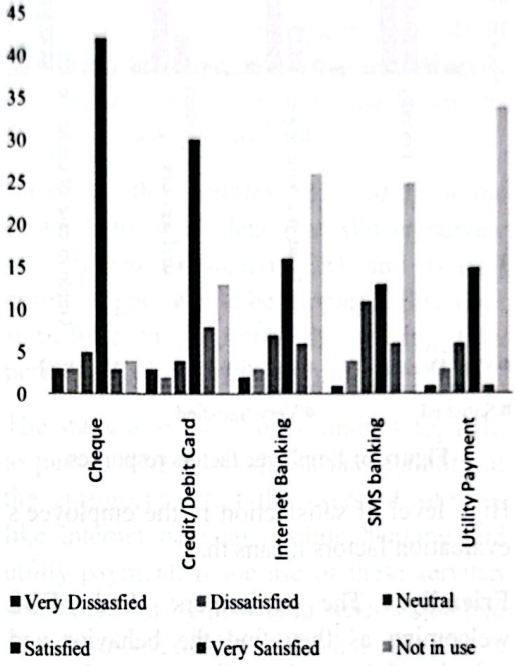


Figure 5: Service factors responses

The above bar diagram clearly shows that the respondents are satisfied with the use of Cheque and Credit/debit cards services of EBL.

These are the basic services offered by the bank and are important instruments for client's to withdraw their money. These are the core services all the banks in the industry and the survey shows that EBL does very well on these service offerings.

The additional service offered by EBL which are not much in use are Internet banking, SMS banking and utility payment. These services are unused because of the lack of technical knowledge and awareness among the customers of EBL.

Employees

From responses it can be inferred that the employees of EBL are professional in their

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work as well as hospitable to the clients as the sample respondents are very positive about the employees which is depicted in the bar diagram below:

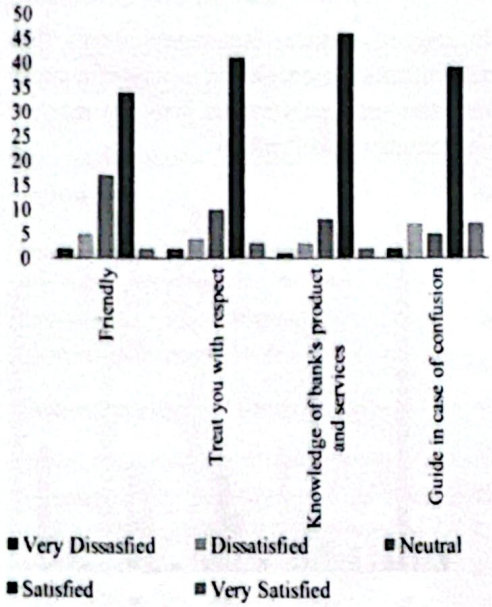


Figure 6: Employee factors responses

High level of satisfaction in the employee's evaluation factors means that:

Friendly: The customers find EBL welcoming as they find the behavior and attitude of the bank staffs towards them as friendly and pleasing during their stay in the bank premises.

Treat you with respect: The customers believe that the staffs of EBL treat them with respect considering them to be valuable customer regardless of their income, appearance, caste and community.

Knowledge of bank's product and services: EBL employees are aware of the banking procedures and policy through which the customers can benefit when they require some expertise.

Guide in case of confusion: The customers receive the guidance from the bank employees when they ask for support on the problem they face.

Bank physical infrastructure

The sample respondents are satisfied in terms of EBL bank physical infrastructure as depicted in the diagram below.

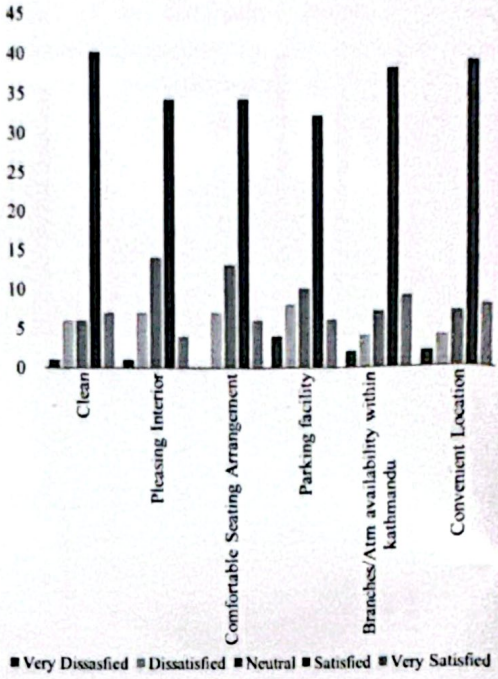


Figure 7: Physical appearance responses

High satisfaction in these factors indicate that the respondents feel:

Clean: EBL premises appear to be clean.

Pleasing interior: The respondents feel that the interior of the banking premises is soothing.

Comfortable seating arrangement: The seating arrangement made for clients during waiting period is comfortable.

Parking facility: The clients with vehicles do not face parking difficulties when they visit the bank.

Branches/ATM availability within Kathmandu valley: EBL banking facilities can be accessed in many different locations within Kathmandu valley.

Convenient location: EBL branches and ATM's are located in places of easy accessibility.

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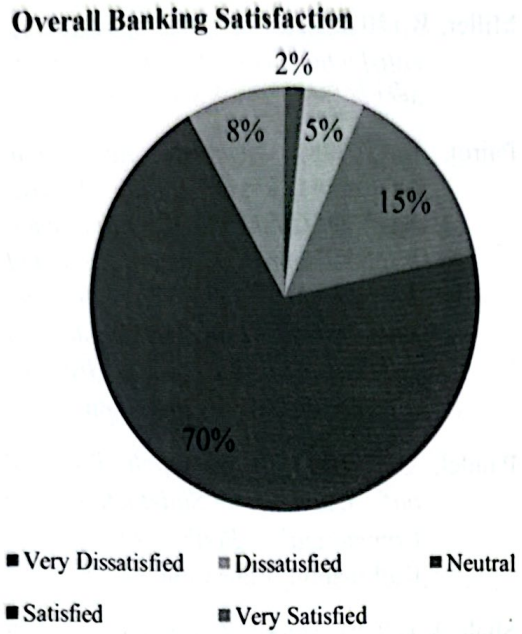


Figure 8: Overall satisfaction

The survey results show that 70% of the respondents are satisfied with EBL, similarly 8% are very satisfied, 15% are neutral, 5% are dissatisfied and 2% are very dissatisfied.

Feedback received from respondents to EBL management

Some suggestion received from the survey has been summarized in the following points:

Token system for easy queue: Many respondents are dissatisfied having to stand for a long time in queue so they recommend the bank to install token system so that they can be in queue without having to stand in line.

Quick service: The respondents feel that the waiting time is very high and desire quicker service through addition of new counters.

Interest rate: The respondents think that the interest rate provided by EBL on deposits is lower so they suggest the bank to increase it.

Limited banking services in government holidays: Some of the respondents want to access banking services at government holidays also so they request the management to open the counter for certain time during government holidays too.

Timely information regarding bank updates: The respondents recommend the bank management to provide timely updates regarding the changes in the interest rates without having to visit the bank.

In this study, the researcher found out that the customers are satisfied across most of the variables that measure customer satisfaction at EBL.

However, the respondents are also dissatisfied with the quickness of service provided by EBL. According to the sample respondents, in peak time the queue extends up to downstairs of Chabahil branch taking longer time to finish their work in the bank.

Based on the feedback received from the respondents it is clear that slower service is prominent problem in EBL and its total customer pool would be happier if EBL does something to minimize the waiting time period of their valuable customers.

The study also found opportunities for EBL to pursue. The result shows that majority of the customers aren't the users of services like internet banking, mobile banking and utility payment. If the use of these services is encouraged by providing schemes or free services then it can benefit both the customers and the bank. Customers can benefit by not having to visit the bank premises for their basic banking needs and payment of their utility bills without having to spend time visiting the offices for those purposes.

Conclusion

The role of customer satisfaction in banking industry is undeniable and EBL being a part of it has to focus on customer satisfaction. This study aims to facilitate EBL by measuring the current satisfaction level of EBL customers, seeking gaps between the service quality and customer's expectation and communicating the customer's suggestions back to EBL management for further enrichment in service quality.

The results of this study showed that the customers of EBL are overall satisfied banking with EBL but seek improvement in service promptness, increment in deposit interest rates and provision of receiving new information

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of bank activities without having to visit the banking premises. The customers also suggest the bank to implement token system as they found it already implemented in other banks making the queue system more effective and comfortable. The focus of customers is found to be primarily on improving the service promptness so it is better to concentrate banks effort on decreasing the service execution time.

The findings of this research can be applicable for many banks across Nepal especially Everest Bank Limited considering the similar nature of customers of the bank. This research can also be taken as a base for further research studies taking larger samples.

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The Impact of Social Media Mix on Brand Equity: A Functional Study

New Perspective Journal of Business and Economics

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Abstract

Marketing has evolved over the last 50 years from billboard advertising right through to thepresent day's digital engagement along with change in the way people consume the digital content. Under this umbrella, a study was conducted to examine the influence of social media mix on brand equity as well as to understand the functionality and effectiveness of individual mix elements and to recommend the optimized promotion mix integrating social media mix. This study followed a quantitative research approach using pie chart analysis and multiple regression model as the main data analysis technique. The results showed that the elements of social media mix, namely, collaborative medium, content communities, social networking sites and mobiles are significant factors that influence brand equity.

Keywords*: Social Media; Cloud Computing; Brand Equity; Promotion Mix*

Introduction

Today's era is the technological era that has brought and revolution in the field of communication and technology. Technology has dramatically changed the way people consume digital content, companies have now started molding their promotion mix by integrating social media strategies like trivializing social media, static newsletter, buzzing big data and mobile marketing.

The media landscape has undergone immense transformation over the past decade (WG Mangold, 2009). Traditional media is increasingly being replaced by social media, i.e. microblogs or social networks, and unlimited buzz about these elicit new marketing opportunities: roller babies of the Danone's water brand Evian has become the most frequently viewed video on YouTube, thousands of Starbucks consumers work together on a free platform Mystarbucksidea. com creating new ideas for the popular coffee house brand and millions of fans declare their love for Coca-Cola on Facebook.

It was reported in 2008 that companies have invested more than 1.54 billion dollars in support and implementation of social media communications.

Social media is a continually evolving realm with amazing potential for business communications, but due, to a large part, to the variability in their respective goals and methods, each of the social media mix vehicles over the years developed idiosyncratic planning processes and performance assessment standards tailored to their specific needs, but less applicable to others. Allthese lead to seemingly irreconcilable data and ultimately, informational differences separating individual promotional vehicles.

This trend of consumers becoming fans of brands on social media platforms and using social media as an increasing source of information about brands leads to the assumption that social media, in addition to traditional marketing communication instruments, exerts an important impact on a brand's success.

Problem Statement and Objectives

The rapid growth of social media platforms over the last few years has raised the question of whether this development has diminished the marketer's control of brand management

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(PR Berthon, 2007). Since social media offers an opportunity around the world for consumers to talk to hundreds or even thousands of other consumers, companies are no longer the only source of brand communication. People are turning away from traditional media such as radio, TV and magazines as they are increasingly engaged in social media to search for information (WG Mangold, 2009). They regard social media as a more trustworthy source of information than thetraditional instruments of marketing communications (Foux, 2006).

Under the new circumstances, the challenge is to get a proper mix of marketing channels in social media and formulate a step by step guide for determining the optimized strategy. This research identifies the effectiveness of each of the social media mix elements in terms of brand equity in order to formulate the right mix of social media activities to suit a particular business at a particular time and to then use it correctly to achieve a result.

Therefore the objective of this study is to find the factors that determineSocial Media Marketing and brand equity and examine the influence of social media mix on brand equity.

Literature Review

The fact that an influential source of information transmission is elicited by communication between consumers is an established consensus (Delloracas, 2003). Consumer to consumer communication has substantially increased due to the emergence of social media and accelerated communication between unknown consumers (Wenjing Duan, 2008). In this context, social media platforms provide a simple way to gathering and access consumer to consumer communication in a cost effective manner (David Godes, 2004).

A paper aimed to understand the relationship between word of mouth and traditional media by Michael Trusov (2009) is the first of its kind. The author analyzes the relative influence of word of mouth between the traditional instruments of promotional mix and that of social media. The results show that, membership growth was triggered by word of mouth in social media more efficiently and had a relatively better sharing effect than in traditional media.

However, only two studies by Michael Trusov (2009) and AT Stephen (2009) deals with this research topic so far, but these studies are not situated in the branding context. Thus, the impact of social media mix on target variables of brand equity remains unclear. This paper builds on the research gap by investigating the individual impacts of social media mix elements on brand equity.

Social Media Mix

Michael Haenlein (2010) approaches social media by integrating platforms of social media into six functions. They are:

Collaborative Medium: Collaborative medium refers to all the internet media platforms which engage people across the global network by integrating communication messages driven by word of mouth via blogs, wikis, communities and team beyond connecting computers and smart devices.

Content Communities: CC allows users to share online multimedia materials like pictures, videos and slides developed in a way that either makes them central to the content or includes social network elements (Michael Haenlein, 2010).

Social Networking Sites: The interactions among people in which they exchange information, ideas, create and share in virtual network and communities are referred to as social media (Ahlqvist & Bäck, 2008).

Mobile: Mobileis marketing with a mobile device, such as a smart phone (Karjaluoto Heikki, 2005). Mobile marketing provides customer with personalized information, saved time and location and personalized information that promotes goods, services and ideas (Leppäniemi, 2008)..

Brand Equity

Brand Equity is the differential effect that knowing a brand name has on customer response to the product and its marketing.

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Three major variables are a part of brand equity.

Brand Awareness: The extent to which a brand is correctly associated with a particular product and is recognized by potential customers is referred to as brand awareness(Kevin, 1993).

Brand Perceived Quality: The customer's perception of superiority of the overall quality of a product or a service with respect to relative alternatives refers to brand perceived quality.

Brand Loyalty: When a person buys products or services from the same manufacturer repeatedly, it reflects brand loyalty.

Methodology

A theoretical foundation of the relationship between communication and consumer-based brand equity is offered in Schema Theory by Eysenck (1984) illustrating that consumers compare communication stimuli with their stored knowledge of comparable communication activities.

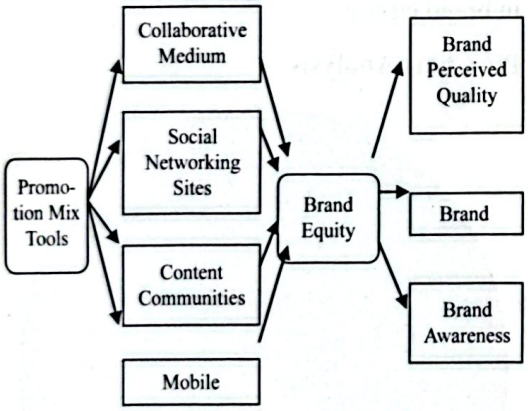


Figure 1: Schematic Diagram of the Theoretical Framework

Communication stimuli therefore trigger a positive effect on the consumer, demonstrating that his or her perception of the communication positively influences his or her image and awareness of a brand. Thus, brand equity is positively associated with brand communication as long as the communication leads to a favorable consumer reaction to the product compared to an equivalent non-branded product (Yoo, 2000).

Research Design

This study combines elements of qualitative and quantitative research approaches (e.g. use of inference techniques, qualitative and quantitative viewpoints, data collection and analysis) for the broad purpose of breadth and depth of affirmation and empathy. Similarly, descriptive research design is followed in order to obtain accurate and complete description of the situation. In addition to descriptive research design, this study also applies comparative research design to show relationship among the variables.

Size of Population and Sample

Due to time and financial constraints it would be impossible to study all of the population. Thus, the population is assumed to be 20,000 considering the statement from Sample Size Calculator for the given population, with 5% margin of error and 95% confidence level, the sample size using the formula by Pant (2012) would be 377.

Sources of Data and Collection Techniques:

The study is limited to respondents from age group of 18-28 who are familiar with at least one of the social media mix element in Kathmandu district, Nepal. Simple random sampling method has been adopted to select respondents. The respondents were orally asked if they had ever perceived any brand based on information generated from any of social media mix tool, and only the positive respondents who were familiar with the context were requested to fill the questionnaire.Three hundred seventy seven (377) questionnaires were issued out of which eighty three (83) only returned with complete responses. Response rate was 22.28%.

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Table 1: Number of Respondents by Personal Characteristics

Respondents:			
Characteristics	Frequency	Percentile	
Gender	Male	49	58.33
	Female	35	41.67
Age	18 – 22	41	48.81
	23- 25	26	30.95
	25-28	17	20.24
User's priority preference	Collaborative Medium	23 out of 84	27.38
	Content Communities	20 out of 84	23.81
	Social Networking Sites	27 out of 84	32.14
	Mobile (In App Ads + SMS Ads encounters)	14 out of 84	16.67

Data Analysis Tools

The collected data was analyzed using different statistical methods. First, the data from the questionnaire were recorded in excel sheet. Seven columns were formed using 24 questionnaires. The columns for the variables as stated below were a measure of the sum of respondent's answers corresponding with the variables shown in table 2.

After data was collected the following tools were used in MS-Excel and SPSS V.16 to calculate results:

- **Pie Chart**
- **Correlation Test**
- **Multi-Co Linearity Test**

Table 2: Measure of Variables from Corresponding Responses

Variables	Measured by Adding Responses from Corresponding Questions
Collaborative Medium	1+2+3
Content Communities	4+5+6
Social Networking Sites	7+8+9
Mobile	10+11+12
Brand Awareness	13+14+15+16
Brand Loyalty	17+18+19+20
Brand Perceived Quality	21+22+23+24

- **Regression Analysis**

For this study, following baseline model was established.

$$BQ = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3\ X3 + \beta 4X4$$

Where,

BQ Brand equity

X1 Collaborative Medium

X2 Content Communities

X3 Social Networking Sites

X4 Mobile

- **Hypothesis Testing**

Results

Data analysis is a critical stage in the research process. The purpose of analyzing data is to change it from an unprocessed form to an understandable presentation. The analysis is an examination and interpretation of data to draw conclusions. This chapter deals with empirical analysis of the primary data to understand the impacts of various variables in brand equity.

Pie Chart Analysis

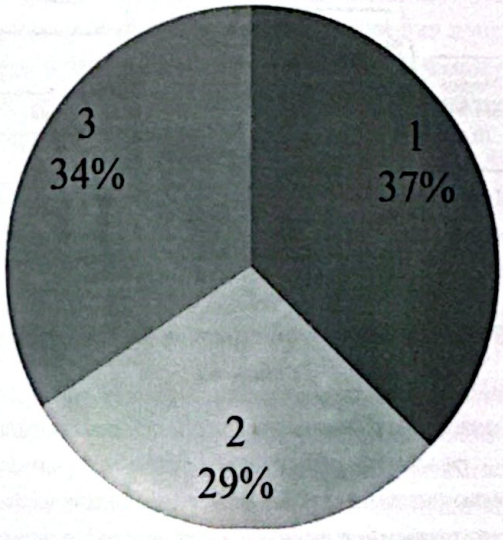


Figure 2: Composition of Brand Equity

(Contribution of Brand Equity Variables in Composition of Brand Equity)

1. Brand Awareness
2. Brand Loyalty
3. Brand Perceived Quality

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Thus, from data analysis, the resultant brand equity derived from SMM constitutes of 37% Brand Awareness, 34% Brand Perceived Quality and 29% Brand Loyalty.

If consumers empathize, a picture of how the composition works can be derived. When a consumer sees a corporate feed, he/ she becomes aware of the brand. A brand that represents itself in all or more media is perceived as a brand with high quality. However, customers are less likely to be loyal to a brand due to its presence in SMM. Thus, for any brand building, the marketing manager could use SMM more to communicate brand awareness and lift the image of the brand rather than to enforce brand loyalty.

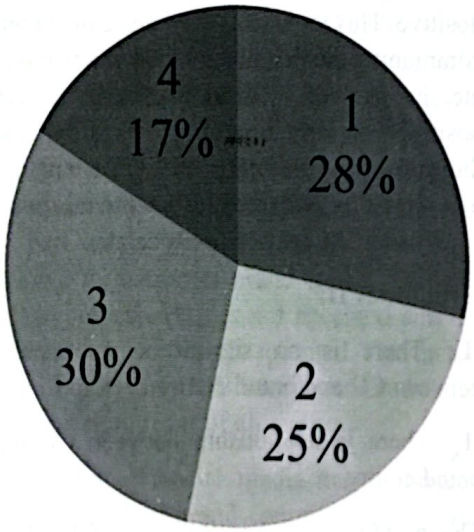


Figure 3: Composition of Social Media Mix

(Contribution of Social Media Mix Elements in Composition of Brand Equity)

1. Collaborative Medium
2. Content Communities
3. Social Networking Sites
4. Mobile

Thus, from data analysis, the resultant brand equity derived from each of the social media mix (SMM) elements constitute30% social networking sites (SNS), 28% collaborative media (CM), 25% content community (CC) and 17% Mobile.

This result helps in analyzing the effectiveness of the different SMM mediums.

In rank of order, the first, SNS, functions in a major way in communicating any brand message through user generated media.

The second, CM ensures that customers get all the available information of the company in the cloud, so that customers can retrieve the information and know about the company.

The third, CC is a medium, which follows customers wherever they are present to provide information to them. Of all the CCs, YouTube is most popular where brands exploit the medium to promote their TVCs and important press releases.

Finally, people's use and dependency on mobile phone has been rising. It is an easy gateway for brands to intercept their message. The results show the trend is on the rise even though its effectiveness is the least in comparison to other mediums.

Correlation

The study was undertaken to find the relationship between SMM and brand equity. Correlation analysis was carried out to find the nature of relationship between the variables based on the value of correlation.

Table 3: Correlation between Social Media Mix and Brand Equity

	Social Media Mix	Brand Equity
Social Media mix	1	0.7007
Brand Equity	0.7007	1

Correlation is significant at the 0.01level

The table above signifies that the social media mix and brand equity are positively correlated. This means that, the efforts made in SMM positively increases brand equity of the company.

Multi Co-linearity Test

Table 4: Test of Co-linearity Coefficients

Model	Co linearity Statistics	
	Tolerance	VIF
Social Networking Sites	.955	1.047
Collaborative Medium	.826	1.211
Content Communities	.827	1.209
Mobile	.888	1.126

a. Dependent Variable: Brand Equity

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Two major methods were utilized in order to determine the presence of multi-colinearity among independent variables in this study. These methodologies involveboth Tolerance test and Variance Inflation Factor (Kleinbaum, 1996;Sivesan.S, 2012). The results of this analysis are presented in table 4 above. As seen from this all of the Tolerance level is < or equal to 1; and all VIF values are well below 10. Thus, the measures selected for assessing independent variables in this study do not reach level indicative of multi-collinearity.

The VIF of all the variables is also less than 10%, which indicates that there is no problem of multi-collinearity among independent variables.

Regression Analysis

Regression analysis was carried out to test the impact of SMM on Brand equity. In this case, SMM is the independent variable and Brand equity is the dependent variable.

Table 5 : Regression Analysis

Multiple R	R^2	Adjusted R^2	Std. error of the estimate
0.7190	0.5170	0.4926	2.7164

From Table 5, the value of Adjusted R^2 is 0.4926. This indicates the proportion of variance in the dependent variable (Brand Equity) which can be explained by the independent variables (SNS, CM, CC and MB). Thus, 49.26% of total variation in dependent variable, which is brand equity, has been explained by the selected four independent variables i.e. the brand equity is influenced by SMM. Remaining 50.74% are determined by other factors.

Hypothesis Testing

In this section, the result on how the elements of SMM impact brand equity is presented. The variables affecting the dependent variables (Brand Equity) are SNS, CM, CC and mobile. The highlights of the relationship between brand equity and its variables which was obtained from multiple regression analysis are presented in Table 6.

Table 6: Regression Coefficients

	Coefficients	P-value
Intercept	3.606909387	0.334022824
CM	0.826582359	0.002573169
CC	0.413723897	0.034131662
SNS	1.000053803	1.1859E-06
MB	0.79760799	0.006574576

Hypothesis I:

H_0: There is no significant relationship between CM and brand equity.

H_A: There is relationship between CM and brand equity.

The p-value of CM is 0.002573169, which is statistically significant (p-value<α) at 5% significance level and its coefficient is positive. This indicates that the use of content communities such as wiki, blogs, micro blogs, etc. as part of marketing strategy results positively in formation of brand equity. Thus the null hypothesis (H_0) and the alternative hypothesis is accepted. This means brand equity and CM are positively related.

Hypothesis II:

H_0: There is no significant relationship between CC and brand equity.

H_A: There is relationship between CC and brand equity.

The p-value of CC is 0.034131662, which is statistically significant (p-value<α) at 5 percent significance level and coefficient for CC is positive. This indicates that, the use of content communities such as YouTube, Picasa, Instagram, etc as part of marketing strategy results in positive formation of brand equity. Thus the null hypothesis (H_0) was and the alternative hypothesis is accepted. This means brand equity and CC are positively related.

Hypothesis III:

H_0: There is no significant relationship between SNS and brand equity.

H_A: There is relationship between SNS and brand equity.

The p-value of SNS is 1.1859E-06, which is statistically significant (p-value<α) at 5 percent

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significance level and coefficient for SNS is positive This indicates that the presence of firms in social networking sites like facebook, twitter, LinkedIn, etc. as a part of marketing strategy results in positive formation of brand equity. Thus the null hypothesis (H_0) is not accepted and the alternative hypothesis is accepted. This means brand equity and SNS are positively related and most significant of all.

Hypothesis IV:

H_0: There is no significant relationship between MB and brand equity.

H_A: There is relationship between MB and brand equity.

The p-value of MB is 0. 006574576, which is statistically significant (p-value<α) at 5 percent significance level and coefficient for MB is positive This indicates that the presence of firms in mobile as an application or sending SMS information to customers as part of marketing strategy results in positive formation of brand equity. Thus the null hypothesis (H_0) is not accepted and the alternative hypothesis is accepted. This means brand equity and MB are positively related but least significant of all.

The advent of social media has introduced new channels of brand communication. This study investigates the contribution of SMM elements in composition of brand equity and also identifies the impact of SMM in brand equity.The comparative appraisal of the elements of SMM shows that social media is best suited to increasing brand awareness and improving brand image i.e. brand perceived quality. Also from the study, it is seen that out of the social media mix elements, SNS is the most effective and mobile the least effective in terms of brand equity building. Thus, the joint implementation of these different results offer opportunities for companies seeking to increase brand equity effectively using SMM elements.

A joint implementation of traditional media and social media communications is particularly effective and provides the optimal marketing mix to influence brand equity positively. Companies can also benefit from simply monitoring social media communications and, in the process, gathering useful insights about a brand's gossips, which they can then employ in future brand strategies without necessarily needing to influence consumer discussions.

Additionally, our results imply that SNS is the most effective and mobile the least effective of the social mediums for building brand equity. However, this might be an indication ofthe current trend, which is mobile at its growth and SNS at its maturity. The major highlight in the digital space for recent years has been the growth in mobile capabilities and applications.

Though, customer loyalty seems to be the least affected, it does not stand way behind.

Finally, it has to be acknowledged that social media communication does not impact consumers' brand perception regarding reliability, credibility, and trustworthiness.

Thus, companies can influence consumers and should use this communication channel as well as traditional media to manage brand awareness and functional brand image.

Summary

This study was motivated by the desire to investigate the contribution of individual SMM elements in formation of brand equity. Social media is a continually evolving realm with amazing potential for business communications, but largely due to the variability in their respective goals and methods, each of the social media mix vehicles over the years developed idiosyncratic planning processes and performance assessment standards tailored to their specific needs, but less applicable to others. As a result, a clear understanding of the determinants of digitally built brand equity is important for institutions building promotional mix integrating SMM and its implementation in order to exploit the pros and cons of internet.

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New Perspective
Journal of Business and Economics

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Abstract

Sound financial performance of a bank guarantees safety to its depositors, shareholders, employees as well as the entire economy. Bank supervision has been a great concern because banks have a significant impact on the functioning of the economy.Lack of proper supervision leads to losses and bank failures. CAMEL has been a useful off-site supervision tool to prevent such losses and possible bank failure by the regulators. With the help of the CAMEL model good performanceof banks in aspects such as capital adequacy, asset quality, management efficiency, earning ability and liquidity can be ensured. This research has been conducted to evaluate the performance of Joint Venture Banks established in Nepal using data from 2008-2013. It aims to determine whether the banks have been able to score a good rating in every aspect of the CAMEL model. The study it is found that there is no significant difference in the performance of the joint venture banks. Resultsalso show different shortcomings in different banks.

Keywords: *CAMEL, Banking, NRB, Joint Venture, Asset, Liquidity, Capital Adequacy, Earnings*

Introduction

A well-functioning banking sector is an important prerequisite for a country's economic development as it performs the function of financial intermediation. In a modern economy, banks not only act as dealers of money but also as leaders of development.Bankingis a global business and other businesses largely depend on banks for their functioning. Banks accept deposits which are its liability and provide loans to ones in need which becomes theirs asset. Since depositors' money is at risk, it is important that they perform optimally. In order to ensure that banks perform in the desired manner, supervision of its performance is very necessary. The need to protect banking operations against continuous risks or gambling-incentives related to capital market makes the evaluation of banks' performance is very important(Soltani, Esmaili, poor, & Karami, 2013).

Today, bank performance has become a favorite subject for many stakeholders such as customers, investors and the general public (Jha & Hui, 2012). Regulators must make sure that banks carry out their functions without any flaw. There are two types of inspection carried out by regulators: one is on-site inspection and the other is off-site inspection. Out of the many off site inspection methods used to evaluate abanks'performance and compare it with the performance of other banks, CAMEL analysis is most widely used for evaluation. Financial ratios are often used to measure the overall financial soundness of a bank and the quality of its management. As part of the CAMEL system, bank regulators use financial ratios to help evaluate a bank's performance (Yue, 1992).

CAMEL is a rating system used by the regulator i.e. the central bank to assess the soundness of banks operating under its regulation. CAMEL is a widely adopted approach to measure capital adequacy, asset quality, management capacity, earnings ability and liquidity. CAMEL is simply a tool for checking the performance of financial institutions.

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Problem Statement and Objectives

The financial system, the bank in particular, is exposed to various types of risks that are growing more complex nowadays (Sundararajan, et al., 2002). Therefore,there is need of more frequent banking examination (Sundararajan, et al., 2002). In order to make sure the mistakes made in the past are not repeated, various tools are used to ensure the soundness and efficient functioning of the bank. Among them CAMEL has been a widely adopted tool to measure the performance of banks by central banks. CAMEL is a method adopted to measure the health and financial status of the bank.

Therefore, the overall objective of the research paper is to investigate into financial performance of the sample banks selected from the banking industry of Nepal using the CAMEL rating.

Literature Review

The main goal of banks today is to maintain stability and make sure they are impervious to external shocks while at the same time remaining internally sound. Hence, it is important to measure soundness in various banks of the country, identify weaknesses of the banking sector, devise appropriate strategies and policies to overcome these weaknesses and eventually create an environment that leads banks to soundness and result in a consistently stable system (Mishra, Harha, Shivi, & Neil, 2012). External shocks will harm not only the bank but the economy as a whole. It is important that these institutions adapt the most appropriate strategies to overcome such challenges.

The five CAMEL factors, viz. Capital adequacy, Asset quality, Management soundness, Earnings and profitability, and Liquidity, signify the increased likelihood of bank failure when any of these five factors prove inadequate (Dash & Das). The CAMEL supervisory criterion in the banking sector is a significant and considerable improvement over the earlier criteria in terms of frequency, check, spread over and concentration (Misra & Aspal, 2013).

One of the researches compared the financial performance of different ownership structured Commercial Banks in Nepal based on their financial characteristics and identified the determinants of performance exposed by the financial ratios, which were based on CAMEL Model (Jha & Hui, 2012). The health checkup conducted on Nepalese Commercial Banks on the basis of publicly available financial data concludes that the health of joint venture banks is better than that of the other commercial banks and in addition, the perusal of indicators of different components of CAMEL indicates that the financial health of joint venture banks is not so strong to manage possible large scale shocks to their balance sheet and their health (Baral, 2005).

Methodology

Theoretical Framework

One of the best tools for analyzing the performance and efficiency of the banking sector is ratio analysis (Lakhtgaria, 2013). The Basel Committee on Banking Supervision of the Bank of International Settlements (BIS) has recommended using capital adequacy, assets quality, management quality, earnings and liquidity (CAMEL) as criteria for assessing a financial institution (FI) in 1988 (Baral, 2005)

Capital Adequacy

Capital adequacy is the capital expected to maintain balance with the risks exposure of the financial institution such as market risk, credit risk and operational risk, in order to absorb potential losses and protect the financial institution's debt holder (Dang, 2011). Capital adequacy parameter is used to protect depositors and promote the stability and efficiency of financial systems around the world (Srinivas & Saroja, 2013). For measuring capital adequacy, capital adequacy ratio is determined which is the measure of the amount of a bank's core capital expressed as a percentage of its risk-weighted asset. We have

CAR = (Tier 1 Capital + Tier 2 Capital) / Risk weighted Asset

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Along with CAR the debt-equity ratio and advances to total assets ratio are also calculated.

Asset Quality

This component deals with measuring the credit risk of the bank. The quality of assets held by an FI depends on exposure to particular risks, trends in non-performing loans, and the health and profitability of bank borrowers—especially the corporate sector (Baral, 2005). Asset quality primarilymeasures the type of advances the bank has made to generate revenue. For this purpose three ratios are calculated: Non-performing loan to Total Loan, Total Investment to Total Assets and Loan Loss Provision to Net Interest Revenue.

Management Efficiency:

This parameter analyzes the capability of the management to deploy its resources aggressively to maximize revenue, exploit facilities in the bank productively and reduce costs(Sangmi & Nazir, 2010). Management is difficult to measure as it is primarily a qualitative factor. However ratios such as Credit to Deposit Ratio, Profit per Employee and Return on Equity are used to determine the management soundness of banks under study.

Earning Ability:

Earning ability determines the capacity to absorb losses by building an adequate capital base,fundingitsexpansionandpayingsufficient dividends to its shareholders (Nimalathasan, 2008). It is an important parameter to measure the consistency of earnings of the bank. To measure the profitability of the bank, ratios such as Operating Profit to Total Assets, Net Profit to Total Assets and Net Interest Margin to Total Assets are calculated.

Liquidity:

Liquidity reflects the bank's ability to manage its short term liability and loan commitments. The bank has to take a proper care to hedge the liquidity risk; at the same time it also needs to ensure that a good percentage of funds are invested in high return generating securities, so that it is in a position to generate profit with provision of liquidity to the depositors (Prasad & Ravindra, 2012). For the purpose of measuring liquidity, ratios such as Liquid Assets to Total Assets, Liquid Assets to Total Deposits and Cash Balance with NRB to Total Deposits are calculated.

There is one dependent variable as bank performance and five independent variables namely capital adequacy, assets quality, management efficiency, earnings ability and liquidity.

The theoretical framework of the research is as follows:

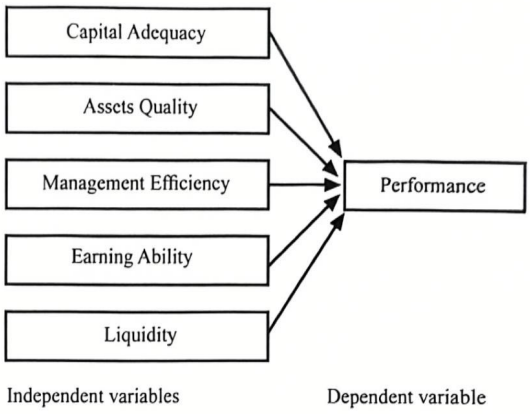


Figure 1: Schematic Diagram of the Theoretical Framework

Research Design

The research is a ratio based model as it is based on the CAMEL model to evaluate the performance of the bank. This research is a descriptive research which is based on analytical research design. The study is based on the primary hypothesis that there is no significant difference in the financial performance of the joint venture banks as assessed by CAMEL model.

Sampling Procedure

There are 32 commercial banks operating in Nepal at present. Among these commercial banks there are seven joint venture banks operating in collaboration with foreign investment partners. Since the research intends to evaluate the performance of joint venture banks, four out of seven banks were selected by considering four factors capital, deposit, loan and advances and Return on

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Assets. Ranks were assigned based on the highest value in each category. After this the bank securing the first two and the last two positions were selected as they were representative of the population.

Nature and Source of Data

Data was collected from secondary sources i.e. the historical data disclosed by annual report the respective banks, the bank supervisory report published by Nepal Rastra Bank, etc. The period for evaluating performance through CAMEL in this research ranged from 2008 to 2013, i.e., 6 years. Another important source of data was through reference to analysis of different previous studies, articles, paper etc.

Hypothesis

H_0: There is no significant difference in the performance of Joint Venture Bank operating in Nepal as assessed by CAMEL model.

Data Analysis Procedure

The analysis of data was based on the CAMEL framework. Fifteen variables related to CAMEL model were used in the study. Six years average of the ratios was calculated using simple arithmetic mean. The results are depicted from Table 1 to Table 21. This study uses descriptive financial analysis in order to illustrate measure and compare the financial situations of Nepalese joint venture commercial banks. To test the hypothesis, one way ANOVA was used in MS EXCEL. The result of ANOVA test is depicted in Table 22.

Results

C – Capital Adequacy

Capital adequacy is considered to be the most important indicator for measuring the financial health of the banking system. It basically determines how well the banks can manage shock in the balance sheet. Capital adequacy deals with determining whether the bank has capability to deal with unexpected losses arising in future. It restores the shareholders' confidence regarding the capability of the firm.

Capital Adequacy Ratio

Table 1: Capital Adequacy Ratio

S. No	Bank	Capital Adequacy Ratio (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	11.1	10.7	10.5	10.58	11.01	11.59	10.91	3
2	Everest	11.44	10.55	10.77	10.43	11.02	11.59	10.97	2
3	NBB	-18.75	5.55	12.81	10.19	11.86	12.09	5.72	4
4	NMB	33.96	19.03	18.37	16.39	14.84	11.74	19.06	1

From the table above, it is seen that NMB scored the highest with 19.06%, Everest was in the second position with 10.97% and NBB scored the lowest in the CAR with 5.72%.

Debt to Equity Ratio

Table 2: Debt to Equity Ratio

S. No	Bank	Debt to Equity (times)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	14.24	13.01	12.58	10.93	10.59	9.94	10.38	3
2	Everest	13.13	15.75	13.99	13.85	12.36	12.61	13.61	4
3	NBB	-5.28	9.76	4.87	5.22	5.82	5.95	4.39	1
4	NMB	6.37	8.9	6.30	6.21	7.17	9.27	7.37	2

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From the table above we can see that NBB has the lowest Debt to Equity ratio, hence it ranked 11 first followed by NMB in the second position. Everest has the highest Debt to Equity ratio and hence ranks the lowest

Advances to Total Assets

Table 3: Advances to Total Assets

S. No	Bank	Advances to Total Assets (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	57.54	62.89	61.96	65.42	65.83	63.31	62.86	2
2	Everest	67.55	64.7	66.59	67.17	64.34	66.01	66.06	1
3	NBB	58.12	56.04	62.32	60.36	51.22	52.27	56.72	3
4	NMB	21.73	32.76	59.03	70.28	65.27	65.61	52.45	4

From the above table it can be seen that Everest is in the top position with 66.06% followed by Nabil in second position with 62.86%. NMB scored the lowest with 52.45% and hence has 45% the lowest rank.

Composite Capital Adequacy

As per the group averages of three ratios of capital adequacy, it can be seen that Everest and NMB arein the top position with group average of 2.33. NBB and Nabil scored the least withan average of 2.67.

Table 4: Composite Capital Adequacy

Bank	CAR		Debt to Equity Ratio		Advances to Total		Group Rank	
	%	Rank	Times	Rank	%	Rank	Average	Rank
Nabil	10.91	3	10.38	3	62.86	2	2.67	3.5
Everest	10.97	2	13.61	4	66.06	1	2.33	1.5
NBB	5.72	4	4.39	1	56.72	3	2.67	3.5
NMB	19.06	1	7.37	2	52.45	4	2.33	1.5

A -Asset Quality

Asset quality assesses the ability of the bank to recover its outstanding loan and advances that are made in due time. It determines the credit risk to which the bank is exposed. For this, various ratios such as Non-Performing Loan to Total Loan, Total Investment to Total assets and Loan Loss Provision to Net Interest Revenue are calculated.

Non-Performing Loan to Total Loan

Table 5: Non Performing Loan to Total Loan

S. No	Bank	Non-Performing Loan to Total Loan (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	0.74	0.8	1.47	1.77	2.33	2.13	1.54	3
2	Everest	0.68	0.48	0.16	0.34	0.84	0.62	0.52	1
3	NBB	31.73	19.8	6.47	17.99	4.29	3.14	13.9	4
4	NMB	1.52	0.51	0.7	0.27	2.45	1.8	1.20	2

From the table above it can be seen that Everest scored the highest with the lowest ratio of 0.52%, followed by NMB at 1.20%. NBB scored the lowest position with highest ratio of 13.9%.

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Total Investment to Total Assets

Table 6: Total Investment to Total Assets

S. No	Bank	Total Investment to Total Assets (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	26.77	24.68	26.12	22.5	22.24	22.3	24.1	4
2	Everest	18.64	16.11	12.10	16.75	14.09	14.09	15.3	2
3	NBB	14.80	18.58	16.86	16.98	19.18	12.15	16.42	3
4	NMB	13.92	11.71	20.53	16.39	13.2	8.82	14.1	1

From the table above it can be seen that NMB has the lowest Total Investment to Total Assets ratio of 14.1%, followed by Everest by 15.3%. Nabil scored the lowest position with the highest ratio of 24.1%.

Loan Loss Provision to Net Interest Revenue

Table 7: Loan Loss Provision to Net Interest Revenue

S. No	Bank	Loan Loss Provision to Net Interest Revenue (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	5.25	2.78	17.04	4.74	13.9	0.78	7.41	1
2	Everest	10.84	7.92	5.03	5.48	12.08	3.58	7.49	2
3	NBB	88.15	30.55	21.48	31.49	14.45	31.43	36.26	4
4	NMB	28.75	28.45	13.13	8.32	61.9	17.1	26.28	3

From the table above it can be seen that Nabil is in the first position with the lowest ratio of 7.41% followed by Everest in the second position with 7.49%. NBB is in the last position with the highest ratio of 36.26%.

Composite Asset Quality

On the basis of group averages of three ratios of asset quality as shown in the table below, Everest was in the first position with a group average of 1.67, followed by NMB at 2 and Nabil with 2.67. NBB scored the least with a group average of 3.67 due to its poor performance in various aspects.

Table 8: Composite Asset Quality

Bank	Non-Performing		Total Investments		Loan Loss		Group Rank	
	%	Rank	%	Rank	%	Rank	Avg	Rank
Nabil	1.54	3	24.1	4	7.41	1	2.67	3
Everest	0.52	1	15.3	2	7.49	2	1.67	1
NBB	13.9	4	16.42	3	36.26	4	3.67	4
NMB	1.20	2	14.1	1	26.28	3	2	2

M - Management Efficiency

Management Efficiency is the third dimension of assessing the performance of banks. It basically deals with competence of the management in achieving its objectives. Under this dimensions various ratios such as credit to deposit ratio, profit per employee and return on equity are calculated.

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Credit to Deposit Ratio

Table 9: Credit to Deposit Ratio

S. No	Bank	Credit to Deposit Ratio (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	68.18	73.87	69.37	78.29	77.91	74.9	74.05	3
2	Everest	76.49	71.67	74.61	75.51	71.81	77.17	74.21	2
3	NBB	50.15	67.07	77.69	73.42	60.93	72.26	66.92	4
4	NMB	116.75	75.52	77.22	87.16	75.52	75.13	84.54	1

From the table it can be seen that NMB scored the highest withan average of 84.54%, followed by Everest with 74.21% and Nabil with 74.05%. NBB scored the lowest with 66.92% and was in the last position.

Profit per Employee

Table 10: Profit per Employee

S. No	Bank	Profit per Employee (Rs. In ,000)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	1794.39	2041.69	2044.11	2045.94	2609.65	2990.26	2254.38	1
2	Everest	1004.94	1196.12	1464.38	1253.76	2492.86	2287.9	1616.66	2
3	NBB	1480.12	588.05	2853.01	-336.14	1955.24	1406.5	1324.46	3
4	NMB	1384.56	499.64	981.59	1171.99	239.56	1347.36	931.44	4

From the table above it can be seen that Nabil scored the highest with Rs. 2254.38, followed by Everest with Rs.1616.66 and NBB with Rs 1324.46. NMB scored the least with Rs. 931.44.

Return on Equity

Table 11: Return on Equity

S. No	Bank	Return on Equity (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	29.35	33.93	30.27	29.02	30.25	32.78	30.93	1
2	Everest	23.49	28.99	30.15	23.6	37.3	30.47	29	2
3	NBB	-27.21	19.40	47.87	-6.14	27.40	19.34	13.44	3
4	NMB	7.28	4.41	9.45	11.08	2.61	18.12	8.83	4

From the table above it is seen that Nabil has the highest ROE of 30.93% and hence occupies the top position, followed by Everest and NBB with 29% and 13.44% respectively. NMB scored the least with ROE of 8.83%.

Composite Management Efficiency

On the basis of group averages of three ratios of management efficiency as shown in the table below, Nabil was in the first position with a group average of 1.67, followed by Everest with 2 and NMB with 3. NBB scored the least with a group average of 3.33 due to its poor performance in various managerial aspects.

Table 12: Composite Management Efficiency

Bank	Credit to Deposit		Profit per Employee		Return on Equity		Group Rank	
	%	Rank	Rs.	Rank	%	Rank	Avg	Rank
Nabil	74.75	3	2254.38	1	30.93	1	1.67	1
Everest	74.21	2	1616.66	2	29	2	2	2
NBB	79.33	4	2037.19	3	23.25	3	3.33	4
NMB	84.54	1	931.44	4	8.83	4	3	3

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E -Earning Ability

Earning ability shows the profitability of the bank as well as ability to maintain consistency in earnings. Earning ability can be measured by a number of ratios such as Operating Profit to Total Assets ratio, Net Profit to Total Assets and Net Interest Margin to Total Assets Ratio.

Operating Profit to Total Assets

Table 13: Operating Profit to Total Assets

S. No	Bank	Operating Profit to Total Assets (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	3.02	3.57	3.28	3.6	4.19	4.73	3.73	1
2	Everest	2.65	2.64	3.07	3.07	2.76	3.5	2.95	3
3	NBB	1.86	5.93	4.1	3.02	1.83	2.27	3.16	2
4	NMB	1.07	0.431	1.83	2.04	0.33	1.95	1.26	4

From the table it can be seen that Nabil scored the highest with 3.73%, followed by NBB andEverest with 3.16% and 2.95% respectively. NMB scored the least with a ratio of 1.26%.

Net Profit to Total Assets

Table 14: Net Profit to Total Assets

S. No	Bank	Net Profit to Total Assets (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	2.32	2.55	2.37	2.43	2.8	3.25	2.62	2
2	Everest	1.65	1.73	2.09	2.1	2.11	2.39	2.01	3
3	NBB	6.35	18.04	8.15	0	4.01	4.1	3.62	1
4	NMB	0.82	0.4	1.21	1.39	0.28	1.43	0.92	4

From the table above it can be seen that NBB scored the highest ratio of 3.62%, followed by Nabil and Everest with 2.62 and 2.01 respectively. NMB scored the least with a ratio of 0.92%.

Net Interest Margin to Total Assets

Table 15: Net Interest Margin to Total Assets

S. No	Bank	Net Interest Margin to Total Assets (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	3.28	3.75	4	3.98	4.71	4.8	4.1	2
2	Everest	3.37	3.17	3.69	3.88	3.74	4.19	3.67	3
3	NBB	4.58	7.75	5.51	4.93	2.44	2.78	4.67	1
4	NMB	1.26	0.94	2.32	2.75	2.43	3.04	2.12	4

From the table above it can be seen that NBB scored the top position with a ratio of 4.67%, followed by Nabil and Everest with 4.1% and 3.67% respectively. NMB scored the lowest position with 2.12%.

Composite Earning Ability

On the basis of group averages of three ratios of Earnings ability as shown in the table below, NBB was at the first position with a group average of 1.33, followed by Nabil with 1.67 and Everest with 3. NMB scored the last position with the group average of 4 due to its poor performance in various aspects.

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Table 16: Composite Earning Ability

Bank	Operating Profit to		Net Profit to Total		Net Interest		Group Rank	
	%	Rank	Rs.	Rank	%	Rank	Avg	Rank
Nabil	3.73	1	2.62	2	4.1	2	1.67	2
Everest	2.95	3	2.01	3	3.67	3	3	3
NBB	3.07	2	6.78	1	4.67	1	1.33	1
NMB	1.26	4	0.92	4	2.12	4	4	4

L-Liquidity

Liquidity refers to the ability of a bank to meet its financial obligations. The risk of liquidity is it can have an adverse impact on the image of the bank. Liquidity is measured in terms of ratios such as liquid Assets to Total Assets, Liquid Assets to Total Deposits and Cash Balance with NRB to Total Deposit Ratio.

Table 17: Liquid Assets to Total Assets

S. No	Bank	Liquid Assets to Total Assets (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	25.07	17.4	23.92	23.45	20.73	21.02	21.93	4
2	Everest	28.82	30.64	29.42	28.7	29.44	27.3	29.05	3
3	NBB	33.5	35.84	31.42	32.69	43.31	33.91	35.11	2
4	NMB	70.78	59.85	29.51	22.83	31.07	29.31	40.56	1

From the above table it is seen that NMB scored the highest with 40.56%, followed by NBB at 35.11% and Everest at 29.05%. Nabil scored the least with a ratio of 21.93%

Liquid Assets to Total Deposits

Table 18: Liquid Assets to Total Deposits

S. No	Bank	Liquid Assets to Total Deposits (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	29.17	20.43	26.89	27.44	23.81	24.62	25.39	4
2	Everest	32.64	33.94	32.96	32.26	32.86	31.53	32.7	3
3	NBB	28.9	42.89	39.17	39.77	51.53	45.4	41.27	2
4	NMB	380.31	137.97	38.6	28.3	35.95	33.96	109.18	1

From the above table it can be seen that NMB scored the highest with a ratio of 109.18%, followed by NBB and Everest with 41.27 and 32.7% respectively. Nabil scored the lowest position with 25.39%.

Cash Balance with NRB to Total Deposit Ratio

Table 19: Cash Balance with NRB to Total Deposit

S. No	Bank	Cash Balance with NRB to Total Deposit Ratio (%)							
		2008	2009	2010	2011	2012	2013	Average	Rank
1	Nabil	5.73	7.09	1.18	29.66	6.69	7.53	9.65	4
2	Everest	4.51	14.37	15.23	11.44	16.31	14.21	12.68	3
3	NBB	18.34	18.70	14.16	13.58	24.14	20.96	18.31	1
4	NMB	30.47	10.43	5.16	6.81	18.72	21.89	15.58	2

From the above table it is seen that NBB scored the top position with a ratio of 18.31%, followed by NMB and Everest with 15.58% and 12.68% respectively. Nabil scored the lowest position with 9.65%

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Composite Liquidity

On the basis of group averages of three ratios of earnings ability as shown in the table below, NMB occupied the first position with a group average of 1.33, followed by NBB with 1.67 and Everest with 3. Nabil scored the lowest with a group average of 4 due to its poor performance in various aspects.

Table 20: Composite Liquidity

Bank	Liquid Assets to Total Assets		Liquid Assets to Total Deposit		Cash Balance with NRB to total deposite		Group Rank	
	%	Rank	Rs.	Rank	%	Rank	Avg	Rank
Nabil	21.93	4	25.39	4	9.65	4	4	4
Everest	29.05	3	32.7	3	12.68	3	3	3
NBB	35.11	2	41.27	2	18.31	1	1.67	2
NMB	40.56	1	109.18	1	15.58	2	1.33	1

Overall Performance of Joint Venture Banks

Table 21: Overall Performance of the Banks

Bank	C	A	M	E	L	Avg	Rank
Nabil	2.67	2.67	1.67	1.67	4	2.53	2
Everest	2.33	1.67	2	3	3	2.4	1
NBB	2.67	3.67	3.33	1.33	1.67	2.53	2
NMB	2.33	2	3	4	1.33	2.53	2

The table above shows the group ranking of Joint Venture Banks of Nepal from the period 2008-2013. Under the capital adequacy parameter, Everest scored the highest while Nabil scored the lowest. Under the Asset Quality parameter, Everest scored the highest and NBB scored the lowest. Similarly under the management efficiency parameter Nabil scored the highest and NBB scored the lowest. Again in the earnings ability parameter NBB scored the highest and NMB scored the lowest. Finally, under the liquidity parameter NMB scored the highest and Nabil scored the lowest. Finally the overall performance shows that Everest Bank has the best performance among the sample banks, which is followed by Nabil Bank, NBB and NMB all three at the same position with the same score.

Test of Hypothesis and Result

To test the hypothesis that there is no significant difference in the performance of the bank, one way ANOVA is applied on the data presented in Table. The result is as follows:

Table 22: Performance of Bank

Source of Variation	*SS*	*D.f.*	*MS*	*F*	*P-value*	*F critic*
Between Groups	0.067375	3	0.022458	0.026859	0.993816	3.238872
Within Groups	13.37832	16	0.836145			
Total	13.4457	19				

From the ANOVA test we see that the calculated value of F- ratio is less than the tabulated values (for 3, 6 D.F. at 5 % level of significance is 3.23). This shows that there is no significant difference in the value of CAMEL ratio of joint venture banks and we do not reject the null hypothesis.

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Discussions

During the process of evaluating the performance of different joint venture banks operating in Nepal, it found that different banks perform differently in the CAMEL model.

The research also depicts that though different banks performed differently in terms of different ratios, while testing the hypothesis it was seen that there was no significant difference in a performance of the banks. The overall performance of all of these sample banks is the same. This may be due to the fact that these banks are being operated in the similar economy, under the supervision of the same regulator. NRB has the same guidelines for all the banks in operation due to which more or less the banks perform in a similar fashion. The adoption of modern technology, bank reform and recovery mechanism leads to similar performance of banks. While comparing the performance of banks over the years, it was seen that some banks performed consistently overtime and some banks could not be consistent.

Conclusion

From the analysis, we found that the banks have been doing well in terms of various parameters. Based on the results obtained from the research, banks need to give special attention to changing some aspects of the operation. Though it was seen that the banks are performing well, it is always good to take precautionary measuresbefore the symptoms start appearing. Banks are the most important financial institutions in the economy. It is important that they perform well in order to ensure that the economy performs well. Proper functioning of the bank is of great importance to depositors, investors, potential investors, government etc. If the banks maintain good position in the mentioned parameters of CAMEL, they will win the confidence of people and institutions. Banking is a very risky sector of the economy. Careful considerations must be given if any kind of flaw is found in the operation of the bank. There is a lot of scope for improvement in the performance of banks.

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Impediments in the Development of Nepalese Bond Market

New Perspective Journal of Business and Economics

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Abstract

The volume of the Nepalese bond market is projected to rise significantly in the next few decades given the increased bond and debenture issues in recent years and greater local and foreign investments to fund large scale infrastructure projects. While the growth of government bond market in Nepal is encouraging, there remain concerns that currently many corporate bond markets are still underdeveloped, and consequently lag behind from the banking system and the equity market as they are a major source of funding for the private sector. Other prevalent characteristics include lack of awareness, limited quality bond offerings, small issuance volume and lack of liquidity in the secondary market. The study focuses on the key issues and challenges facing the development of overall bond market in Nepal. A number of conclusions can be drawn and implications can be observed for regulators to tackle the challenges surrounding the development of bond market. The building of bond market is a challenging process and may take a considerable amount of time.

Keywords: *Bond, Investment, SEBON, Capital Market, Risk and Return, Profitability*

Introduction

Bond is a debt instrument in which an investor loans money to an entity (it could be governmental or corporation) that borrows the funds for a specified period of time at a fixed rate of interest. Bond can be issued by companies, municipalities, states and governments to finance a variety of projects and developmental activities (Investopedia). Usually bond and debentures are used interchangeably, but when we take a closer look at these two instruments, there are some obvious differences.

The Nepalese Bond Market Scenario

Although, in most developed countries, the bond market plays an important role as a means to support long term credit demands, in addition to the instruments available in the equity market and loan services provided by the banking system, the Nepalese bond market has not been fully functional in the economy. The government issued bond in 1964 for the first time in Nepal and it carried an interest rate of 6 percent and had a maturity period of five years (Stock, 2007). The transaction of government bond in secondary market began at NEPSE on December 15, 2006 (Sophastienphong, Mu, & Saporito). During the early 90s, Nepalese economy faced high liquidity and government securities were not sufficient to mop up the excess liquidity. Therefore, NRB issued bond in the name of "NRB Bond" for the first time on December 31, 1991. From April, 1998, Nepal Rastra Bank issued bond was completely phased out after liquidation was controlled (Yadav, 2013).

The failure of few bond issues in the past, of companies like Necon Air, Gorakhkali Rubber Udhyog, Hyatt Hotel and Jyoti Spinning Mill has made investors reluctant to invest in the primary market and make transactions in the secondary bond market and has discouraged private as well as public companies from raising capital through the issuance of bonds.

Another major problem seen in Nepal is that most of the people are unaware about the existence of bond market. This lack of awareness is because of the inability of the

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regulator to diversify sectors in the Nepalese capital market.

There are various debentures being issued in recent times by various financial institutions. These financial institutions are listed in the stock exchange. However, there is no trading of these debentures in the secondary market. Also one problem is that the listed companies are largely dominated by banking and financial institutions, which do not provide much diversity for investors to look forward to.

The development of bond market still has a long way to go, but gradual and dynamic steps need to be taken by various sectors: regulatory bodies, potential issuers and investors.

Problem Statement and Objective

Nepal's bond market remains at an early stage of development. In a pattern common in South Asia, government debt securities dominate, and corporate bond market activity is negligible, reflecting lack of both issuers and investors. In addition, the institutional investor base is minute and the market infrastructure is largely inadequate for meeting the needs of a functioning bond market.

Similarly, Nepalese bond market lags behind, showing its negligible presence in the securities market. It is one of the alternate sources of funding used to raise capital by companies and government offices. Although the issuance of bonds is feasible and beneficial for organizations, the growth and development of the Nepalese bond market has been slow (Yadav, 2013).

Therefore the objectives of the study are basically to understand about the bond market in Nepal, identify the factors that affect the development of bond market in Nepal and suggest measures which can help accelerate the pace of development of Nepalese bond market.

Literature Review

The research topic is focused on the Nepalese bond market. However, it seems that other Asian countries are not in a very different situation from Nepal. Going through research reports of other authors, the message was clear that other Asian countries except a few like Hong Kong, Korea, Malaysia, and Singapore, all are lagging behind in terms of functionality of the bond market.

In the report, "A Way Forward for Asian Bond Market Development" (Hyun & Jang, 2009), the author emphasizes the significance of bond market in developing countries of Asia, the initiatives being taken, the current situation of the Asian bond market, various challenges that the Asian bond market is facing with a direction to combat these challenges. The author highlights the importance of well-functioning bond market in Asia to prevent recurrences of financial crisis and to facilitate mobilization of accumulated regional savings and foreign reserves. Financial crisis here means the Asian financial crisis of 1997, which convinced Asian countries to make continuous efforts to promote regional financial cooperation, with a focus on Asian bond market development. After the financial crisis, Asian bond market has seen steady development in some countries. However, compared to the bond market of the advanced countries, the bond market in Asia is still at an infant stage in terms of both size and quality.

The Asian bond market, be it domestic or regional, are in infancy, a stage of and thus very small. It will take significant amount of time, resources and efforts from all the concerned parties to develop the domestic as well as regional bond market.

In addition, Michael Briers (1999) gives a similar view regarding the major barriers hampering the development of Asia's bond markets prior to the crisis. These include: non-uniform issuing practices, antiquated trading infrastructure, lack of credible domestic rating agencies, unfavorable regulatory and tax treatment, and a shortage of both supply and demand for bonds (Job, 2003).

Methodology

A descriptive research methodology has been used for this study as there has not been much investigation or publication of formal documents regarding this topic in Nepal.

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Sample

For this study, ten investors in the bond market were identified as relevant sample for interview. The methodology for this study was a judgment sampling of investors in the capital market.

This sampling methodology was chosen because some members were thought to be better and more

knowledgeable and relevant in this topic than others to interview, plus the chosen sample was convenient to contact through academic connections.

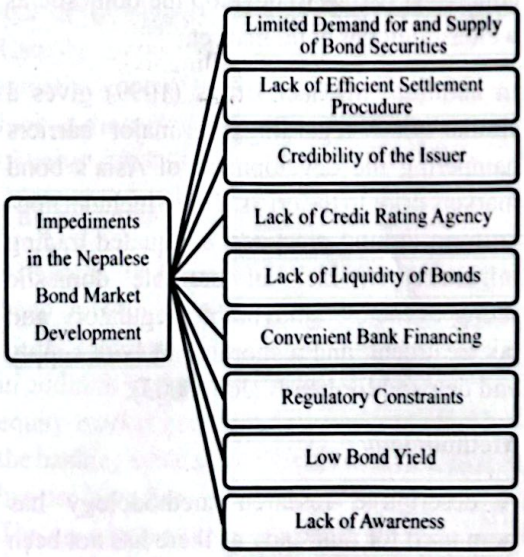
Data Collection

For data collection, interview was taken with the selected sample members. With some, the interview was recorded, whereas with others, notes were taken during the interview.

Secondary data was collected via the website of NRB to know about the number and various BFIs and other private companies that issued debenture.

Theoretical Framework

The primary objective of this paper is to study the factors that hinder the development of bond market in Nepal. This was done by first identifying the hindering factors for bond market development in other countries, which are, in some ways similar to Nepal.



Source: Field Survey

Figure 1: Theoretical Framework

These factors were then compared with the scenario of Nepal to identify whether those factors were at work as well was networked to get a sensible theoretical framework for further study. These factors were as follows:

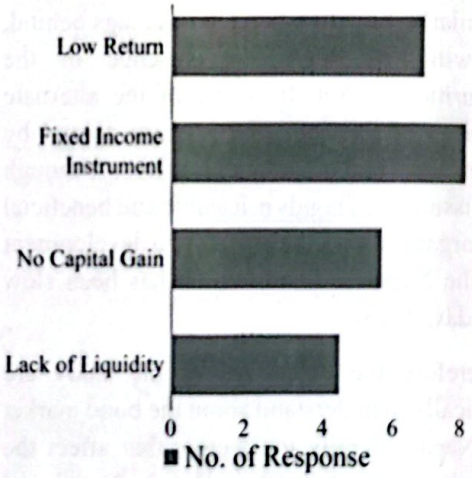
- Limited Demand for and Supply of Bonds
- Lack of Efficient Settlement Systems
- Credibility of the Issuer
- Lack of Credit Rating Agency
- Lack of Liquidity of the Bonds
- Convenient Bank Financing
- Regulatory Constraints
- Low Bond Yield
- Lack of Awareness

Data Analysis

Analysis was done by selecting the key words used by investors during interview related to the identified factors, recording and then relating them to the theme of the research with their answers as a base for analysis. All other information that varied in each interview and did not relate to the research was avoided.

Results

Current Situation of the Bond Market



Source: Field Survey

Figure 2: Reasons for Bonds Not Being Considered as Tradable as Shares

From the interview with ten respondents, some common features of the bond market were identified which are shown in the figure.

It is clear that the bond market in Nepal is

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considered to be in the stage of infancy. Not only the bond market, but as a whole, the capital market has not been able to perform as efficiently as it should have been. All the respondents agreed that the Nepalese bond market is under-developed and primitive in the sense that even though the primary issues of bonds are increasing in the market, transaction in the secondary market is negligible.

Also, the respondents highlighted four reasons for ineffectiveness of the secondary bond market, explicitly, lack of liquidity of bond securities, low possibility of capital gain from bond transactions, bond being a fixed interest income instrument and low return from bonds. The frequency of response for each of the four factors from the ten respondents is shown in the figure below.

Examining the Relevance of the Nine Factors

Their opinion regarding the nine factors identified by the research is shown in the Figure below. The figure shows the frequency of agreement among the ten respondents for each of the nine factors identified by the research.

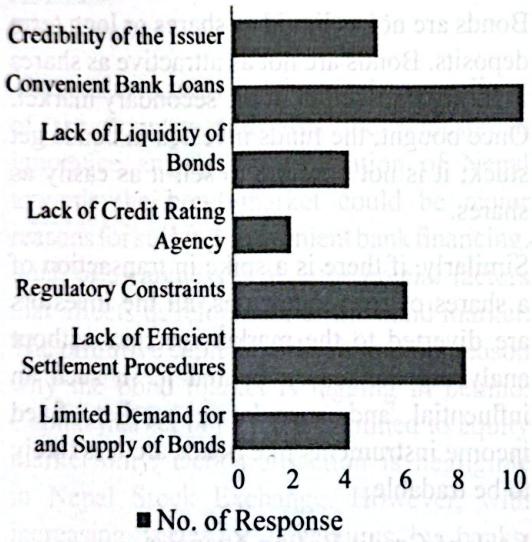


Figure 3: Respondent's reasons why Bond market is impaired

The figure shows that availability of convenient bank loans is regarded as one of the major reasons for the hindrance of development of the Nepalese bond market by all respondents, whereas lack of credit rating agency is considered to have the least influence.

The relevance of each nine factors has been discussed as follows in detail:

Lack of Awareness

Lack of awareness has been identified as one the major factors for the hindrance in development of the Nepalese bond market. In fact, not only investors but also the companies who that might benefit from bonds or through investment in the government as well as corporate bonds, lack understanding regarding this matter.

The level of understanding regarding the functioning and nature of capital market is very low among players in the capital market. Investors do not see bond securities as investment avenues; for them, the major investment avenues are land, gold, shares, fixed deposits, etc. Bond securities are not thought of as an alternative for investment for long term deposits as the concept of bond has not been properly understood by players in the market.

Limited Demand and Supply of Bond Securities

One of the reasons for the poor functioning of the bond market, particularly the secondary market, is limited demand for and supply of bond securities.

According to respondents, companies that are trustworthy do not have the need to issue bond/debenture to raise funds as they can get easy financing from the financial market and companies that are willing to issue bond/ debenture are not trustworthy.

From the point view of investors, particularly individual investors, those who invest in the primary market of bonds, their objective is to hold it till maturity, so there are no sellers in the secondary market. In addition, at present, no company is thinking of growth or expansion of business which does not create the need for large capital or funds, so these companies do not opt for issuance of bonds.

Regulatory Constraints

The regulators have not been able to fulfill their roles to the fullest. The regulation by

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required debenture trustee as mandatory has been considered fundamental by the respondents as it is essential to protect the rights of investors and without the trustee the bond is not considered saleable.

However, the requirement is in a way acting as an obstacle for issuing companies as they are unable to find trustee for the issuance. Another flaw from the side of regulators is that the procedures are complex. To be eligible to issue bonds; the company should first go for Initial Public Offering (IPO) and also should have issued Commercial Paper. The procedures, rules and regulations mentioned in the Company Act 2063 clauses are irrelevant and outdated in the present context.

Credibility of the Issuer

Because of past failures of companies like Jyoti Spinning Mill, Hyatt Hotel, Necon Air, and Gorakhkali Rubber Udyog in the bond market, investors and public find it hard to trust new bond issuers.

In case of private companies, various factors such as avoidance of public scrutiny, lack of debenture trustee, lack of confidence among regulators were identified, which have made them reluctant to go for bond issuance.

Convenient Bank Financing

Due to prevalent excess liquidity in the market and heavy competition among BFIs, banks are always willing to lend funds to good companies. These good companies can get bank loans easily and at a very good rate as their bargaining power is very high during excess liquidity situation.

Another reason for private companies preferring bank loans is, it is cheaper. In for the issuance of bonds there are extra costs for publishing prospectus, hiring issue manager, publishing news of issuance to make the public aware and other costs related to registration and approval.

Low Bond Yield

Bond securities available in the market are not attractive to investors because of the low return and fixed nature of income instrument. Nepalese capital market and investors are speculative in nature and they prefer speculative instruments like shares for investment. Fixed income is one feature that discourages investors from investing in bond securities. Another discouraging factor is that it has long term maturity; the fund gets stuck for a long time as it is not easily marketable. Plus there is no possibility of capital gain through transactions in bond instruments

One of the important things to be considered is that the returns provided by bonds are low, which is not even enough to beat the current double digit inflation.

Lack of Efficient Settlement Procedures

The settlement procedure for both approval of issuance and transaction in the secondary market are complex and prolonged. The issuing company gets approval to issue months after they submit the proposal; by then the interest rate that the company fixes for the bond becomes inappropriate in the prevailing market conditions. This makes bond instruments unattractive for investors.

Lack of Liquidity of Bonds

Bonds are not as liquid as shares or long term deposits. Bonds are not as attractive as shares in luring transaction in the secondary market. Once bought, the funds invested in bonds get stuck; it is not possible to sell it as easily as shares.

Similarly, if there is a spike in transaction of a shares of few companies, all the investors are diverted to the market reaction without analyzing the reason behind it. In such an influential and speculative market, fixed income instruments like bonds are less likely to be tradable.

Lack of Credit Rating Agencies

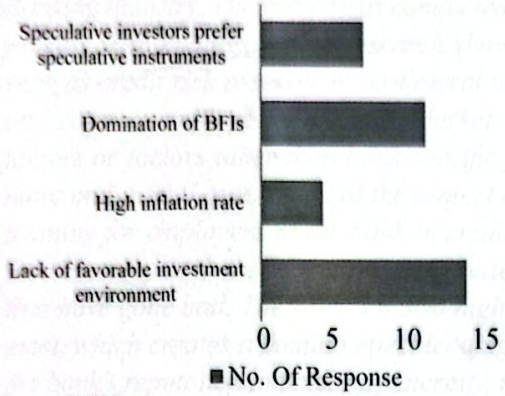
As the concept of Credit Rating Agency is new to Nepal, not most players in the market are aware about credit rating, its importance and role in the decision making for investment in capital market instruments. From the view point of issuance, even though credit rating has been made mandatory; it cannot be a substitute for the trustee requirement. As

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of now, credit rating is not considered as important as requirement of debenture trustee for bond issuance. Hence, it is not considered a factor that directly affects the development of bond market.

Other Factors

Besides the nine factors mentioned above, a few other factors were identified after the interview with the ten respondents. These factors, along with the frequency that they have been mentioned among the ten respondents, are shown in Figure 4.



Source: Field Survey

Figure 4: Other Factors Affecting Nepalese Bond Market

Discussions

The results suggest that the regulatory policies of the country and also the widespread ignorance among the population of Nepal towards the bond market could be major reasons for seeking convenient bank financing. Lack of awareness is also the crucial factors that affects development of the bond market. The primitive capital market is another reason why the bond market is lagging in behind. Capital market in Nepal is confined to equity market only. Debt transaction is negligible in Nepal Stock Exchange. However, with increasing issues of debentures by banks, the primary market is paving the way towards development but eighty percent of the investors are institutional investors like insurance companies, Employee Provident Fund, Nepal Army etc. Individual investors do not come forward for subscription because they are not educated about bonds and debenture instruments. As bond issues do not get subscribed by individual investors, institutional investors are the last resort for the issues to be sold to. They purchase it to meet their long term liability and match the maturity time with the insurance premiums and provident funds.

These could be some possible reasons why the results got concentrated on particularly three factors, that is; convenient bank financing, lack of awareness and lack of efficient settlement procedures.

Conclusion

Bond market plays a pivotal role in mobilizing savings and channeling them into productive purposes. This study on the impediments in development of Nepalese bond market indicates the unstable and poor performance of bond market. Relative to the overall economy, the size of the bond market is very small and liquidity of bond securities is also poor. Moreover, the awareness level among people about the bond market, its functions, roles, importance, and contribution to development of capital market is negligible. All the factors that have been identified as hindrances to bond market development have varying effects on the bond market and the intensity of the impact of these factors also differ.

The intensity of impact is determined from the frequency of agreement among the ten respondents who were interviewed. Among the ten respondents, all of them considered that convenient bank financing is the major reason that acts as an obstacle to the development of bond market in Nepal. The other major factor to be given priority is the lack of awareness among the people regarding bond market of Nepal, as agreed by nine of the respondents.

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A Study on Causes and Impact of Non-Performing Loans in Nepalese Commercial Banks

New Perspective Journal of Business and Economics

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Abstract

This research aims to find the determinants and impact of non-performing loans on the Nepalese Banking Industry. The survey was conducted on bankers and professionals engaged in the lending process. The findings of this research show those internal factors or the bank-specific factors such as credit risk assessment; collateral valuation; credit policy and terms; credit monitoring and control; employees' integrity. Market- orientation influences NPL more than the external factors or factors other than bank specific factors. The study suggests that banks should focus more on internal assessment of the project as the main influencing factor as well as good credit training for employees of the bank in credit policies and ethical lending habits. Also, the study further suggests that effective recovery system must be implemented in banks to collect the loans that have gone bad. The research also highlights that NPL impacts profitability and income the most, which creates a domino effect leading to reduction in employees' morale, deterioration of the bank's reputation in banking fraternity, reduction in the loanable funds, and thereby weakens the overall lending performance.

Keywords: *Non-performing Loans; Profitability; Credit Risk; Credit Risk Assessment*

Introduction

The era of banking in Nepal formally started in 1937 A.D when the first bank Nepal Bank Limited (NBL) was established. Banking business took a flight and today as of May, 2014, we have 30 commercial banks in Nepal and many development banks, cooperatives and micro-credit organizations availing banking facilities to the general public.

The banking sector is considered as the backbone of the economy. Easy mechanism for lending and borrowing is important for the development of any nation as it helps economic activities to flourish.

Banks have been in the business of financing for a long period of time. Banks finance the projects of various natures ranging from short, medium and long-terms availing the credit from small amount to large amounts. In the verge of providing these credit facilities, not all loans provided are of good quality i.e. a portion of it goes bad which forms non-performing loan. Thus, the loan portfolio of banks can be grouped into two categories: performing loans and non-performing loans

As we have known, 'high risk, high returns', banks have been investing in risky areas to gain attractive returns. This has made management of loans and advances more complex. Thus, management of non-performing loans has been a major concern for banks these days.

Reduction of Non-performing loans has always been a concern for every commercial bank and proper attention the management of the non-performing loan is a top-priority of every financial institution. Mismanagement of non-performing loans directly hit the profitability and goodwill of the bank, which makes it hard for them to rise again in the market. Thus, knowledge about factors that are responsible for non-performing loans become must as it helps to minimize the credit risk as well as the non-performing loans of banks.

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Problem Statement and Objectives

Despite the fact that loans are the major source of income for banks and that they account for 59.8% of total assets of commercial banks in Nepal (Nepal Rastra Bank, July 2013), it is also one of the riskiest areas of the industry and possess a great amount of

credit risk i.e. the risk of default within them, which results in non-performing loans of the banks and impair the profitability of the company.

Banks float loans and advances to customers with expectations that the funds will be paid back in time as promised. But because of several reasons, loans fall into the non-performing category. With it, additional provisions as specified by the NRB must be maintained, which freezes the funds and shrinks the amount or quantity of loanable funds restricting other profitable investment opportunities, thus affecting the profitability situation of banks and hindering the development of the economy. In addition to this, high level of non-performing loans signals bank failure and financial crisis as experienced by the US economy.

Therefore, the major objectives of the study are as follows:

- To identify the various internal and external determinants of NPL.
- To analyze the impact of NPL on the performance of the bank.

Literature Review

Review of External Factors or Macro-Economic Determinants

According to (Greenidge & Grosvenor, 2009), local economic conditions explain the variation in non-performing loans to some extent. It was found that during the growth period of the economy, NPL declined, whereas when there was economic recession NPL increased.

Macro-economic factors such as high exchange rate depreciation, higher inflation, and high unemployment result in high NPL whereas high economic growth rates result in low NPL. This is because high growth rate leads to higher income which in turn improves the debt servicing capacity of borrowers; whereas low growth rate means higher unemployment and thus borrowers face difficulties in paying back their loans increasing the NPL. (Klein, 2013)

Review of Internal Factors or Bank Specific Determinants

The banks' undeveloped internal operational management is the main factor for NPL. Because of lack of proper insight and assessment of projects, they tend to invest in wrong sectors without properly assessing the market trends and market potential leading to the occurrence of NPL.

Also, improper understanding of credit terms and conditions and unreliable pre-loan investigation were also found to be reasons for NPL. (Ning-ning, June, 2007)

Poor credit assessment, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity, weak institutional capacity and unfair competition among banks, willful default by borrowers and their knowledge limitation, fund diversion for unintended purpose and under/over financing by banks ascribe to the causes of loan default and mounting NPL. (Geletta, January, 2012)

Methodology

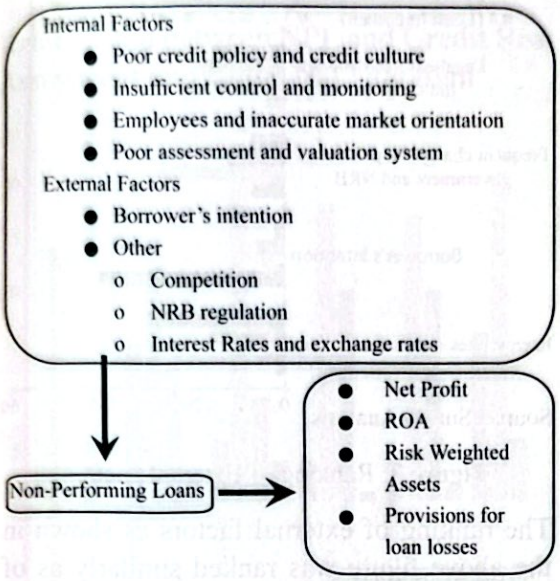
Theoretical Framework

This study mainly aims to find the internal and external factors which most likely influence the occurrence of NPL. It also focuses on various aspects where the effect of NPL is most vividly seen.

- The variables sort included
- Inaccurate market orientation
- Weak credit culture
- Credit policy
- Assessment, internal control and monitoring
- Borrowers' related factors

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- Other external factor



Source: Literature Review

Figure 1: Conceptual Framework

Population and Sample

The total number of banks as of May, 2014 was 30. Due to of time and resources constraints, all the banks could not be studied. Thus, a sample of five banks was selected on the basis of their performance. The banks are listed below:

Out of these 30 commercial banks, banks that were chosen as samples were:

- Machhapuchhre Bank
- Siddhartha Bank
- Nepal Bangladesh Bank
- Kist Bank
- Everest Bank Ltd.

Which is 16.67%% of total number of banks.

Data Collection Techniques

Regarding primary collection of data for analysis, questionnaires were prepared and administered to the samples selected in equal numbers ranging from 6 to 10 per bank. Questionnaires were prepared on an ordinal and a 4 point Likert scale. The questionnaires were directed mostly toward people involved in credit.

Secondary data, however, as collected from the websites of banks, newspapers and reports of NRB as well as other banks.

The respondents as shown in table consisted of Credit Manager, Branch Manager, Assistant Manager, Relationship Manager, Assistant Relationship Manager, Junior Officer, Junior Assistant, Senior Assistant, Senior Officer, Manager, Junior Assistant, Assistant and Internal Auditor on the basis of position. And on the basis of experience, they were divided into categories with 1 to 5 years of experience, 5 to 10 years of experience, 10 to 15 years' experience and experience of 15 years and above.

Out of 60 questionnaires which were distributed, responses of 53 questionnaires were filled and returned. Thus, the response rate achieved was 88.33%.

Data Analysis Tools

To meet the quantitative aspects of research, two tools were used to draw analysis and interpretation:

- **Statistical tool**
  - Average Weighted Score
  - Percentage Analysis
  - Correlation
  - Trend Percentage Analysis
  - Frequency
  - Bar Diagram
  - Pie-chart
  - Cross Tabulation
- **Financial tool**
  - Ratio of NPL to Total Loan
  - Ratio of Risk Weighted Assets to Core Capital

For qualitative analysis, personal judgment based upon the feedback and answers received through questionnaire and interviews was used.

Results

The data obtained through means of questionnaires as entered into Microsoft

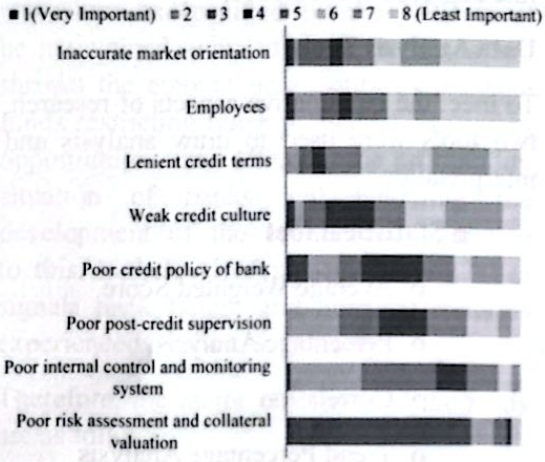
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Excel as well as SPSS for calculating and obtaining the desired outcome. This section entails data collected and analyzed and also represents them in graphical form with the help of bar graph, pie-chart and line graph.

Ranking of Internal and External Factors

Respondents were asked to rank the various bank-specific and external factors in terms of their order of importance. Bank-specific factors needed to be ranked on a scale of 1 to 8 with 1 being most important and 8 being least important and external factors were ranked on a scale of 1 to 4 with 1 being most important and 4 being least important.

Ranking of Internal or Bank Specific Factors



Source: Survey Analysis

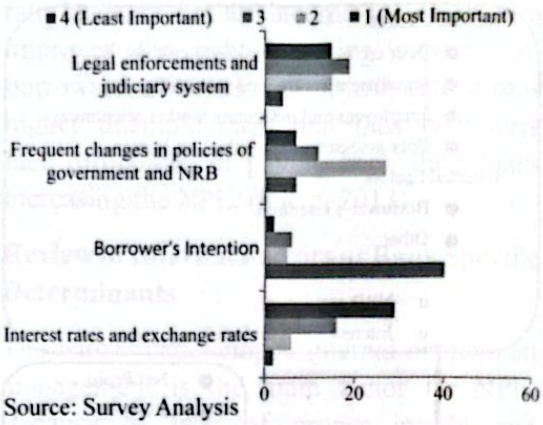
Figure 2: Ranking of Bank-Specific Factors

As per the ranking, 42 out of 53 respondents ranked poor risk assessment and collateral valuation as the most important factors responsible for non-performing loans in the Nepalese context.

The loopholes in check and balance system of the organization was believed to be the second most important factor responsible for NPL in commercial banks of Nepal.

On the other hand, inaccurate market orientation or market strategy was ranked the least important factor responsible for non-performing loan of banks.

Ranking of External Factors



Source: Survey Analysis

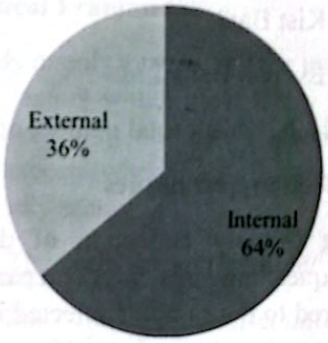
Figure 3: Ranking of External Factors

The ranking of external factors as shown in the above figure was ranked similarly as of internal factors.

On the basis of responses, borrower's intention was perceived to be the most important factor leading to NPL. Sometimes, the intention was because of the deteriorating economic condition of the borrower; and sometimes it was willful default because of which NPL piled up.

Weightage of Internal and External Factors of NPL

After ranking the bank-specific and external factors in terms of their order of importance felt by the respondents, the figure shows, respondents believed that internal factors (64%) influence NPL more than external factors (36%).



Source: Survey Analysis

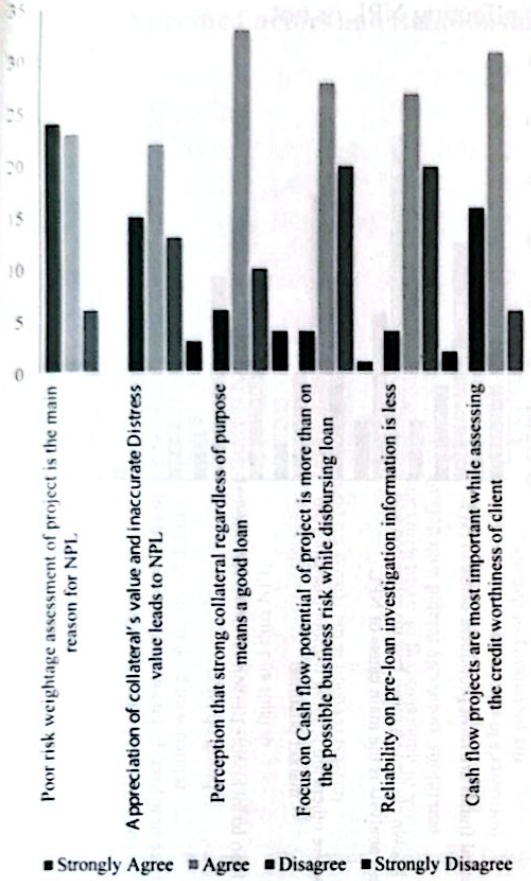
Figure 4: Weightage Assigned for Internal and External Factors

Thus, the study reflects that internal factors need to be analyzed and controlled in order to

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bring down NPL.

Relationship between NPL and Credit Risk Assessment and Collateral Valuation



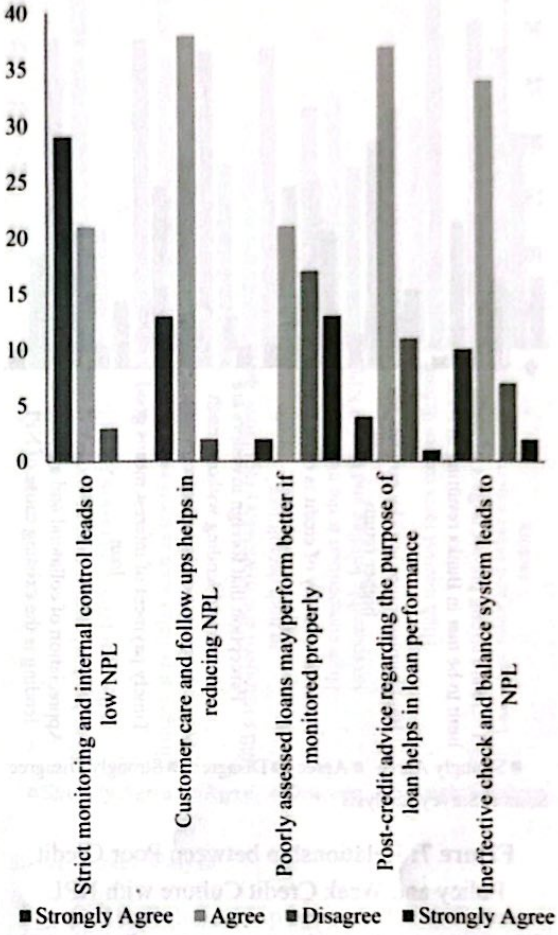
Source: Survey Analysis

Figure 5: Credit Risk Assessment and Collateral Valuation Related

As per the figure, respondents believe that poor risk weightage assessment of the project is the main reason for NPL. About 45.283% of respondents strongly agree and favor this claim.

About 62.2643% of respondents believe that the tendency to focus more on the cash flow of the project and less on other factors also influence NPL.

Credit Monitoring, Internal Control and Post-credit supervision Relationship with Non-performing Loans



Source: Survey Analysis

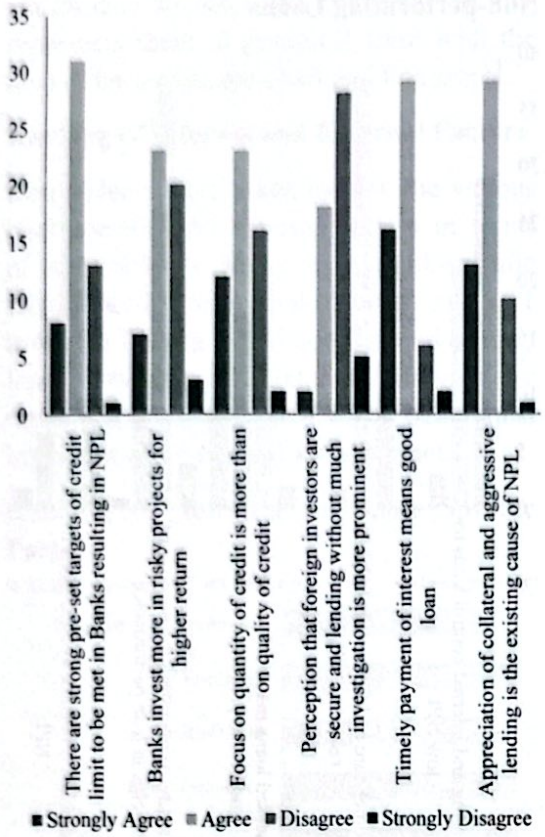
Figure 6: Degree of relationship between credit monitoring, internal control and post-credit supervision; and Non-performing Loans

From the above results represented in the figure, respondents strongly agree that strict monitoring and internal control helps reduce NPL. However, the respondents strongly disagree that poorly assessed loans may perform better if monitored properly signifying risk assessment as the foundation for reducing NPL.

Thus, the analysis for this section shows that internal control is important after proper risk weightage is given to the project and assessment is done before approving the credit request.

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Poor Credit Policy and Weak Credit Culture's Relationship with NPL



Source: Survey Analysis

Figure 7: Relationship between Poor Credit Policy and Weak Credit Culture with NPL

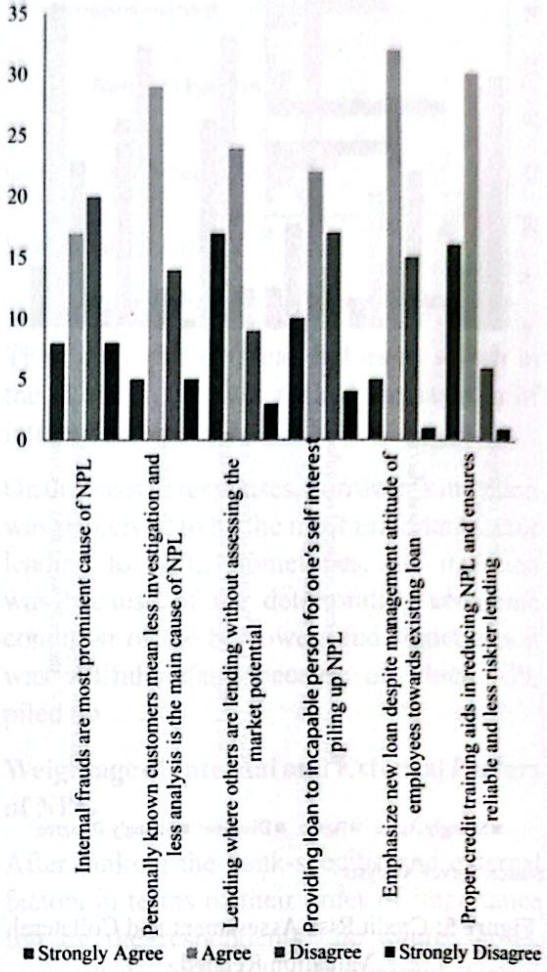
When we look at the response, almost 30% of respondents strongly agree that regular payments of installments i.e. EMI or EQI means a good loan and fewer chances of default and NPL.

Also, 58.49% of respondents agree that because of strong pre-set targets in banking sectors, that needs to be met monthly, quarterly, semi-annually and annually, employees show irresponsible lending behavior meeting the credit limits so that the targets can be met, resulting in NPL.

Also, 54.71% of respondents believe that appreciation of collateral and aggressive lending behavior of banks are the prime reasons for the occurrence of NPL in the Nepalese Banking Industry.

Factors indicating Employees and Inaccurate Market Orientation and NPL

This factor shows the relationship between internal frauds that take place in banks and NPL. It also shows the relationship between market orientation and NPL which signify whether spending where others are spending is affecting NPL or not.



Source: Survey Analysis

Figure 8: Relationship between Factors of Employees and Inaccurate Market Orientation and NPL

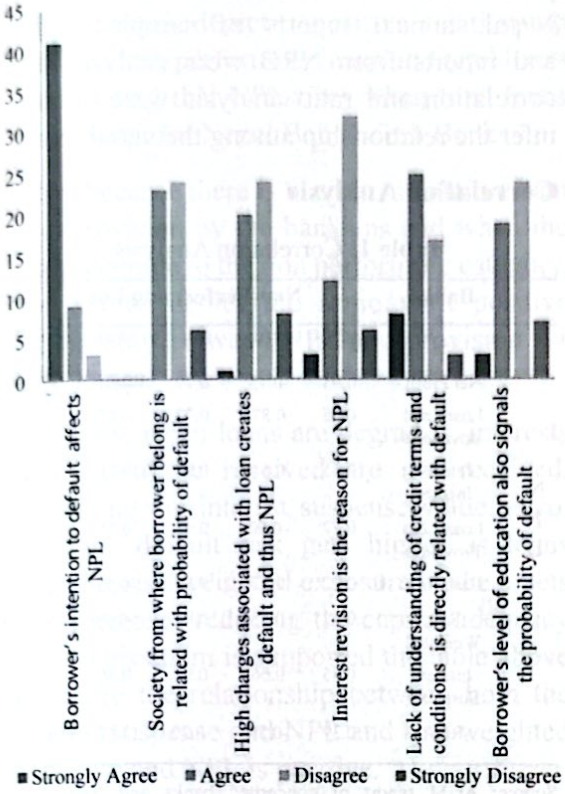
The graph signifies that 32.07% of total respondents strongly agree that lending where others are lending without assessing the potential of the future market is actually responsible for occurrence of NPL. Market potential is dynamic and it varies with time so assessing the potential of the market in future, basing the credit in terms of what others did in past,

and following proper assessments are important factors in reducing NPL of banks. Similarly, 56.60% agree that proper credit training aids in reducing NPL and ensures reliable and less risky lending.

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Majority of respondents disagree that internal frauds are most prominent cause of NPL but over-emphasis on providing new loans is responsible for occurrence of NPL.

Borrower Specific Factors and Relationship with NPL



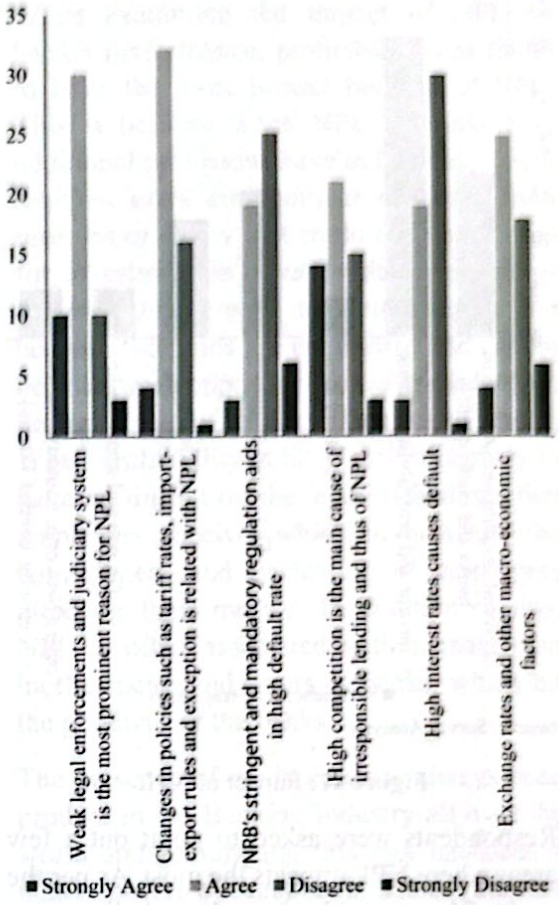
Source: Survey Analysis

Figure 9: Borrowers Specific Factors and Relationship with NPL

With regard to borrower's intention, culture, society and behavior, 77.35% respondents strongly agree that borrower's intention is what drives NPL and is the primary factor that needs to be analyzed. Thus, intuition must be analyzed not only at the time of approving credit but also on an on-going basis to track any deviances early. This establishes a strong relationship between borrower's willingness to default and NPL.

The research also claims that there is a relationship between customers' understanding of credit terms and NPL. Customers are unaware of things they sign, floating interest rates and various charges, cause delay in payments, which affects NPL.

Other External Factors and NPL



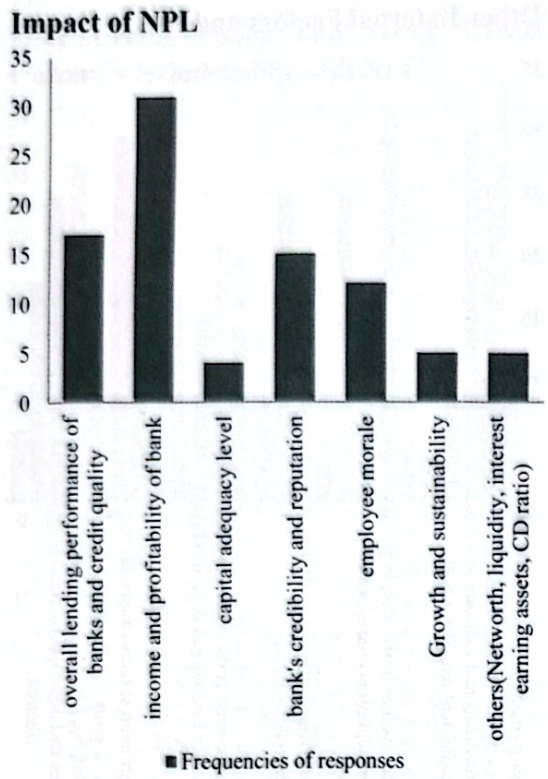
Source: Survey Analysis

Figure 10: Relationship between Other External Factors and NPL

The diagram in the figure shows that 66.03% respondents agree that there is a relationship between competition and NPL. However, the remaining respondents of disagree there is a relationship.

However, the study believes that high interest rate may not be the determining factor for NPL with 58.48% disagreeing. Changes in policies of export and import were found to have strong relationship, whereas changes in NRB regulations were found to have least influence on NPL.

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Source: Survey Analysis

Figure 11: Impact of NPL

Respondents were asked to point out a few areas where NPL impacts the most. As per the study, 31 out of 53 respondents believe that NPL hits income and profitability of banks. As the provision needs to be maintained when loan goes bad, it eats up the loanable fund amount and restricts our behavior, hence it impact the overall lending behavior. However, the ultimate shock is borne by the profitability structure of the banks.

Having NPL in balance sheet means the management is not efficient and thus questions about bank's management team and operational efficiency, employees' credibility as well as bank's credibility arises. This hits the bank's goodwill in the banking fraternity.

Further, another factor that hits most was found to be employee morale. As the profitability situation of the company deteriorates, employee are deprived of monetary rewards. Bonuses declines and thus the morale gets affected.

Other factors like growth of the bank gets affected as the lending portfolio gets squeezed. Due to lack of funds, banks may have to let go of productive investments as well. Capital adequacy level, net worth of company and interest earning assets were also found to bear the impact of NPL.

Secondary Data Analysis

To gain broader insight regarding non-performing loans of commercial banks in Nepal, annual reports of sampled banks and reports from NRB were analyzed and correlation and ratio analysis were done to infer the relationship among the variables.

Correlation Analysis

Table 1: Correlation Analysis

	Banks	Non-Performing Loan				
		EBL	MBL	SBL	NBB	KBL
NPL	Net Profit	0.93	-0.75	0.79	-0.02	-0.38
	Loans and advances	0.66	0.87	0.77	-0.65	0.72
	Interest Income	0.65	0.64	0.84	0.31	0.60
	Loan Loss Provision	0.77	-0.00	0.95	0.71	0.84
	Cash flow	0.72	0.37	0.89	-0.97	0.85
	Risk Weighted	0.72	0.85	0.90	-0.69	0.72
	Interest Suspense	0.45	0.66	0.99	0.86	0.99
	ROA	0.39	-0.89	-0.20	0.17	-0.76

Source: AGM report of concerned banks and NRB Bank Supervision report

Correlation Analysis was done to analyze the relationship and the degree of relationship among the variables. Net profit and non-performing loan is usually perceived to have a negative relationship as growing NPL freezes the fund since provisions restrict banks from making new investments. However, in cases when the relationship is positive, either new equity or fund is injected to tap the new opportunities available in the market. From the samples selected, Machhapuchhre Bank, Nepal Bangladesh Bank and Kist Bank depict a negative relationship and Everest Bank and Siddhartha Bank depict a positive relationship between NPL and net profit and ROA and NPL inferring that profitability is negatively impacted by rise in NPL.

Relationship between non-performing loans and new loans is important as well. Chances of default increases when new loans are made

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since new loans approved and disbursed increases the credit risk pertaining to high chances of default and thereby high NPL. On the other hand, because the funds are tied up in the provisions made, new loans and advances may get reduced, showing a negative correlation between them. In the above table, all the banks depict a positive relationship between non-performing loans and total loans representing that NPL rises when total loans rise, except for Nepal Bangladesh Bank.

Also, because there is need to maintain a loan loss provision by the banks as and when the loans degrade to the non performing category, the figures depict the same with positive relationship between NPL and provision for loan losses.

Similarly, when loans are degraded, interests that are to be received are not received, increasing the interest suspense value. Also, now the default risk gets higher as loans degrade, risk weighted exposure of the assets also increases reducing the capital adequacy ratio. This claim is supported the table above in where the relationship between both the interest suspense and NPL and risk weighted exposure and NPL is positive.

Discussions

Credit environment of the bank has been defined as the sum of all the variables that have real or potential effect on the risk, which banks take when granting loan to clients. This study has investigated each of the factors influencing NPL and has found that internal factors also known as bank specific factors were considered as more important than external factors which can be seen from the weightage of importance found by averaging the response obtained from respondents that gave an output of 64% importance to internal factors and 36% importance to external factors.

In the context of bank specific determinants and external determinants, credit assessment and internal control and borrower's intention were found to be the most important factors responsible for the conversion of good loan into bad loan; supporting the conclusion drawn by (Geletta, January, 2012).

When examining the impact of NPL on bank's performance, profitability was found to have the most impact because of NPL. This is because when NPL of banks rise, additional provisions have to be made which requires extra commitment of funds from reserves or equity that could have been used for investment in other productive areas or for extending credits to earn revenue. But because the funds are committed and cannot be used, such opportunities are missed which impact the profitability situation of banks. When profitability is hit, it will obviously to have an impact on the level of bonuses that employees receive, which in turn hits the commitment and dedication of employees affecting their morale. In addition to this, NPL is often associated with management inefficiencies and errors of banks, which hit the goodwill of the banks.

The presence of credit risk has always been prudent in the Banking industry all over the world and minimizing this risk has been a major concern of every bank. Same is the case in the Nepalese banking industry, or we can say it is even more in the case of Nepal since appropriate judiciary and legal framework for recovering bad debts is lacking. Thus, the importance of knowing the key factors that must be studied and looked into is important. This research aims to find the determinants and causes of NPL which will assist people involved in the credit process.

Thus, the main users of this research shall be credit managers who approve the loan; relationship manager who assesses the credibility of the client and request for approval of the loans; employees in the credit risk management department who assess the risk of the project; employees in credit administration department who are responsible for making provisions and investors and shareholders who always wish to minimize the NPL to strengthen the profitability and soundness of the business, as well as other relative stakeholders.

Also, the study will be useful for government agencies and organization such as Ministry

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of Finance, Nepal Rastra Bank and other agencies as they have to know about the trends of NPL. Lastly, it can also be used by credit planning for the concerned banks as well as other authorities, which will help formulate necessary policies concentrating

factors presented in the outcome. In addition to this, this research shall also be useful for further study for academic purposes.

Conclusion

When asked to assign weightage to internal and external factors which influence NPL of banks, respondents rated internal factors higher than external factors, signifying that NPL is created mostly out of internal inefficiencies that takes place in the organization. Thus, it signifies that when right efforts are put, NPL can be reduced as internal factors can be controlled and monitored.

Other macroeconomic factors like political condition, exchange rates, interest rates, etc and borrower's intention were also ranked as important. Respondents were found to believe that borrower's intention and NPL had a very strong relationship and is an important factor that must be analyzed when considering NPL. Borrower's credit worthiness determines whether or not he/she will pay back the loan. This was found to be one of the most important factors. Thus, proper consideration must be done while assessing the borrower's credentials.

When analyzing the impact perspective, it was found that NPL and profitability generally have a negative relationship as net profit and ROA both were decreasing when NPL and its provisioning was increasing. Also, increase in new loans and advances reflected a positive impact on NPL, meaning that when new loans increase, risk increases and NPL also increase.

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Entrepreneurial Ventures, Family Businesses and Access to Finance in Metal Handicraft in Kathmandu Valley

New Perspective Journal of Business and Economics

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Abstract

In recent years, industries in Nepal have grown and diversified their reach nationally as well as internationally. Handicraft is an industry embossed within the history of Nepal. It captures a large portion among the few priority export items of Nepal. One of the factors responsible for the growth of this sector is the access to sources of finance which demands proper knowledge and understanding of various prominent mechanisms related to it. Family businesses and entrepreneurial ventures are two market players identified in the handicraft industry. This business research explores the differentiating factors of these two groups of participants. Furthermore, it studies the effect of factors including history, sales, key accounts, transactions, net worth and sales on their access to short term and long-term sources of financing. Besides the importance of finance in operating metal handicraft business, it was discovered that convincing and negotiating power, promotional and marketing strategies contribute as strength and provides opportunities metal handicraft to survive in the tourist-driven market. With a large portion of the market still being captured by family businesses, new ventures with value adding services can enhance the business and there is a huge scope of growth in this sector.

Keywords: *Entrepreneurship, Finance, Handicraft, Family business, Ventures,*

Introduction

There are many industries in Nepal and handicraft industry is one among them. According to Encyclopedia Britannica "Handicraft is the occupation of making by hands usable products graced with visual appeal." Production of handicraft is an age-old practice in Nepal and for the last twenty-thirty years export of handicraft has been growing incredibly.

The traditional and constantly growing handicraft industry is very rich and comprises hundreds of products, which can be classified mainly into non-textile products (metal craft, handmade paper products, leather products, Paubha, wood products, etc.) and textile products (gold products, Pashmina, woolen, silk, cotton products, etc.).

The major players involved in metal handicraft, which falls under non-textile category include traders, retailers, wholesalers and manufacturers. Handicraft has become a major source of foreign revenue and currency of Nepal. Handicraft is a prominent product of Nepal as they provide good value added percentage. The Federation of Handicraft Association of Nepal takes the responsibility of promoting and popularizing of handicraft locally and internationally.

Acknowledging the growth prospect of metal handicraft in Nepal, the Ministry of Commerce and Supplies (MoCS) listed metal craft among the country's major exportable items, which have not been included in the Nepal Trade Integration Strategy (NTIS), 2010 as priority export item (Khanal, 2012).

The handicraft industry has a long history. Metal craft in Nepal is produced in a traditional way. It has continued from one generation to another and this continuity has given survival to Nepalese handicraft by preserving their skill and heritage. There has also been recognizable growth of entrepreneurial ventures in this industry due to the present and future growth prospects.

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Finance is the backbone of any business. Family businesses and entrepreneurial ventures differ in terms of their access to finance and they must be given importance. This is where the role of financial institutions comes into play. The research will specifically focus on metal handicraft, how these two market participants differ in their impact on access to short-term and long-term finance.

Problem Statement and Objectives

In recent years, although many entrepreneurial ventures have emerged in the industry, the well-established family businesses are large in numberand occupy leading positions in the market compared to entrepreneurial ventures. It is certain that this group of major players in the market cleave to enormous financial assets including a good number of key accounts, carried down through many generations in succession. In addition to such challenges guarded van by family businesses over entrepreneurial ventures, access to finance and capabilities is one of the major obstacles affecting entrepreneurial ventures. There are different financial institutions willing to finance this industry, but there exists a gap when they have family businesses and entrepreneurial ventures under different criteria. Their interest and treatment of these groups of people might be different from that of other borrowers.

Therefore, the major objective of the research is to identify and compare the major factors that differentiate family businesses and entrepreneurial ventures and their impact in terms of access to finance in Kathmandu Valley.

Literature Review

Trend and Growth of Handicraft in Nepal

Trade and businesses in Nepal were run by families and passed down through the eldest male descendant of the family. In the process of carrying on with the business, the eldest male takes the responsibility of heading the business along with other family members supporting him. If not all, a few businesses have been able to make a paradigm shift from traditional family based operational modality with the corporatization of businesses in Nepal (Shakya, 2013).

According to Shakya, handicraft exports increased by 32.31% to Rs.4.11 billion in 2012. In addition, non-textile goods and export jumped to 30.86% and in 2011-12, metal crafts registered the highest leap with a record of export worth Rs.927.74 million. Moreover, the President of FHAN, BikashRatnaDhakhwa also revealed that there is growing demand for metal products mainly in China and European countries.

Importance of Key Accounts

As cited in (Shakya, In Search of Unleashing, Updated Edition 2013), the handicraft industry is becoming completely dependent on tourists and tourism has always been led by entrepreneurs. This clearly states that entrepreneurs and entrepreneurial ventures play an important role in mobilizing the available resources and henceforth this research has conferred importance to an overview of the key accounts or major customers in the metal handicraft industry.

Importance of SME loans

Chief Executive of Nepal Investment Board RadheshPanta highlighted that with regard to basic factors like ease of monitoring, simple products, better yield and comfortable tangible securities to compensate exposure, SMEs have been a worthwhile investment. Handicraft loans also fall under SME loan categories. Thus, banks have been vigilant in this sector regarding their investment and we studied their responsibility towards the handicraft industry as well.

Cottage, small and medium enterprises are considered integral for any nation and development of the economy as a whole. A report published by APO (Entrepreneurial Development for Competitive Small and Medium Enterprises, 2007) pointed out different challenges hindering their development like policy/legal frameworks, finance, technology, management, business support services and socio-cultural factors.

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Methodology

Conceptual Framework

Construct I: Types of ventures and their differentiating factors:

There are two types of firms this research intends to differentiate. They are entrepreneurial ventures and family businesses. These firms can be differentiated in terms of four characteristics:

1. History and Brand
2. Transactions with the Bank and Assets
3. Network and Key Accounts
4. Credit history (Trust)

Construct II: Sources of finance

There are different sources for obtaining finance, thus making it the second type of construct where the research was deemed important. The sources of finance are divided into two types:

1. Internal Sources
   a. Retained Profit
   b. Sale of Assets
2. External Sources
   a. Short Term
      i. Overdraft
      ii. Credit Purchase
   b. Long Term
      i. Equity Financing
      ii. Debt Financing (Debentures and Bank Loans)
      iii. Leasing

Relationship between Constructs

The factors differentiating entrepreneurial firms and family businesses influence their access to the sources of finance in terms of amount generated, years of availability, payables and interests and trust.

The research intended to find the validity behind the relationship of the two constructs. It also intended to evaluate whether the factors that differentiate entrepreneurial firms from family business have any influence on the access to finance for the respective firms.

Research Design

As mentioned earlier, not much investigation or

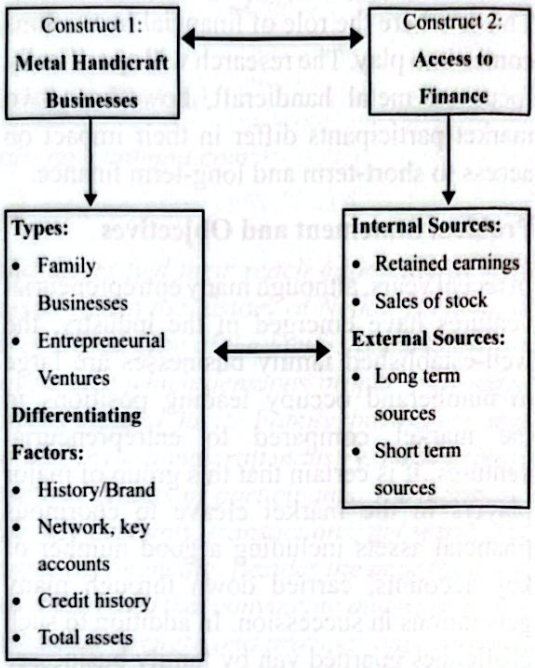


Figure 1: Conceptual Framework Relating to Metal Handicraft and Access to Finance

Formal documents have been published. Very little research, prior knowledge and information on the subject is available. Thus, it is an exploratory research.

Population and Sample

Sampling population for the study was limited to metal handicraft business enterprises of Kathmandu, Bhaktapur and Lalitpur. Out of the population, twelve samples were considered.

Since a sample or list of metal handicraft businesses of the entire nation could not be obtained, probability-sampling method could not be used. However, the use of multistage (cluster) sampling was used in the first stage to find clusters of metal handicraft enterprises in Kathmandu, Bhaktapur and Lalitpur. A total of twelve samples were selected using snowball-sampling method in the second stage. Adhering to the fact that we aim to focus on the handicraft businesses' access to finance, approaching respondents at their convenience was not an appropriate means.

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Data Collection

The research used both primary and secondary methods of data collection. Each method is described in detail below:

Primary Data Collection

This research proposed to conduct interview as well as questionnaire in order to understand and gain insights into the people regarding the handicraft business. As already mentioned in the research proposal, the samples were collected from Kathmandu and Patan. Household units, clustered around Lalitpur (Patan), mostly produce metal handicraft. Other retailers are spread out at different tourist places like Bouddhanath and Swayambhunath. Bhaktapur was a probable area where samples could be drawn but during the data collection process, it was found that all metal handicraft outlets were established a long time ago but none of them were registered ascompany. Thus, including such businesses for the study because less imperative.

Secondary Data Collection

FHAN's official website provided information about registered handicraft enterprises along with their contact number, address and specification about their expertise of business. In addition, it also made available the list of different textile and non-textile handicraft products.

Another source of secondary data was the official websites of commercial banks elucidating different types of loans and credit facilities they provided. Eligibility and other criteria of granting various types of financing could be understood clearly from their websites.

Variables and Measure

Literature review and pilot study before designing the research methodology helped identify the necessary variables that must be taken into account. Moreover, the relationship between the variables and construct linked each with other.

Table 1: Variables and Construct

Construct	Variable Type		Measure
Factors	Independent	History	Years of Operation
		Brand	Market Awareness
		Network and Key Accounts	Bank Awareness
		Transaction and worth	Sales Data
			Assets
Sources	Dependent		Amount, Years, Payables and Interests, Purpose, Ease of Access, Legal formalities, Trust
	Short Term	Overdraft	
		Trade Credit	
	Long Term	Initial Capital	
		Capital Injection	
		Debentures	
		Bank Loan	
		Leasing	
	Internal	Retained Earnings	
		Sale of Assets	

The table clearly shows the different types of factors that impact the sources of finance, including internal sources of financing and external sources which was further segregated into categories suitable for the handicraft enterprises.

Data Analysis

Data collected through questionnaire and interviews has been analyzed for further measures. Description of each of the respondent's views and opinions has been narrated accordingly. Information regarding major products, major customers, future strategies and other similar information have been described accordingly as well.

As responses were collected for the purpose of data analysis, all the variables were coded for easy understanding and further analysis. The list of codes used for each variable in SPSS has been included in the annex. The responses were plotted in a master sheet (graph paper), which gives a picture of the data obtained and

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the kind of interpretation that can be made from the data. SPSS has been used to access tools such as cross tabulations, drawing figures, tables as well as testing hypothesis. The master sheet made the process of data entry much easier.

Composition of type of firm

The following diagram shows the percentage of family businesses and entrepreneurial ventures in the samples received.

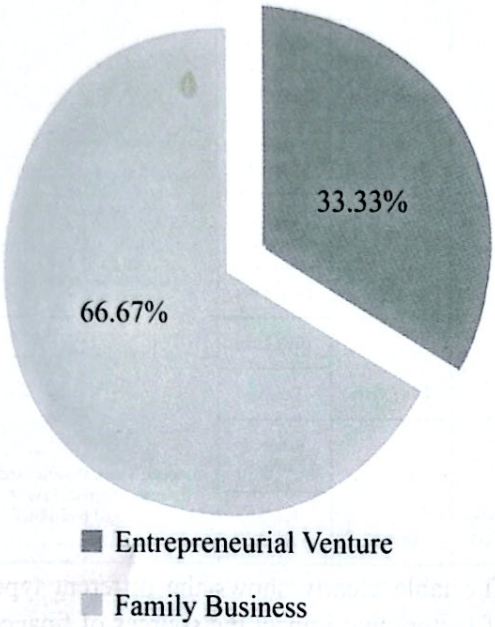


Figure 2: Pie Chart with Sample Description by Type of Firm

The figure clearly demonstrates that among all the respondents in metal handicraft, 33.3% were entrepreneurial ventures and 66.7% were family businesses.

Use of Internal Financing

It was discovered that the major source of financing used by all handicraft businesses is internal financing i.e. profit retained by the firm. The profit gained from the sale of goods was used and invested in further manufacturing and operating processes according to the need of the business.

Use of External Financing

Besides having internal sources of financing, no firm can completely depend on retained earnings because sales fluctuate due to various reasons and seasonal impact is a major factor behind these changes. Sales might reach very high levels during the peak seasons whereas they might fall during the off seasons. This is when firms approach various external finances for the purpose of manufacturing and operating their business. External sources of financing involve extensive use of bank for rendering various services. Nowadays, handicraft businesses are associated with banks for various services. The following table shows the use of different bank services by entrepreneurial ventures and family businesses.

Network and Association

The following table shows the year the handicraft firms were established and their years of membership in FHAN.

Table 2: FHAN Membership Year Cross Tabulation

Established Year * FHAN Membership Year Cross Tabulation						
		FHAN Membership Year				
		No of members	1996-2000	2001-2005	2006-2010	Total
1990-2000	Count	1	2	0	0	3
	% Within Established year	33.3	66.7	0.0	0.0	100.0
2001-2010	Count	4	1	2	2	9
	% Within Established year	44.4	11.1	22.2	22.2	100.0
Total	Count	5	3	2	2	12
	% Within Established year	41.7	25.0	16.7	16.7	100.0

Looking at the above table, it seems very less members are registered with FHAN. Although many handicraft shops and factories can be seen,a small proportion has registered so far. There might be various reasons for the lack of registration such as lack of awareness about FHAN, its advantages or maybe its sophistication, extra costs, etc. Anyway looking at the trend from 1996 to 2010 the

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number is steadily rising reaching a total of 12 registered firms.

Table 3: Use of Overdraft, Bank Loan and Leasing by Type of Firm

Type of the Firm * Overdraft Services Rendered from Bank: Cross Tabulation					
			Overdraft services rendered from bank		
			No	Yes	Total
Type of the firm	Entrepreneurial venture	Count	0	4	4
		% Within Type of the firm	0.0	100.0	100.0
	Family business	Count	5	3	8
		% Within Type of the	62.5	37.5	100.0
Total		Count	5	7	12
		% Within Type of the firm	41.7	58.3	100.0
Type of the firm * Loan services rendered from the bank: Cross tabulation					
			Loan services rendered from the bank		
			No	Yes	Total
Type of the firm	Entrepreneurial venture	Count	3	1	4
		% Within Type of the firm	75.0	25.0	100.0
	Family business	Count	5	3	8
		% Within Type of the firm	62.5	37.5	100.0
Total		Count	8	4	12
		% Within Type of the firm	66.7	33.3	100.0
Type of the Firm * Leased property: Cross Tabulation					
			Leased property		
			No	Yes	Total
Type of the firm	Entrepreneurial venture	Count	2	2	4
		% Within Type of the firm	50.0	50.0	100.0
	Family business	Count	1	7	8
		% Within Type of the firm	12.5	87.5	100.0
Total		Count	3	9	12
		% Within Type of the firm	25.0	75.0	100.0

Source: Field Survey

According to the table, all the entrepreneurial ventures are using overdraft as the major source of external financing associating with various banks. The use of overdraft depends on the need of financing whereas among those from the group of family business, only 37.5% of them have been using overdraft service from the bank. Family businesses consider sales retained as their major source of financing.

Similarly, another source of external financing used by handicraft businesses is bank loan. The data collected shows that bank loan has been in use by 25% and 37.5% of entrepreneurial ventures and family businesses respectively.

Likewise, leasing property is used by most of the firms and especially for opening their outlets except those who have ownership of the property (house), for an outlet.

Factors Affecting Banks for Granting Various Services

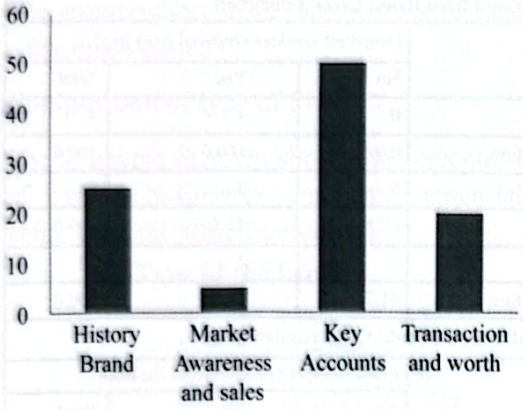
Undoubtedly, banks play a vital role in providing financing services to businesses or entreprises but there could be a number of factors that affect banks' decision to grant services to such borrowers. When collecting data,different factors score differently for each of the services rendered which give a clear picture of the most influencing factors in bank services.

Factors affecting creditors for granting credit facilities

It is not possible for proprietors to make cash payments for all transactions. Purchases take place in credit terms and the following

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diagram shows the factors affecting creditors in granting credit facilities and also pin points the highest scoring factor among all other factors.



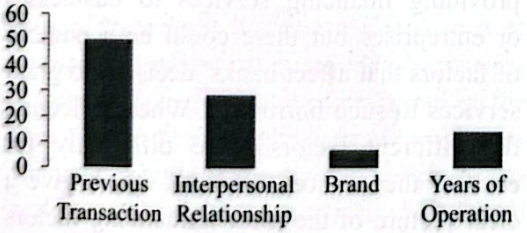
Source: Field Survey

Figure 3: Bar Diagram Showing Factors Affecting Creditors in Granting Credit Facilities

According to the bar diagram, we can deduce that key accounts, network and trust score highest among other convincing factors followed by history and brand, transaction and worth, and lastly, market awareness and sales. They have a special network of people formed with years of interaction and relations. Thus far, people have relied much on the level of trust and faith built up during the course of time and the key accounts or network that are built during the course of business.

Factors affecting banks in granting overdraft facilities

Different banks are approached for overdraft services and in this context, the factors affecting the most and least have been demonstrated.



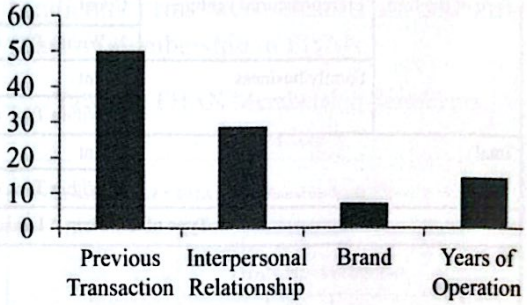
Source: Field Survey

Figure 4: Bar Diagram Showing Factors Affecting Banks to Grant Overdraft Facilities

When analyzing the bar diagram that includes factors affecting overdraft facilities bestowed by the banks, previous transaction with the banks scores highest i.e. 50%. The number of transactions and proper track of clients reflect their credibility and is the most influencing factor when receiving overdraft services from the bank. Similarly, interpersonal relationship rate the second highest with 28.57% followed by years of operation with 14.29% and lastly the brand with 7.143%.

Factors affecting banks in granting loan facilities

Bank loan is another source of financing used by proprietors and various factors impact decision to grant loan. The diagram below shows responses regarding each factor:



Source: Field Survey

Figure 5: Bar Diagram Showing Factors Affecting Banks in Granting Loan Facilities

Here again, in the case of banks providing loan facilities, previous transaction with banks has the highest score of 42.86% whereas interpersonal relationship, brand and years of operation score 28.57%, 14.29% and 14.29% respectively.

Besides the factors that have been included as decisive factors in the accessing finance, another factor that largely determines the success of transactions and trade of handicraft products is the negotiation power between the buyer and the seller.

Hypothesis Testing

Hypothesis has been formed and tested to draw conclusions that can be implied. The hypothesis formed is as follows:

H_1: There is significant difference between family business and entrepreneurial venture in their average percentage of credit on purchase.

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Table 4: Independent Sample Test for Hypothesis Testing (H1)

		t-test for Equality of Means	
		t	Sig. (2-tailed)
Approx. % of credit purchase in short term financing	Equal variances assumed	.550	.594

Since we had only two groups to compare i.e. family business and entrepreneurial ventures, we used independent samples for tests. It showed a significance of 0.492. This simply meant that the null hypothesis is accepted. Hence, we can deduce that the two individual groups perform on a similar manner when it comes to credit used for making purchase i.e. they make purchases in credit according to their need and purpose.

H_2: There is significant difference between family business and entrepreneurial venture in their approximate percentage of overdrafts in short term financing.

Table 5: Independent Sample Test for Hypothesis Testing (H2)

		t-test for Equality of Means	
		t	Sig. (2-tailed)
Approx. % of overdraft in short term financing	Equal variances assumed	.713	.492

According to the value obtained with significance of 0.594, we can deduce that there is no significant difference between family businesses and entrepreneurial ventures in their approximate percentage of overdrafts in short-term financing, thereby accepting the null hypothesis.

H_3: There is significant difference between family business and entrepreneurial venture in their approximate percentage of bank loans in long term financing.

Table 6: Independent Sample Test for Hypothesis Testing (H3)

		t-test for Equality of Means	
		t	Sig. (2-tailed)
Approx. % of bank loans in long run financing	Equal variances assumed	-.398	.699

The independent sample test done to test the hypothesis provided us with the idea that there is no significant difference between the two sample groups in terms of their approximate percentage of bank loans in long term financing.

H_4: There is significant difference between family business and entrepreneurial venture in their percentage of total property financed by leasing.

Table 7: Independent Sample Test for Hypothesis Testing (H4)

		t-test for Equality of Means	
		t	Sig. (2-tailed)
% of total property financed by leasing	Equal variances assumed	-1.033	.326

Here again, with a significance of 0.326 obtained from independent sample test, we can undoubtedly say that there is no significant different between family businesses and entrepreneurial ventures in their percentage of total property financing by leasing. Thus, leasing is equally important for both groups as an important source of financing and even more when it comes to the purpose of outlet space which has been used by both the groups extensively.

To sum up,therespective testing for analysis of the difference between these two groups of samples,no significant difference was observed in the way they access different sources of short and long term financing.

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Perhaps, these two groups aren't very different from each other in this context and financing need being prominent in any handicraft business; different sources are used according to their need, availability and purpose. The sources used by family businesses and entrepreneurial ventures are identical. It only differs according to their use and access. Finance is needed for both short and long term, and accordingly, the sources like overdraft, bank loan and credit facilities are used.

Discussions

The number of family businesses involved in metal handicraft business captures a huge portion, upholding their position with a long history and adequate experience. Knowledge and practices transferred from generations have an advantage against those who have entered the business recently. Recognizing the prestige and opportunity in working in the industry, entrepreneurial ventures have opened up but the number still seems low compared to that of family businesses.

Finance is certainly an important factor in determining success and failure in the operation of metal handicraft enterprises but there are other factors that equally contribute and should be a matter of concern for all the proprietors.

It can therefore be implied that entrepreneurial ventures must focus on creating a brand for their products and family businesses must take a leap with forward thinking and implementing strategies.

Moreover, the subjective judgments of each respondent had much more information to be offered. Besides finance as a major concern, both the market participants had their own thoughts about the prevailing state of their business, each with individual philosophies of doing business. Nonetheless, financing is not the only factor for success of handicraft business. Proprietors are risk averse in nature but there has to leverage in business up to a certain level. Bank loan, overdraft, debentures and other forms of financing services provided by the bank must be sought which would enhance business.

Conclusion

This business research has been conducted to understand the metal handicraft market in Nepal and compare how market participants'comprising family business and entrepreneurial venture have driven the market.

The study concluded that family businesses and entrepreneurial ventures operate in a similar manner and their access to finance is independent of each other. The need and purpose of financing has been to avail them with various sources of short and long term financing. We cannot precisely pin point that one group of market players is better off than the other.

Unwillingness to get into legal matters, pay tax and get into any other hassle might be the probable reason why they have no growth and expansion plans and are satisfied with their present performance. When the researcher talked to these groups of firms, they appeared to be least bothered about financing services provided by the bank and did not wish to use them because they considered sales retained as the major source of financing to fulfill their financing needs.

The handicraft industry's other problem is lack of manpower. This issue\ has to be considered more than the financing issue. When manufacturing takes excessive time, the major source of internal financing (sales retained) cannot be obtained.

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