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

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

The basic objective of the publication of the *Nepalese Management Review* is to explore the academic worths of management scholars that may work as an input to the practical managers in identifying problems, formulating policies and gaining effectiveness and efficiency in the work performance. The journal also intends to provide a critical and creative brainstorming forum exclusively to the scholars of the

management field. We promise to incorporate research reports, book reviews, management problems and research based articles in the journal subject to the standard met as per the benchmark of the Journal.

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

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

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

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

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Nepal	Rs. 200	Rs. 300
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# Paradigm Shift

Prof. Sanjay Kumar Shrestha\*

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## Abstract

*The article raises the issue of paradigm, paradigm shifts, and proposes the methodology to manage them for the success & progress at individual, organizational, and national level. Based on personal observation and voracious reading of related books, this article is useful equally from laymen to professionalism every walk of life. Paradigm shift is prerequisite for the economic progress of a country, earning above return through competitive advantage at organizational level, and happiness & success at personal level. Bottlenecks to paradigm shift and strategic leadership are problems and solutions respectively.*

**Key words:** *paradigm shift, competitive advantage, strategic leadership, locus of control, self-serving bias.*

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This article is yet another series of my earlier articles, which is, as usual, based on personal observation and realities of professional lives. A country's progress, an organization's success, and an individual's happiness all depend upon the held paradigm, and if the paradigm acts as the obstruction, paradigm shift is all what is required.

Narrations of paradigm shift are made on the individual, organizational, or national level as and when necessary in the ensuing paragraphs. But first of all one needs to know which paradigm is best suited, which is an issue that one finds either confusing or confident. If one finds that confusing, it is a good symptom, as it is easy to prescribe him some technique that clears the confusion. But if he is confident

on the paradigm he holds, then it is a hard nut to crack. Only some significant incident might shake off his belief and cause new paradigm to replace the old one.

The first learning one must have is to be able to distinguish between physical science and social science. Examples of physical science are physics, chemistry, biology, geography, astrology, etc. Examples of social science are management, economics, literature, political science, etc. Physical science is rigid in terms of individual, place, and time, i.e. same cause results in the same effect irrespective of individuals, places, and time. For example, if a rubber ball is thrown upwards, it will surely fall down, irrespective of Mr. John does it or Mr. Johnson, either thrown up in the USA or in Brazil, thrown 2 years back or now;

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same result. Social science is flexible in terms of individuals, places, and time. For example, a slender white girl is considered by Mr. Ireland as beautiful while by Mr. Robinson as not so, in Finland gorgeous but in Uganda not so, 20 years back as undesirable but now as highly admired. These examples signify that paradigm shifts are more likely to take place in the field of social sciences unless physical science has wrongly proved something as right due to lack of scientific precision. For example, the Earth was considered flat, later it was proved wrong and considered round, which was again corrected by the fact that it is oval-shaped. This is not because physics is wrong but because of the lack of accuracy of the measuring scientific equipment.

Building belief system is much time-consuming but shattering the belief system is a matter of seconds, but this is a herculean task. There is a high degree of correlation between economic development and propensity to assume risk. People of highly developed countries are more prone to changes and paradigm shifts, and vice versa. That is why majority of the people living in poor countries like Nepal are holding on to outdated paradigm and this has been the roadblock to accelerated development of the country.

The 5 most prominent management trends of the 21<sup>st</sup> century are globalization, technology, sustainability & corporate social responsibility, the study of psychology, and business ecosystem ([www.ibtimes.com](http://www.ibtimes.com)). But Nepal, being one of the poor countries, seem to be debating on the rationale on these issues rather than

institutionalizing them. This is the reason of rigidity on earlier held paradigm.

Globalization 1.0 was focused on transportation, globalization 2.0 was focused on communication, and globalization 3.0 is focused on technology (David, Stephen, Verhulst, 2013: p6). But Nepal seems to be far off from all these 3 versions of globalization and consequently paradigm shifts in the mindsets of the Nepalese is a far-flung issue. For example, take the issue of nationality. Different people have different notions of nationality but majority of people in this part of the World have similarity in the concept of nationality which is based on sentiment and programmed conditioning over the years. Why Nepal could not prosper significantly in the last 50-60 years while South Korea, Singapore, and Malaysia could. Nepalese are proud that we were never become colonized by the foreigners but the other countries were colonized by the British, the Japanese, etc. Again, there is high degree of correlation between colonization by developed countries and economic progress of these colonized countries. This is replete with examples, India, Hong Kong, Australia, America, Taiwan, Philippines. Had Nepal been colonized by the British, Nepal's accelerated development would have been unstoppable, as the British would have installed basic development infrastructure and system in Nepal, which they had developed long time back. Once the wheels of progress were set into moving, it would have gained acceleration over time. But if you talk like this, most people term you as anti-nationalist and may attack you

verbally or physically. This is because of the deep rooted paradigm on nationality.

Take another example of contradictory paradigms, Nepal is already the member of WTO, yet we have been debating conservatively over the issue of tariff and non-tariff trade barriers. We have accepted globalization but we are advocating to be self-reliant in every aspect, which is antithetical to globalization. To sum up, we have double standards over the issues sometimes consciously sometimes unconsciously. These are the bottlenecks to development and there is no tendency that they will be wiped out in the near future.

“Stay hungry and stay foolish” is the concluding remark of Steve Jobs in his key note speaking at the graduate ceremony at Stanford. ([www.youtube.com/watch?v=UF8uR6Z6KLc](http://www.youtube.com/watch?v=UF8uR6Z6KLc)). Jaggi Basudeva (alias Sadhguru) contends the same message and I have the same feeling since my childhood without knowing the benefit of “Staying hungry and staying foolish”. This paradigm has greatly helped me to become what I am now, despite being so less intelligent than my fellow friends.

Who is to be blamed? The students or the teachers? The public or the political leaders? The employees or the CEO? The offspring or the parents? The followers or the leaders? To correctly answer these question, again paradigm has to be shifted. It is proven that, with greater authority, one has to assume greater responsibility. The teachers, political leaders, CEOs, parents, leaders have the largest authority and thereby have to assume the largest

responsibility, i.e. blamed **almost** 100% or credited **almost** 100% for the subsequent consequences. But here we are conditioned to believe otherwise, i.e. we tend to blame students, public, employees, offspring, and followers, i.e. our paradigm is based on external locus of control. Moreover, in poor countries like Nepal, we have the tendency of self-serving bias, i.e. if something goes wrong, others are blamed, if something goes right, he himself shall take the credit.

Let us take another example, the common paradigm we generally hold is that Nepal is a small country having limited resources. As a matter of fact Nepal ranks as the 93<sup>rd</sup> largest country by area (56,827 square miles) and 41<sup>st</sup> most populous country among the almost 200 countries in the world. (<https://en.wikipedia.org/wiki/Nepal>); hence stop saying Nepal is small. Yes, Nepal lacks sufficient number of strategic leaders at corporate and national levels that could transform the whole scenario. Do not blame the public, do not blame the students; they are far more progressive, honest, and hard working. Most people in the different cross sections of the society do disagree with this paradigm either intentionally or unconsciously. Again my suggestion is “Stay hungry, Stay foolish!” There are hosts of examples, Lee Kuan Yew and Singapore; Nelson Mandela and South Africa; Nitish Kumar and Bihar, India, “Apple without Steve Jobs is Sony”; Jack Ma and Alibaba; Sam Walton and Walmart; IKEA and Ingvar Kamprad; Mark Zuckerberg and Facebook; Mukesh Ambani and Reliance Group; Binod Chaudhary and CG; so far so good, Bhoj Raj Aryal and CDM, TU. I

remember the old song by Narayan Gopal, “Yeuta Manchhe Ko Mayale Pani Farak Pardachha Jindagima” (translation: one’s love has significant difference on another’s life).

Now let us turn from macro perspective to micro perspective. What is the prescription for paradigm shift at an individual level? My contention is first create an obsession for learning English language, as most of the knowledge in the world is translated into this language. Second, refer to websites and blogs in the internet to benchmark your thoughts & paradigms against those of the authorities in the developed world and assess where do you stand. However, one is not supposed to blindly practice the world best practices, as it is the issue of social science that recommends contingency theory. Yet, it is necessary to be familiar with what is going around the globe. Nature has given 2 ears and 1 mouth, hence listen, observe, analyze at least twice than you speak. Perform your tasks and responsibilities that you are supposed to do and stay hungry stay foolish!

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# Antecedents and Outcomes of Work Engagement

## -A Study of Pharmaceutical and Healthcare Sector

Prof. S. P. Singh\*  
Jamuna Karki\*\*

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### Abstract

*The purpose of study is to examine the antecedents and outcomes of work engagement in the Pharmaceutical and Healthcare sector. Study also attempts to provide a closer look into the work engagement of employees in Pharma & Healthcare sector in Indian context. Data for the study collected through a structured questionnaire containing a five point Likert scale. The sample for this study is consist of 240 employees from Pharma companies and hospitals selected to represent the pharmaceutical and healthcare sector of India. Work Engagement is measured using three scales developed by Schaufeli et al. (2002): vigor, dedication and absorption. Antecedents included demographics and HR practices (compensation practices appraisal and promotion practices) and outcomes includes the measures of affective commitment, employee performance and job satisfaction. The study provide that demographics do not significantly predict work engagement of the employees. Among HR Practices compensation and performance appraisal have significant impact on work engagement. Work engagement significantly predicts job satisfaction, affective commitment and employee performance. Healthcare services can increase their levels of work engagement by crafting effective human resource management practices. Work engagement association with outcomes job satisfaction, commitment and performance, reflecting the importance of engagement at work in healthcare sector. So understanding the growing need of work engaged employees in the organization which can facilitate and improve various organizational outcomes is emphasized. The study provided useful insight to the understanding of work engagement among professionals of Pharmaceutical and Healthcare sector in India.*

**Key Words:** *Work engagement, HR practices, performance appraisal, compensation, promotion, affective commitment, employee performance, job satisfaction.*

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## Introduction

With the escalating competition and changing business scenario need for talented and competent professional, who can bring increased performance and innovative contribution are highly necessitated in the organizations. Organizational desire for flexible, innovative and get goers and who can go above and beyond their formal job descriptions or contracts of employment (Hartley, et al., 1995) has increased in the recent times.

In Healthcare sectors like Pharma and Healthcare services, engaged and committed employees are also exceedingly needed as they are not the only the source of operational performance but has greater impact on performance and contribute more towards growth of the nation. The reason why, organizations' ability to attract, engage, develop and retain talent has become even more critical for gaining competitive advantage in modern workplace. Here, work engaged employees may be considered highly momentous for attainment of any competitive advantage and performance as work they exhibit high levels of energy, are enthusiastic about their work and fully immersed in the work (Macey & Schneider, 2008; May et al., 2004). Hence, work engagements has become an area of rising interest among many researchers and has received huge recognition among the researchers (Saks, 2006; Bakker & Schaufeli, 2008; Schaufeli & Salanova, 2007, 2008). It is significant to study work engagement, because it reflects competence in individuals and their work outcomes (Maslach et al., 2001). High level of engagement lead to both

positive outcomes for individuals like quality of people's work and their own experiences of doing that work as well as positive organizational level growth and productivity (Kahn, 1992). Organizations can increase levels of work engagement by creating work experiences (control, rewards and recognition) with effective human resource management practices (Koyuncu, Burke & Fiksenbaum, 2006).

First conceptualization of work engagement in the literature was given by Kahn (1990) as the harnessing of organization members' selves to the work roles. People when engaged employ and express themselves physically, cognitively, and emotionally during their role performances and are enthusiastic, positive to their work and feel doing their jobs effectively. Schaufeli et al. (2002) viewed engagement as a positive, fulfilling work related state of mind distinguished by vigor, dedication and absorption. While, Saks (2006) viewed work engagement as the degree to which an individual is attentive and absorbed in the performance of his/her roles. Work engagement is a positive, work-related state of well-being or fulfillment characterized by a high level of energy and strong identification with one's work while, according to Maslach & Leiter (1997; 2008) work engagement is opposite of burnout; engaged employees have a sense of energetic and effective connection with their work. Work engagement is about feeling positive emotions towards the work (Nelson & Simmons, 2003); amount of discretionary effort exhibited (Frank et al., 2004).

Prior large number of work engagement studies have looked at the antecedents and consequences of work engagement. Salanova et al. (2005) in a study of front-line service workers and their customers, reported that work engagement predicted service climate which in turn predicted employee performance and then customer loyalty. Saks (2006) studied the antecedents and consequences of job engagement and organizational engagement among 102 employees from Canada and found that there was a meaningful difference in both job and organizational engagement. Antecedents and consequences were differed in a number of ways and the psychological conditions that lead to job and organization engagement, as well as their consequences were not the same. Study also revealed that job engagement was predicted by job characteristics and job engagement and organizational engagement mediated the relationship between antecedents and consequences (job satisfaction, organizational commitment, intentions to quit and organizational citizenship behavior). Koyuncu, Burke & Fiksenbaum (2006) in a sample of 286 women managers and professionals reported that worklife experience predicted work engagement and various work consequences like job satisfaction, intent to quit and various psychological well-being outcomes. Later, Burke, Koyuncu, Jing & Fiksenbaum (2009) in another study among 309 male and female hotel managers found that organizational level and organizational tenure predict engagement but oppositely and engagement in turn predicted outcomes (job satisfaction, intent to quit) and psychological wellbeing. Xanthopoulou,

Bakker, Demerouti, & Schaufeli (2007) in their study among highly skilled Dutch technicians, examined the role of three personal resources (self-efficacy, organizational-based self-esteem, and optimism) in predicting work engagement and found that engaged employees were highly self-efficacious; believed in their ability to meet the demands they face. In addition, engaged employees believed that they would usually experience good outcomes in life and satisfy their needs by participating in roles within the organization (organizational-based self-esteem). Further, another study by (Xanthopoulou, Bakker, Demerouti, & Schaufeli, 2009) indicated that self-efficacy, organizational-based self-esteem, and optimism make a unique contribution to explaining the variance in work engagement over time, over and above the impact of job resources and previous levels of work engagement. However, Mauno, Kinnunen, & Ruokolainen (2007) in a 2-year longitudinal study among Finnish health care personnel reported that job resources predicted work engagement better than job demands. Job control and organization-based self-esteem proved to be the best lagged predictors of the three dimensions of work engagement. Taipale et al. (2010) in a study examined the level and predictors of work engagement among 7867 service sector employees in eight European countries (Bulgaria, Finland, Germany, Hungary, The Netherlands, Portugal, Sweden and the UK) in four economic sectors: retail trade, finance and banking, telecoms and public hospitals. Study found that the level of work engagement varies not only between countries but

also between those four economic sectors within each country. Additionally, the findings indicate that demands decrease work engagement, while autonomy and support increase it. Although the effects are mainly the same across the countries, the article also points out some exceptions in this regard. Engagement mediates the relationship between value congruence, perceived organizational support, and core self-evaluations, and two job performance dimensions: task performance and organizational citizenship behavior (Rich, Lepine & Crawford, 2010). Ram & Prabhakar (2011) also confirmed that the antecedents like job characteristics, intrinsic and extrinsic rewards, perceived supervisor support and perception of distributive justice significantly associated with the engagement. Further, the engagement was related to outcomes like job satisfaction, organizational citizenship behavior, intention to quit and job involvement.

Barnes & Collier (2013) reported that job satisfaction and affective commitment significantly influence work engagement. Employee's work engagement subsequently impacts career commitment and adaptability. Agyemang & Ofei (2013) also in survey of 105 employees of three private and public sector employees in Ghana found that there was a positively significant association between employee engagement and affective commitment. Similarly, a study conducted by Albdour & Altarawneh (2014) found that employees who have high job engagement and organizational engagement would have high levels of affective commitment and normative commitment. Similarly, several

studies indicated positive relationship between employee engagement and affective commitment (Demerouti et al., 2001; Hakanen et al., 2006; Maslach et al., 2001; Saks, 2006).

Furthermore, work engagement found to have a positive association with employees' productivity, employee retention (Salanova et al., 2005; Coffman & Gonzalez-Molina, 2002; Buckingham & Coffman, 1999), in-role job performance (Rich et al., 2010), organizational citizenship behaviour (Schaufeli et al., 2006) and innovation. Also, satisfaction and engagement relate to meaningful business outcomes and important to many organizations. Engagement is an individual-level construct and if it does lead to business consequences, it must first influence individual-level consequences (Hakanen et al., 2008). That's the reason why human resource managers are consistently ranking the development of an engaged workforce as an organizational priority (Shuck & Wollard, 2009). Therefore, it is important to study engagement because it is linked to positive individual and work related outcomes (Maslach et al., 2001, Koyuncu, Burke & Fiksenbaum, 2006).

Work engagement has many positive outcomes for the organizations as well as are affected by many antecedents. Work engagement literature presented that there is a dearth of researches on work engagement of the service sector specifically in India. Therefore, present study aimed to measure the work engagement in the service sector sample of Pharmaceutical and Healthcare professionals in Indian.

## Objectives of the Study

1. To assess the impact of demographic factors on work engagement of employees.
2. To evaluate the impact of HR practices on work engagement of employees.
3. To study the impact of work engagement on employee performance.
4. To study the impact of work engagement on the commitment of the employees.
5. To study the impact of work engagement on job satisfaction of the employees.

## Hypotheses

- H1 Demographic factors (age, gender, marital status, education, designation, current work experience and total work experience) do not significantly predict work engagement of the employees.
- H2 HR Practices do not significantly predict work engagement of the employees.
- H3 Work engagement does not significantly predict affective commitment, job satisfaction and employee performance.

## Research Methodology

### Sample

A sample of 400 employees was randomly selected from the population of pharmaceutical and healthcare sector of Uttarakhand and Himachal Pradesh, India.

### Administration

The study was conducted in pharmaceutical and healthcare sector of Uttarakhand and Himachal Pradesh, India. Data were collected from 85 pharmaceutical companies and hospitals. Out of 400 questionnaires distributed, 285 questionnaires were received back, thereby giving a response rate of 71.25 per cent and 240 found usable in the study.

### Measures

**Work engagement** was measured using a work engagement scale developed by Schaufeli et al. (2002) consisted of 17 items relating to three dimensions of work engagement: vigor, dedication and absorption. All items were measured on a five-point scale. The reliability of the scale was tested using Cronbach alpha score of 0.852.

**Compensation Practices** were measured using 6 items scale and Promotion Practices by 3 item scale developed by Teseema & Soeters (2006). Performance Appraisal was assessed using 13 item scale developed (2014) related to two sub dimensions of performance appraisal system: satisfaction level (7 items) and awareness (6 items) about the existing appraisal system. All the items of HR practices were rated by the respondents on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The coefficient alpha for the total HR practices scale was 0.728.

**Affective Commitment** was measured by 8 item affective commitment scale which was originally developed by Allen and Meyer (1990). The affective organizational commitment was measured on a 5-point

Likert-type scale. Reliability of the scale measured using Cronbach alpha=.784.

**Perceived Employee Performance** was measured by Teseema & Soeters (2006) scale consisted of 4 items. The questionnaire was well tested by researchers for internal consistency and other measures (Ramay et al., 2008). The response was measured on a five point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. The Cronbach alpha coefficient for this scale was 0.715.

**Job Satisfaction** was measured by a 12 item scale developed by Macdonald & MacIntyre (1997). Respondents indicated their levels of satisfaction on a five-point Likert scale. The reliability of the scale was tested using Cronbach alpha score of 0.752.

**Demographic** variables included in this study were age, gender, marital status, education, organizational level, Present organizational tenure and organizational work experience.

## Analyses

**Table- I Demographic characteristics of the respondents**

Demographic factors	Frequency	Percentage	Demographic factors	Frequency	Percentage
<b>Age</b>			<b>Organizational level</b>		
Below 30	38	15.8	Operating/ Non managerial	44	18.3
30-40	108	45	Junior	50	20.8
40-50	75	31.3	Middle	115	47.9
Above 50	19	7.9	Higher/Senior	31	12.9
<b>Gender</b>			<b>Present Org. Tenure</b>		
Male	133	55.4	Below 5	57	23.8
Female	107	44.6	5-10	94	39.2
<b>Marital Status</b>			10-15	49	20.4
Single	75	31.3	15 & above	40	16.7
Married	165	68.8	<b>Total Work Experience</b>		
<b>Education</b>			Below 5	25	10.4
Undergraduate	50	20.8	5-10	56	23.3
Graduate	75	31.3	10-15	54	22.5
Post Graduate & Higher	115	47.9	15 & above	105	43.8

Table-1 presents the demographic profile of the respondents. The majority of respondents were from 30 to 40 years of age (45%) and are married (68.8 %), held post graduate and above degrees (47.9%), in middle organizational level (47.9), worked for the present organization for more than five years (39.2%) and had 15 years or more of work tenure (43.8%).

Table-II presents the results of the hierarchical regression analysis. The work engagement was regressed on demographics and HR practices.

**Table- II Results of the hierarchical regression analysis**

Factors	R	R 2	$\beta$	f	t	p
<b>Work engagement (Constant)</b>						
<b>Step1</b>	.263	.041		2.455		
Age					.473	.637
Gender					1.044	.298
Marital Status					.912	.362
Education					.914	.362
Level in Organization					1.392	.165
Current Org. Tenure					1.168	.244
Total					1.085	.279
<b>Step2</b>	.431	.158		6.601		
Compensation Practices			.762		5.342	.000
<b>Step3</b>	.492	.212		8.141		
Performance Appraisal Practices			.497		4.104	.000

Table II shows the result of hierarchical regression analyses. Demographics did not account for any significant amount of variance on the work engagement. HR practices, particularly compensation and appraisal practices made a significant contribution to the prediction of work engagement. However, demographics and promotion practices made no significant contribution to the prediction of work engagement. Organizations with better HR practices indicated a higher level of work engagement.

Table- III Multiple Regression Analysis

Factors	R	R 2	$\beta$	t
Work engagement (Constant)				
Affective Commitment	.525	.272	.209	<b>9.513</b>
Employee Performance	.649	.419	.171	<b>13.161</b>
Job Satisfaction	.525	.273	.250	<b>9.517</b>

Table-III shows the results of multiple regression analyses in which three variables affective commitment, employee performance and job satisfaction were regressed on work engagement.

The regression results showed that work engagement significantly predicts affective commitment ( $\beta=.209$ ,  $p<0.05$ ), employee performance ( $\beta=.171$ ,  $p<0.05$ ), and job satisfaction ( $\beta=.250$ ,  $p<0.05$ ). This shows that employees indicating higher levels of work engagement also reported greater affective commitment, performance and job satisfaction.

### Conclusions and Discussion

This research reported the antecedents and outcomes of work engagement in employees of Pharmaceutical and Healthcare sector in India. The results showed that demographic failed to significantly predict work engagement of the employees and among HR Practices compensation and performance appraisal practices found to have significant associated with work engagement.

The association between work engagement and HRM practices consistent with prior

few studies that have found positive association between perceived HRM practices and engagement. However, to date, there has only been limited research examining how HRM practices influence individual and organizational outcomes through work engagement. Therefore, more research is required to link such organizational contextual level variables with engagement (Aggarwal, Datta & Bhargava, 2007; Alfes et al., 2013; Truss et al., 2013) suggested by many. This also implies that through well implemented HR practices, Healthcare organizations in general can also significantly impact the work engagement level of their personnel. A common justification for this finding might be that human resource practices will be helpful in the formation of the psychological contract of an employee and also create conditions for more inclinations toward work engagement. HR practices can be used to facilitate and improve work engagement which results in several positive outcomes for the organizations. Further, the study suggests that HR practices could be served as important strategic tools for improving employees work engagement (Albrecht, Bakker, Gruman, Macey & Saks, 2015). With this

knowledge healthcare organizations also need to consider the importance of engagement initiation and practices in their organization.

Work engagement, in turn, was found to have significant impact on outcomes: effective commitment, employee performance and job satisfaction. Work engagement predicts employee performance confirms with the Salanova et al. (2005) study on front-line service workers and their customers, that reported work engagement predict service climate, which in turn predicts employee performance. These results bear out the work of other researchers also who have found an association between work engagement and performance (Chughtai & Buckley, 2011; Schaufeli et al., 2006; Sonnentag, 2003). Studies have taken note that work engagement results in greater employee performance, which further contributes to enhanced organisational performance (Tower Perrin, 2003; Gallup, 2004). A possible explanation for this could be that engagement provides personnel with more opportunity to endow themselves in their work and also creates a sense of self efficacy, responsibility and affection. Also, work engaged employees have more energy, are more involved in his work and strongly identified with their work and perform better.

The study found work engagement as a significant predictor of affective commitment. This finding suggests

that employees who were more work engaged will also report greater affective commitment. This finding is consistent with previous studies where work engagement was found to be an important predictor of affective commitment (Hakanen et al., 2006; Saks, 2006; Barnes & Collier, 2013; Albdour & Altarawneh, 2014). Study by Hakanen et al. (2006) reported that work engagement mediated the effects of job resources on organizational commitment. Also, Barnes & Collier (2013) affective commitment influence work engagement. These results suggest that employees who reported higher levels of organizational engagement will also report greater affective commitment. The possible explanation for this result would be that engagement is an individual-level construct, and any positive business results would have to impact individual-level outcomes first (Saks, 2006; Albdour & Altarawneh, 2014). Therefore, when employees hold a positive attitude and attachment towards their organization, they show high levels of affective commitment. In addition, employees who are more work engaged are more likely to have a greater attachment to their organization (Schaufeli & Bakker, 2004). Further, when it shows that employees feeling more engaged in their work and the organization would report high levels of affective commitment (Albdour & Altarawneh, 2014).

Work engagement also found to predict job satisfaction. This confirms the findings

of Burke, Koyuncu, Jing & Fiksenbaum (2009) who found work engagement significantly predicts job satisfaction in their subject area in China among hotel managers. Similarly (Saks, 2006) likewise reported a substantial connection between participation and business satisfaction. It can be inferred that employees who are more work engaged are likely to be more satisfied with their work/job.

### **Implications**

The study indicated that work engagement of Pharmaceutical and Healthcare sector is very worthy of future research as service sector is hugely increasing and there is little work done. Through work engagement organizations can potentially influence the behaviour and attitude of their professionals and significantly influence their organizational performance. So, better understanding of work engagement and its related outcomes may be helpful in promoting individual as well as organizational level performances of the pharmaceutical and healthcare services and also to the enhancement of whole healthcare sector services. Also, there are several future avenues to consider in work engagement research in these areas.

The study provides generalized evidence regarding the antecedents and positive outcomes of pharmaceutical and healthcare sector professionals work engagement. This study use demographics and HR practices as the predictors of the work engagement, still there are many

other HR variables that might also be important in predicting engagement that should be included in future studies. Further, research is needed to answer important questions in the emerging field that links HRM and engagement. Future research could also include a broader range of individual and organizational predictors that are related to particular meaningful role of engagement. There is an enormous scope for the improvement of employees' work engagement through well-structured HR policies like attitude building, better rewards, promotion opportunities and competency training programs etc. Healthcare providers and management should need to understand the importance of resources and benefits that are the most desirable and associated with employee's work engagement. In particular management needs to offer employees with all the resources and benefits that will compel them to reciprocate with higher degrees of engagement. Also, organizations must make efforts to know what drives work engagement in their organization.

Further, findings suggest that work engagement is associated with positive outcomes like performance, job satisfaction and commitment reflecting the importance of engagement at work and understanding the increasing needs of an engaged workforce. No doubt, engagement has potential positive consequences for both employees and their employing organizations of any

kind. Healthcare sector usually don't have any engagement program as researchers got to know during study period and it would be different scenario in future. So, further studies could consider other potentially possible consequences of work engagement in different settings or organizations. Studies may use other analytical approaches to measure the level of work engagement and its consequences at individual and organizational level. Also work engagement implementations in various service sectors. Although study focused Healthcare sector but its finding may be generalized to other service sectors.

### Limitations of the Study

The survey is subjected to the bias and prejudices of the respondents. Hence 100% accuracy cannot be assured. This study was carried out in a short span of time and with limited sample size covered from two regions, wherein the researcher could not widen the scope of the study.

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# Efficiency of Working Capital Management and Profitability: Evidences from Nepal

Ramji Gautam\*

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## Abstract

*The main objective of this study is to analyze the impact of working capital management on corporate profitability of Nepalese listed enterprises. In order to achieve the objective, fifteen Nepalese listed enterprises have been taken as sample covering the period of time 2006 to 2015 B.S. Multiple linear regression models have been employed for the analysis of data. It is evident from the findings that there is a strong negative relationship between variables of the working capital management and profitability of the firm. It means that as the cash conversion cycle increases it will lead to decreasing profitability of the firm, and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level. With reference to control variables, corporate profitability is positively associated with sales and current liabilities to total assets ratio while negatively associate with current ratio, leverage and current assets to total assets ratio.*

**Keywords:** Working Capital Management, Receivable Conversion Period, Inventory Conversion Period, Deferral Payment Period, Cash Conversion Cycle, Return on Assets.

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## 1. Introduction

Working Capital Management has its direct impact on liquidity and profitability of the business organization. The efficient management of working capital plays a vital role in the successful functioning of a business enterprise. Most of the time financial executives are devoted towards managing the current assets and current liabilities, which are the main constituents of working capital. The goal of short-term financial management is to manage each of the firm's current assets and current liabilities to achieve a balance between

profitability and risk that contributes positively to the firm's value. Working capital management is important because of its effects on the firm's profitability, risk and consequently its value. Profitability and liquidity comprise the salient, all too often conflicting goals of working capital management. The conflict arises because the maximization of the firm's returns could seriously threaten the liquidity, and on the other hand, the pursuit of liquidity has a tendency of dilute returns (Smith, 1997). Too much investment in current assets reduces profitability, whereas too

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little investment increases the risk of not being able to pay debt as they become due. Too little current liabilities financing also reduces profitability, whereas too much of this financing increases the risk of not being able to pay debts as they come due. Any of these situations generally leads to lower firm value (Gitman, 2001). Excessive working capital leads to un-remunerative use of scarce funds while inadequate working capital interrupts the smooth run of business actively and thus both impair profitability. Excessive levels of current assets may have a negative effect on the firm's profitability whereas a low level of current assets may lead to lower level of liquidity and stock outs resulting in difficulties in maintaining smooth operations (Van Horne & Wachowicz, 2006). Business success heavily depends on the ability of financial executives to effectively manage receivables, inventory, and payables (Filbeck & Krueger, 2005). Simple mistake made in managing of working capital may have adverse effect on liquidity and profitability of business enterprises. Working capital management is not only to immunize corporations from financial upheaval but can be managed strategically to improve competitive position and profitability. Efficient working capital management can affect the firm's risk, return, share price and value of firm. Over the years, analysts have employed traditional ratio analysis as a primary instrument in the measurement working capital management. In this study, the recently emerged cash conversion cycle has been used to measure the working capital management. The main objective of this study is to investigate the impact

of working capital management on profitability.

Numerous recent empirical studies have aimed to analyze the impact of working capital management on corporate profitability. Most of these previous studies focus their analysis on the effects of working capital management on corporate profitability in the developed countries whereas but the same issue has not been evaluated sufficiently in developing countries like Nepal. In this perspective, the study in working capital management and profitability may be more relevant and useful one. Therefore, impact of working capital management on corporate profitability of Nepalese enterprises has been examined in this study.

## 2. Review of Literature

In recent years, the literature on working capital management and corporate profitability has grown significantly. There is, largely, consensus among different authors, who identify almost similar determinants of working capital management. A number of studies find that there is a negative association between working capital management and profitability. The following discussion provides a brief review of studies, dealing with impact of working capital management on corporate profitability.

**Shin and Soenen (1998)** studied on efficiency of working capital management and corporate profitability. They investigated the relation between the firm's net trade cycle and its profitability. The relationship was examined using correlation and regression analysis. They

found that in all cases, a strong negative relation between the length of the firm's net trade cycle and its profitability. In addition, shorter net trade cycles are associated with higher risk adjusted stock returns.

A study conducted by **Deloof (2003)** to investigate the relationship between working capital management and corporate profitability for a sample of 1008 large Belgian non-financial firms for the period 1992-1996. Trade credit policy and inventory policy were measured by number of day accounts receivables, accounts payable and inventories and the cash conversion cycle was used as a comprehensive measure of working capital management. By using correlation and regression analysis, he found significant negative relation between gross operating income and the number of days accounts receivable, inventories and accounts payable of Belgian firms. The results suggested that managers could increase corporate profitability and create value for their shareholders by reducing the number of day accounts receivables and inventories to a reasonable minimum.

**Khan, Shah, and Hijazi (2006)** have conducted a study of 30 listed nonfinancial firms in Pakistan to analyze the impact of WCM on profitability. Their results show a significant negative relationship between firms' gross profit and the average number of DI and DP, and CCC. But with such narrow datasets, the results can hardly be generalized across different sectors. **Lazaridis and Tryfonidis (2006)** take the case of 131 firms listed on the Athens stock exchange with the same objective

as Khan et al. Their study relies on a five-year panel dataset, and shows that the CCC significantly affects the profitability of firms. This argument reflects the relationship between managing working capital and increasing firm value.

Another study conducted by **Garcia-Teruel and Martinez-Solano (2007)** on effects of working capital management on small and medium sized enterprises' profitability of Spanish firms. For the purpose of study, data were collected from eight thousand eight hundred seventy two small and medium sized enterprises covering the period 1996 to 2002. Use of the multiple regression analysis showed a significant negative relation of profitability with number of day accounts receivables, and number of day inventory. Further, the study pointed out that reducing the cash conversion cycle to a minimum as far as that was reasonable could increase the value of the firm. The result of the study was consistent with previous studies of Shin and Soenen, (1998) and Deloof, (2003)

**Raheman and Nasr (2007)** studied on working capital management and profitability of Pakistani firms. In order to examine the effect of different variables of working capital management including the Average collection period, Inventory turnover in days, Average payment period, Cash conversion cycle and Current ratio on the Net operating profitability of Pakistani firms, they have selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of 6 years from 1999 – 2004. Debt ratio, size of the firm and financial assets to total assets ratio have

been used as control variables. Pearson's correlation, and regression analysis were used for analysis. The results showed that there is a strong negative relationship between variables of the working capital management and profitability of the firm. It means that as the cash conversion cycle increases it will lead to decreasing profitability of the firm, and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level. They found a significant negative relationship between liquidity and profitability.

**Gill, Biger and Mathur (2010)** analyzed the relationship between working capital management and profitability of 88 American firms listed on New York Stock Exchange for a period of 3 years from 2005 to 2007 was selected. The data was analyzed using Pearson Bivariate Correlation Analysis and Weighted Least Squares (WLS) Regression techniques. They found statistically significant relationship between the cash conversion cycle and profitability, measured through gross operating profit. It followed that managers can create profits for their companies by handling correctly the cash conversion cycle and by keeping accounts receivables at an optimal level.

Another study was carried out in Pakistan by **Ali (2011)** to assess the association between working capital management and the profitability of textile firms in Pakistan. The efficiency of working capital management is reflected by three variables: cash conversion efficiency, days operating cycle, and days of working capital. He used return

on assets, economic value added, return on equity, and profit margin on sales as proxies for profitability. A balanced panel dataset covering 160 textile firms for the period 2000–05 was analyzed and an ordinary least squares model and a fixed effect model were employed. The findings of the regression analysis showed that average days in inventory, average days receivable, and average days payable have a significant economic impact on return on assets. The findings of the fixed effect model revealed that average days in inventory and average days receivable both have a significant impact on return on assets. Similar study was conducted by **Afeef (2011)** to determine the potential effect of working capital management on the profit performance of Small and Medium sized firms in Pakistan. To investigate the effect of working capital management on profitability, 40 Pakistani small and medium enterprises (SME's) listed in Karachi Stock Exchange for was taken as sample for a period of six years from 2003 to 2008 which led to a total of 240 firm-year observations. Findings from the analyses suggested that indicators of working capital management had a perceptible impact on profitability of firms under study.

**Maradi, Salehi and Arianpoor (2012)** compared working capital management of two groups of listed companies in Tehran Stock Exchange (TSE), which comprised of chemical industry and medicine industry. In chemical industry, 34 companies and medicine industry, 30 companies were selected and information related to these companies was gathered over 10 years (2001-2010) and analyzed using OLS

multiple regression. The results show that, in medicine industry compared to chemical industry, debt ratio makes more impact on reduction of net liquidity. But examination of impact of LEV over WCR indicate that, in chemical industry, debt ratio makes more impact on reduction of working capital requirements, compared to medicine industry.

**Akoto, Awunyo-Vitor and Angmor (2013)** analyzed the relationship between working capital management practices and profitability of listed manufacturing firms in Ghana. The study used secondary data collected from all the 13 listed manufacturing firms in Ghana covering the period from 2005-2009. Using panel data methodology, the study finds a significantly negative relationship between profitability and accounts receivable days. However, the firms' cash conversion cycle, current asset ratio, size, and current asset turnover significantly positively influence profitability.

An attempt has been made by **Gul, Khan, Rehman, Khan, Khan and Khan (2013)** to investigate the influence of working capital management on performance of small medium enterprises (SMEs) in Pakistan. The duration of the study was seven years from 2006 to 2012. The data used in this study was taken from SMEDA, Karachi Stock Exchange, tax offices, company itself and Bloom burgee business week. The dependent variable of the study was Return on Assets (ROA) which was used as a proxy for profitability. Independent variables were Number of Days Account Receivable (ACP), Number of Day's Inventory (INV), Cash Conversion Cycle

(CCC) and Number of Days Account Payable (APP). In addition to these variables some other variables were used which included Firm Size (SIZE), Debit Ratio (DR) and Growth (GROWTH). Regression analysis was used to determine the relationship between WCM and performance of SMEs in Pakistan. Results suggested that APP, GROWTH and SIZE have positive association with profitability whereas ACP, INV, CCC and DR have inverse relation with profitability.

**Makori and Jagongo (2013)** analyzed the effect of working capital management on firm's profitability in Kenya for the period 2003 to 2012. For this purpose, balanced panel data of five manufacturing and construction firms each which are listed on the Nairobi Securities Exchange (NSE) is used. Pearson's correlation and Ordinary Least Squares regression models were used to establish the relationship between working capital management and firm's profitability. The study finds a negative relationship between profitability and number of day's accounts receivable and cash conversion cycle, but a positive relationship between profitability and number of days of inventory and number of day's payable. Moreover, the financial leverage, sales growth, current ratio and firm size also have significant effects on the firm's profitability. Based on the key findings from this study it has been concluded that the management of a firm can create value for their shareholders by reducing the number of day's accounts receivable. The management can also create value for their shareholders by increasing their inventories to a reasonable level. Firms can also take long to pay their

creditors in as far as they do not strain their relationships with these creditors.

A study conducted in case of **Nigeria by Oladipupo and Okafor (2013)** to examine the implications of a firm's working capital management practice on its profitability and dividend payout ratio. The study focused on the extent of the effects of working capital management on the Profitability and Dividend Payout Ratio. Financial data were obtained from 12 manufacturing companies quoted on the Nigeria Stock Exchange over 5 years period (2002 to 2006). Using both the Pearson product moment correlation technique and ordinary least square (OLS) regression technique, they observed that shorter net trade cycle and debt ratio promote high corporate profitability. While the level of leverage has negative significant impact on corporate profitability, the impacts of working capital management on corporate profitability appeared to be statistically insignificant at 5% confidence level. On the other hand, they observed that dividend payout ratio was influenced positively by profitability and net trade cycle but negatively by growth rate in earnings.

**Omesa, Maniagi, Musiega, & Makori (2013)** examined the relationships between working capital management and corporate performance of manufacturing firms listed on the Nairobi securities exchange. A sample of 20 companies was selected covering the 5 years period from 2007-2011. For the purpose of data analysis, principal components analysis (PCA) is used due to its simplicity and its capacity of extracting relevant information from confusing data sets. Regression of

the principal component shows that the working capital proxies CCC, ACP and control variables CLTA, NSCA & FATA are significant at 95% confidence to performance.

**Almazari (2014)** investigated the relationship between the working capital management and the firms' profitability for the Saudi cement manufacturing companies. The sample included 8 Saudi cement manufacturing companies listed in the Saudi Stock Exchange for the period of 5 years from 2008-2012. Pearson Bivariate correlation and regression analysis were used. The study results showed that Saudi cement industry's current ratio was the most important liquidity measure which effected profitability, therefore, the cement firms must set a trade-off between these two objectives so that, neither the liquidity nor profitability suffers. It was also found, as the size of a firm increases, profitability increased. Besides, when the debt financing increased, profitability declined. Linear regression tests confirmed a high degree of association between the working capital management and profitability.

### 3. Data and Methodology

For the purpose of this study, 15 listed enterprises have been taken as sample. A sample of 15 enterprises consisting of 10 enterprises from manufacturing industry, 3 enterprises from hotel industry and 2 enterprises from trading industry have been taken for the purpose of the study. The reason of choosing these enterprises is primarily due to reliability and availability of financial statements. The enterprises listed in stock market have an incentive to present profits in order to make their

shares more attractive. Contrary to listed firms, non-listed firms in Nepal have less incentive to present true operational results and financial position and usually their financial statements do not reflect real operational and financial activity which makes them less suitable sample for analysis where one can draw inference, based on financial data. In this study, only secondary data has been used. All required secondary data for this study have been taken from different sources such as Security Board of Nepal and annual reports of concerned enterprises. The data cover a ten-year period starting from 2006 to 2015. Multiple linear regression models have been employed for the analysis of data. To get the regression result, the statistical package SPSS has been used.

The present study focuses to examine the effect of working capital management on corporate profitability of Nepalese enterprises.

To examine the impact of working capital management on corporate profitability, the following equations have been used:

$$ROA = b_0 + b_1CR + LEVb_2 + b_3 SALES + b_4CLTA + b_5CATA + b_6ICP + U_t \dots (1)$$

$$ROA = b_0 + b_1CR + LEVb_2 + b_3 SALES + b_4CLTA + b_5CATA + b_6RCP + U_t \dots (2)$$

$$ROA = b_0 + b_1CR + LEVb_2 + b_3 SALES + b_4CLTA + b_5CATA + b_6PDP + U_t \dots (3)$$

$$ROA = b_0 + b_1CR + LEVb_2 + b_3 SALES + b_4CLTA + b_5CATA + b_6CCC + U_t \dots (4)$$

Where, ROA measures the return on assets; ICP, the inventory conversion

period; RCP, receivable conversion period; PDP, the payable deferral period; CCC, the cash conversion cycle; SALES, the sales; CR, the current Ratio; CLTA, the current liabilities to total assets ratio; CATA, the current assets to total assets and  $U_t$  the error term

### 3.1 Variables Definition

All the variables stated below include dependent and independent variables:

#### *Returns on Assets:*

To analyze the impact of working capital management on the firms' profitability, the returns on assets is used as a regressed variable which is defined as the ratio of earnings before interest, depreciation and tax to total assets.

The regressors are, inventory conversion period, receivable conversion period, and payable deferral period, cash conversion cycle, sales, current Ratio, current liabilities to total assets ratio and current assets to total assets ratio which are defined as:

#### *Receivable Conversion Period*

This variable represents the average number of days that the firm takes to collect payments from its customers. The higher the value, the lower is the profitability. It is calculated as  $365 \times [\text{average receivables}/\text{sales}]$ .

#### *Inventory Conversion Period*

This variable reflects the average number of days of stock held by the firm. Longer inventory conversion period represents lower is the profitability. It is calculated as  $365 \times [\text{inventories}/\text{cost of goods sold}]$ .

***Payable Deferral Period***

The payable deferral period reflects the average time taken by firms to pay their suppliers, which is calculated as  $365 \times [\text{average accounts payable} / \text{purchase}]$ . Higher the value, higher will be profit.

***Cash Conversion Cycle***

The continuing flow of cash from suppliers to inventory to accounts receivable and back into cash is usually referred to as the cash conversion cycle. This variable is calculated as inventory conversion period plus receivable conversion period minus the payable deferral period [ICP+RCP-PDP]. The longer the cash conversion cycle, lower will be profits.

***Size***

In addition, size is the firms' sales. There exists a positive relationship between the firm size and its profitability.

***Current Ratio***

Current ratio is a traditional measure of liquidity, which is calculated dividing current assets by current liabilities. There is a negative relationship between liquidity and profitability.

***Debt Ratio***

Debt ratio is calculated dividing total debt by total assets. There is a positive relationship between debt and profitability.

***Current Assets to Total Assets Ratio***

The ratio of current assets to total assets is used to measure the degree of aggressiveness of working capital investment policy with a low ratio being relatively more aggressive. It is calculated

dividing current assets by total assets. There is a negative relationship.

***Current Liabilities to Total Assets***

Ratio of current liabilities to total assets has been used to measure the degree of aggressiveness of working capital financing policy, with a high ratio being relatively more aggressive. It is calculated dividing current liabilities by total assets and there is a positive relationship.

**3.2 Regression Analysis**

The regression equation of ROA on inventory conversion period, receivable conversion period, payable deferral period, cash conversion cycle, sales, current ratio, current liabilities to total assets ratio, the current assets to total assets ratio and leverage is developed. Moreover, ICP, RCP, PDP and CCC each is taken as one of the independent variables and the rest all independent variables to measure impact of working capital management on profitability.

**3.2.1 Regression Results**

The regression results show that there is a negative relation between return on assets and inventory conversion period with statistically significant. By reducing the inventory conversion period, the firms' profitability can be improved. The firms' return on assets is reduced by lengthening the inventory conversion period. The coefficient of receivable conversion period is negative and it is significant. Lengthening the receivable conversion period negatively affects profitability. A significant negative relationship between return on assets and payable deferral period is found in this study. The firms' return on

assets is reduced by lengthening payable deferral period. A negative relationship is found between cash conversion cycle and return on assets. Shortening the cash conversion cycle improves on firms' profitability. These results are consistent with the results found by Deloof (2003).

With reference to control variables, corporate profitability is negatively associated with current ratio. The coefficient of CR is significant in entire model. The leverage and profitability are negatively related in the entire model

and the result is not significant. The profitability is positively associated with sales and significant in Model 3 and 4. The coefficient of current assets to total assets ratio is negative as expected in entire model and it is statistically significant at 10 percent and 5 percent in Model 1 and 3, respectively. The sign of the coefficient of current liabilities to total assets ratio is positive as expected and it is statistically insignificant. It is evident from the Table 3.2 the regression equation does not suffer from any multicollinearity among independent variables.

**Table 3.1: Regression Results of Pooled data**

Variables	Model 1	Model 2	Model 3	Model 4
ROA (Constant)	18.350* (5.623)	15.885* (5.851)	17.999* (5.927)	15.301* (5.637)
CR	-1.044** (-1.924)	-1.008*** (-1.852)	-1.096** (-2.039)	-1.122** (-2.050)
LEV	-2.448 (-0.952)	-2.365 (-0.918)	-3.246 (-1.291)	-2.972 (-1.127)
SALES	0.002635 (1.262)	0.002180 (1.004)	0.003462*** (1.748)	0.003482*** (1.677)
CLTA	2.206 (0.728)	2.243 (0.742)	3.177 (1.053)	2.442 (0.791)
CATA	-7.068*** (-1.653)	-4.183 (-0.937)	-9.336** (-2.076)	-5.951 (-1.332)
ICP	-0.01941*** (-1.671)			
RCP		-0.02230*** (-1.748)		
PDP			-0.01478** (-1.928)	
CCC				-0.002799 (-0.456)
F	2.629**	2.676**	2.794*	2.167**
R Square	0.081	0.082	0.086	0.068
Adjusted R Square	0.050	0.052	0.055	0.036

Note: Figures in parenthesis denote 't' values

\*Sig. at 1percent \*\*Sig. at 5percent \*\*\*Sig. at 10\*

**Table 3.2: Correlations Matrix of Pooled Data**

Variables	ROA	CR	LEV	SALES	CLTA	CATA	ICP	RCP	PDP
ROA	1.000								
CR	-0.178	1.000							
LEV	-0.095	-0.042	1.000						
SALES	0.127	-0.059	-0.090	1.000					
CLTA	-0.049	0.059	0.533	-0.127	1.000				
CATA	-0.113	0.171	0.174	0.191	0.361	1.000			
ICP	-0.177	0.106	0.163	-0.346	0.019	-0.123	1.000		
RCP	-0.231	0.197	0.247	-0.361	0.189	0.249	0.551	1.000	
PDP	-0.112	0.003	0.007	-0.159	-0.013	-0.329	0.309	0.114	1.000
CCC	-0.137	0.166	0.252	-0.222	0.094	0.236	0.474	0.683	-0.351

*Source: Computed from annual reports of concerned enterprises*

#### 4. Conclusion

The efficient management of working capital plays a vital role in the successful functioning of a business enterprise. Most of the time financial executives are devoted towards managing the current assets and current liabilities, which are the main constituents of working capital. Almost all the Nepalese enterprises are still facing the problems of working capital management. The main objective of this study is to analyze the effects of working capital management on corporate profitability of Nepalese enterprises.

It has been found that the sign of the relationship of return on assets with inventory conversion period, receivable conversion period and payable deferral period found in this study is similar to that found in the previous analysis. The firms return on assets is reduced by lengthening the inventory conversion period, receivable conversion period and payable deferral

period. These results are consistent with the results found by Deloof (2003). With reference to control variables, corporate profitability is positively associated with sales and current liabilities to total assets ratio while negatively associate with current ratio, leverage and current assets to total assets ratio. These results are consistent with previous studies. Therefore, there is negative relationship between working capital management and profitability.

Hence, it can be summarized that the relationships of profitability with cash conversion cycle, inventory conversion period, receivables conversion period, payable deferral period, current ratio, leverage and ratio of current assets to total assets are negative while sales and current liabilities to total asset ratio are positively associated with profitability.

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# Labor Disputes and Democratic Management\*

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## Abstract

*In recent years, there has been a surge of foreign investment in China, spurred by reforms and its entry into the global marketplace. Along with increasing direct investment, there have been many labour disputes, which have become the focus of public attention. Labour disputes in China are not only politically influenced but also the result of 'management democratization', which is largely determined by the supply of labour and capital. However, in some areas of China, hostility towards management democratisation still exists, and is thought to be the cause of many labour disputes. A similar situation occurs in Japan, where serious antagonism between labour and management leads to a variety of labour disputes. However, some trade unions want to participate actively in management, in spite of these antagonisms. In this presentation, we re-examine 'management democratization' in China and how a similar form of unionism could be introduced in Japan.*

**Key word:** *Democratic Management, rationalization, labor relations, work council, trade union*

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## I. Introduction

In May 2010, over 100 employees at a Honda subsidiary in Guangdong went on strike demanding for a wage increase (for details of the strike, see Yamaguchi, M., 2-

014). This strike, originally called for by a few young employees, was a result of those employees who had complained regularly about their working conditions combining forces; it was called a wildcat

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\* This paper is based on a major revision of our presentation on the 13th International Conference of IFEAMA, at Hanoi. Based on our discussion the introduction is written by Xiong and Hirasawa. Xiong is in charge of the section 2. And Yu and Hirasawa are in charge of the section 3. Conclusion is written by Takakubo.

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strike, suggesting that it was not approved by the union. What is particularly notable is the fact that numerous migrant workers from rural areas participated in this strike.

The employees demanded a substantial wage increase along with a reorganization of the trade unions: although trade unions in China are regarded as labor unions, they are well known as being organized by the Chinese Communist Party, and thus not designed to represent the interests of workers. In fact, the labor union did not attempt to initiate talks between labor and management, but tried to persuade the employees to return to work. It is notable that these types of strikes are increasing in China.

It is a well-known fact that the Chinese economy, triggered by the reform and opening up that occurred in 1978, introduced a market-oriented economy, which evolved even further because of active investment of foreign capital. In reality, direct foreign investment has increased since the reform, and China had become the world's leading country for accepting foreign capital by 2002. Foreign capital has played a very important role in China's economic development.

However, in recent years, an increase in labor disputes has had a significant impact on China's economic development. The number of labor disputes has increased rapidly since 1994, and a major turning point came in 2008 with the enforcement of a Labor Contract Law. Under this law, the emphasis was placed on protecting workers' rights because of the increase in

less secure employment such as part-time and temporary work<sup>1</sup>.

Generally, the development of the Chinese economy is attributed to the presence of a large number of low-paid workers, the bulk of whom are migrants from rural areas. However, there have been recent generational changes, and low-paid workers with a high sense of entitlement now take center stage. The protection of workers' rights is advancing against the backdrop of this increase in a new generation of workers. Furthermore, new developments are being observed in labor disputes in China due to this rise and based on the protection of worker's rights.

The Guangdong Honda case acted as a trigger. The employees originally requested for a significant wage increase: indeed, corporate profits are certainly made possible because of the low wages paid to workers, and therefore their demands were compelling. However, unlike the labor unions, these workers did not have the means to negotiate and held a weak position within the companies. Hence, they demanded not only a wage increase but also a reorganization of the labor unions. Methods for a democratic management system in China are thus a major issue nowadays.

Democratic management was also a major issue in Japan immediately after World War II: along with defeat came the introduction of a postwar system of industrial democracy by the Allied Forces. This, along with other Allied

<sup>1</sup> For details of the Labor Contract Law, see Yamashita, N., 2008.

policies, resulted in the encouragement of fair working conditions through the formation of trade unions. The several requests for wage increases from the trade unions of this period reflect the difficult living conditions and inflation following World War II. Furthermore, experiences during the war suggested that these requests included changes in management organization, elimination of supervisors, and an end to all forms of discrimination against workers and staff by adoption of a democratic management system. Consequently, many discussions have been held on democratic management methods in the field of Business Administration.

The challenge for this paper is to introduce a democratic management theory in Japan. In particular, the paper will introduce and critique Professor Mori's management theory (Mori, 1965), along with the principles of the "proposal-based fight" labor movement, which brought about the left-wing trade union movement, and consider the issues that this raised about the nature of democratic management.

## II. The Postwar Labor Movement and Mori's Theory on Management

### 1. The Labor Movement after the World War II and "Democratization"

On August 14, 1945, the Japanese government informed the Allied Forces of its acceptance of the Potsdam Declaration, ending World War II. The Japanese economy was greatly affected by the war: infrastructure, such as houses and bridges, was severely damaged by the repeated air strikes, whereas there were mass

layoffs and plant closures in an attempt to avoid wartime cooperation with and accountability to the Allied Forces. During this time, more than 5 million workers were laid off—one third of all workers.

Workers faced a crisis for survival due to food shortages and unemployment, and under such circumstances, they fought the management against plant closures and called for the reinstatement of factories where mass layoffs had occurred. At the same time, with the sharp decline in the real wage index due to inflation, workers further requested a significant wage increase and an 8-hour workday. There were many cases where requests for a threefold increase in wages were actually granted.

Along with these requests, workers sought for the management to take responsibility for the war and asked for management democratization. After the war, those managers who had cooperated in the war effort were certainly criticized and held directly responsible, in part, for the war. Moreover, there is an account by a reporter for the Yomiuri newspaper, about the coal miners' rebellion, which was representative of rebellions against workplace oppression during the War (Yamamoto, 1977: 138).

Workers had in fact been trying to gain rights, such as union approval and democratization of the workplace, during the war but their requests had been rejected. However, following the occupation of Japan, these demands were recognized by the Allied Forces: the purpose of the workers was now to "bring about the

rights of workers in corporations and in the workplace(Yamamoto, 1977; 141)."

Thus, after Japan's defeat, the demands of the labor movement had a broad agenda, from wage increases to the democratization of management, and its tactics involved a "production management" struggle. In general, this struggle took the form of a fight for the workers to manage the business and production on a voluntary basis, as observed in the well-known cases of Tokyo Shibaura Electric and Keisei Electric Railway. Taking the example of the latter, the trade unions dominated the business and production, with a fivefold increase in the regular salary, approval of collective bargaining rights, implementation of an 8-hour day, and the creation of a management council(Yamamoto, 1977; 144).

The management council was one of the most important gains in the case of Keisei Electric Railway: it was composed of an equal number of representatives from the trade union and the company, and made decisions on employee benefits, working conditions, and even business plans(Kimoto, 1977; 272). It was a place for discussions between both labor and management—a forum for collective bargaining in fact. Furthermore, the management council became the "place where unions regulated personnel management(Hyodo, 1997; 54)." However, the management council gradually changed from being a place to discuss government and business offenses to one for labor and management discussions. In this sense, it can be said that governmental democratization in

postwar Japan extended into workplace democratization, at the center of which stood the management council.

Amidst the development of the labor movement after World War II and the demands for management democratization, there were various discussions about management democratization(taniguchi,2004). For example, the Association of Corporate Executives established the "Business Democratization Proposal" in 1947, claiming that a capitalist economy would not be operated for the sake of capital. In other words, under the premise of a "division of ownership and management," the proposal called for a three-part management organization, comprising managers, investors, and workers. Furthermore, the proposal called for both a senior decision-making body composed of workers' and management representatives as well as a management council with the objective of increasing workers' participation in production. Amongst these discussions, though, the most systematic, logical configuration was Shigetaka Mori's theory of industrial democratization.

## 2. "Democratic Management" and Rationalization

In the face of pro-democracy after the war, Mori asked, "If you preach the democratization of management, what understanding we should gain from this?" He also raised the question of what kind of relationship democratization should have with "industrial rationalization" (Mori, 1965; 25).It should be noted here that "democratization of management" and "management democracy" are concepts

that were first created in Germany after World War I, and are understood to be issues relating to the establishment of a Work Council.

The Work Council in Germany was a representative organization of employees established as part of the labor movement's development after World War I, and its authority extended over a wide range of topics, although its main activities were related to social and personnel issues. During the Weimar era, its authority was clearly separate from the trade union to which work councils should be subordinate. In *Economic Democracy*, edited by Fritz Naphtali in the late 1920s, trade unions were called the bearers of "Economic Democracy," whereas Work Councils were regarded as the representative organization of industrial democratization.

Mori noted that, on the basis of establishing this type of Work Council and its activities, the presence of a societal structure in the corporation was now clearly recognized by the corporate side, and recognizing the existence of a societal structure is understood to indicate "industrial democratization." According to Mori, the company is regarded as an organization of societal productivity combining labor, machinery, and tools. Furthermore, in these types of organizations, there are two types of organizational structures for production management: technological and societal.

As the social role of corporations lies in the production of goods and services that

are required by society, their technical aspects become clear at first of all in the developing process of corporations. The technological structure of corporations calls for an organizational cooperation between people as production factors; thus, people are treated as manpower related to a job in a hierarchical organization. The fundamental truths that can be taken from this perspective are the principles of mechanization and rationalization.

The mechanization mentioned here refers to not only the introduction of machinery and the alternative it provides to labor but also the view that human labor can be likened to that of a machine, and under an even more mechanized system the working collective becomes subordinate to that system. Consequently, with the progress of mechanization, people are treated like machines and the problem of dehumanization arises, which causes the labor movement to evolve and work ethics to degenerate. Such a degeneration reduces production efficiency, and therefore management begins to recognize the societal structure of the company.

The principle that governs the social structure of a company is "humanization", and Mori regards the management policy for the humanization as "industrial democracy". As concrete management policies reflecting this, the life security for the workers and the union participation in management are pointed out (Mori, S., 1978, ch.1).

The production rationalization and the demands from labor unions that corporations faced after World War II are systematized in the Mori's theory on the basis of business structure of corporations. "Of course not a few scholars criticized Mori's theory of business administration. For example, Utsumi investigated in detail the social structure of the corporation, and asserts that industrial democratization in the social structure of the corporations is nothing more than a management policies against the labor movement" (Utsumi, Y., 1964). The work council (Betriebsrat) in Germany, which is considered the model of industrial democratization, is expected to contribute to the company's growth mainly through discussions and decisions regarding social matters. As for economic matters, it only has the right to receive explanations from the company. In this way, the work council that Mori understood, is a means to promote industrial rationalization and to gain the cooperation of the workers towards industrial rationalization. In fact, Kawabata et.al., who analysed a dual structure of the corporation, asserts that the dual structure theory in corporations is a theoretical framework for forming countermeasures against workers in management (Kawabata, H., Harada, M. and Matsumoto, Y. (1969)).

Even though Mori's theory on the business structure of the corporation contains many theoretical issues, Mori's greatest theoretical contribution was in positioning the major post-war issues of production rationalization and demands

for industrial democratization as issues internal to the companies, and especially in demonstrating the necessity of policies against labor unions. Of course, the major problem in Mori's theory is that he raises industrial democratization while disregarding the bargaining rights of laborers in production processes. However, new labor movements relating to the rationalization of production and industrial democratization have been observed in recent years. Next, these movements will be examined.

### III. The "Proposal-based Fight" Labor Movement and Unions

On November 21, 1989, RENGO (the Japanese Trade Union Confederation) was organized: "home to about 800 million members, the world's third largest" (The Oohara Institute of Social Research, 1992). Interestingly, on the same day, the ZENROREN (the National Confederation of Trade Unions) was also organized, and ZENROKYO (the National Trade Union Council) was launched in December. RENGO was liberal and was assumed to have inherited the democratic labor movement. In contrast, ZENROREN was founded to challenge the establishment, inheriting the "Fight-oriented, Class consciousness National Center" in Japan.

In practice, ZENROREN criticized cooperative activities of RENGO's labor-management and continued the fight to protect workers' rights. ZENROKYO further attempted to create "Fight, Legitimate Union" groups that were not affiliated to either RENGO or ZENROREN.

Thus, Japan's labor movement was reorganized in 1989.

After the World War II, left-wing trade unions, typified by ZENROREN, engaged in various labor disputes; however, with the economic downturn, changes can be observed even in these labor unions. We will introduce such activities of these so-called left-wing unions, and this analysis will suggest the nature of democratic management.

### **1. From antagonism to making proposals**

A national general union was formed in 1955, which, during the restructuring of the labor movement in 1989, was divided into three organizations. Currently, union membership stands at 29,000, and companies that have unionized include large companies such as A securities. The proportion of female members amounts to 63%, while the ratio of non-permanent employees is extremely high at 56%.

Since its formation in 1955, the national general union has been faced with many disputes, such as dismissals and small business failures due to bankruptcy. Around 1990, with the purpose of dismantling the unions, cases of discrimination and issues concerning dismissal arose, incidents that dealt a crushing blow to the union, whose membership decreased.

Since the late 1990s, under the neoliberal influence of entitlement, improvements to working conditions have progressed. However, the number of unemployed has continued to rise while there has been a shift from permanent to non-permanent work, as well as bankruptcy

and failure of small businesses and a continued fall in employment due to the decline in the local economy. In fact, out of 150 companies that typically conduct business nationwide, sales have dropped by 73% and management status is deteriorating rapidly, with current account deficits standing at 36%. Under these circumstances, the labor movement is no longer focused on the same struggles as it was previously, or even on the workers who were sacrificed with the decline in business. Instead, for the past 10 years, it has been concerned with ensuring that the methods of government policy and management activities in the right direction.

### **2. Proposal oriented class consciousness union activities in practice**

To understand the meaning of the "proposal-based unionism," the example of company A will be examined (See, Zenroren and Zenkoku Ittsuppan). Company A proposed the closure of a factory in Saitama Prefecture on the grounds of poor business results. To object to the closure of the plant, workers held negotiations with the company, focusing on forming a nationwide general branch. Despite promises to the contrary, however, the company continued to prepare for closure of the plant. In response, the labor union performed a business analysis, revealing that the Saitama factory was nearly three times more profitable than the average factory in the industry. Therefore, they argued for the survival of the factory as a source of company growth; at the same time, they put forward a specific plan for improvement. The company did admit the

claims of the union were correct, but the owners insisted on closing the factory.

The union pursued its negotiations with the company, with mediation from the labor committee, but the company dismissed four union members and discontinued collective bargaining with the trade union. In response, the trade union "sought the reversal of a wrongful discharge," as well as proposed an analysis and restructuring of the business. For example, based on the business analysis, company A had a sufficient bank balance and a significant amount of interest was being paid; therefore, cash flow was not a problem, but there was a large amount of debt, and the company was asked the reason for this debt. Furthermore, in an analysis of the company's business plan to reduce labor costs by way of large pay cuts, the union found that the company should first consider cutting "expenses and purchases" further.

As can be observed, in the "proposal-based fight," rather than opposing the proposals of the company as before, the status of the company is analyzed and suggestions for improvements are aggressively made. Another example of suggestions to improve exists in the case of Company B, which proposed a "shift work change" in 2001. As a countermeasure, the workers formed a trade union and put forward alternative proposals. Basically, rather than the "four on, three off" shift system proposed by the company, trade unions suggested that production efficiency could be achieved by keeping the current "three on, three off" shift system but changing from a system where each group included two

people to one where each included three people. In fact, productivity increased by 36% compared with the previous year.

To date, the activities of left-wing labor unions have directly opposed management proposals. However, the economic downturn and decline in local economies has increased their focus on company survival, and the resulting union participation in the management of a company has led to even more improvement plans being proposed to the company. Thus, the democratization of management has indicated greater participation by the workers in the management's decision-making on workplace issues, which had become disconnected from production and production activities, to ensure the company's survival.

#### IV. Conclusion

In this paper, Mori's "management democratization" theory as a framework for exploring democratic management has been briefly introduced, along with the elements of the left-wing union's "proposal-based activities." Generally, the problems with democratic management were emphasized, whereas those of rationalization were downplayed. However, as the "proposal-based union" activities emerged, because of competition and intensification of economic downturn, there has been a strong demand for company survival that requires rationalization of production. In this sense, as Mori states, democratic management should not be considered the only issue, rather, it is necessary to question the relevance of "rationalization" and democratization.

However, the activities suggested under the “proposal-based class consciousness unionism” indicate that management democratization, amidst the important issue of company survival, should not be limited to aspects of social structure but require the participation of trade unions in the production structure. The workers’ morale is said to be raised not only through their participation in the social structure of companies, but also through their participation in business activities against the background of surviving difficulties of firms.

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# Human Resource Management (A Case of Nepalese Political Parties)

Arun K. Thakur\*

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## Abstract

*Human Resource means the people or manpower holding some skills, experiences and has competencies that are ready, willing and able to contribute to organizational objectives. They are source of competitive advantage and said as strategic resource. Human resources are drivers of all the resources of the organizations. Human resource management is concerned with managing human energy and competencies for achieving goals and objectives of the organization. Political parties are social and service oriented organizations, holding large number of diversified human resource, devoted to facilitate the people of the country in their respective fields of work being done by them for their livelihood. The objective of this study is to examine the human resource management functions of political parties regarding acquisition, development, utilization, and maintenance of cadres for achieving their goals and solving the problems of the country. This study is based on descriptive and analytical research design. Factor analysis, focus group discussions are used as tools. This study shows that acquisition functions are not based on competencies possessed by cadres and in accordance of norms and values of executive posts. Training and development programs are not conducted in sufficient manner. Utilization of human resource is not proper. Competent, honest and dedicated human resource or cadres are found humiliated. Maintenance of cadres is also not proper and lacks due recognition and respects.*

**Key Words:** HR, HRM, SWOT Analysis, NC, RPP, TMDP, CPN, UML, MADHESHI

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## Introduction

Managing people is important for managing organizations. Organizations need people and people need organizations. It is people who staff, lead and control organizations. People working in the organizations are said as 'Drivers' of the organizations.

Human resource management is concerned with managing people in organizations. Managers work with and through people. An organization is effective if it achieves its objectives (Robbins et. al. 2005). Better people achieve better results. People are source of competitive advantage. They are strategic resource (Agrawal, 2013).

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All the people possess energy and physical strength. People become human resource when they combine energy and physical strength with competencies. Competencies consist of knowledge, skills, attitudes and potentials for growth which are acquired (Agrawal, 2013).

Human Resources are people who are ready, willing and able to contribute to organizational objectives. HR of an organization includes all employees or members engaged in various jobs at different levels.

HRM is about managing people. It is management of human energy and competencies in the organizations. It is concerned with philosophies, principles, policies and practices related to human aspects of management. It aims at achieving organizational objectives through productive contributions of people. HRM creates harmony between the objectives of an organization and the individuals (Agrawal, 2013).

The term "Human Resource Management" is the new version of what was previously known as "Personnel Management". Prior to the 1960's, personnel management was confined to the activities of a single department i.e. personnel or administrative department. It was typically concerned with personnel functions such as recruitment and selection, reward, appraisal, development, industrial relations, grievances and discipline,

retirement, registration, redundancy and dismissals (Adhikari, 2010).

As the main function in the organization, HRM is concerned with the 'people' dimensions such as staffing, training and development, motivation and utilization, and maintenance. It also provides services to different departments of the organization in the policy matters related to the people dimensions. It is the main function of all line managers like financial, marketing, project, operational managers and so on working with people.

According to Ivancevich, Donnelly, and Gibson (1990) "Human resource management is a process of accomplishing organizational objectives by acquiring, retaining, terminating, developing and properly using the human resources in an organization."

HRM is a system composed of interrelated and interacting parts to achieve desired goals. It is an open system which consists of input- processing-output and feedback components. It operates within an environment.

The Input components of HRM consist of human energy and competencies, organizational goals, strategies and targets, HR plan, HR inventory, job analysis which specifies job requirements, qualifications and skills for various jobs and labor market as a source of external supply for human resource.

The Processing components of HRM system consist of;

1. Acquisition; which ensures the entry of right number of people at the right time at right place in the organization and includes activities of recruitment, selection of right kind of people and their socialization or orientation regarding organization norms, values and culture.
2. Development; which ensures proper competencies of employees to handle jobs consisting of activities such as analyzing developmental needs, employee training, management development and career development which matches long term needs of individual and the organization.
3. Utilization; which ensures willingness of employees for boosting productivity. It consists of activities as motivation for higher output through employee need satisfaction and increased efforts, performance appraisal, compensation management perceived as fair by employees including money, fringe benefits, incentives etc.
4. Maintenance; which ensures retention of competent employees in the organization and consists of activities such as labor relations dealing with employer- employee relations and employee discipline including unionization, collective bargaining and employee welfare programs like safety, health, social security, sports, recreation, canteen facilities etc.

Outputs of HRM system consists of Organization Related Outputs and Employee Related Outputs. Organization Related Outputs are goal achievement, quality of work life through learning and development, recognition of contribution by others, autonomy, intrinsic rewards, extrinsic rewards, productivity, and readiness for change. Similarly, Employment Related Output is commitment, competence, congruence and cost effectiveness.

Since the concern of this study is about political parties so it requires a brief introduction of political parties working in Nepal. Political parties are those organizations which are holding some philosophy and involved in solving the problems of the country. They also want to facilitate the people to uplift their livelihood through good governance. For this purpose, political parties Recruit and Select right kinds of people and are developed through certain orientations and trainings. After that, they are motivated and utilized for serving people of the country. Finally, they are maintained through providing different posts in the organization structure and also providing opportunity to contribute for the nation under different plans and programs of the country as political appointees.

Nepal is a country where 138 political parties are registered according to Election Commission of Nepal. They are broadly classified into two categories. They are Democratic Parties and Communist

Parties. Democratic parties involve Nepali Congress (NC), Rastriya Prajatantra Party (RPP), and Madheshi Parties like Tarai- Madhesh Loktantrik Party (TMLP), Sanghiya Samajwadi Forum Nepal (SSFN), SADVABNA Party, etc. Similarly, Communist Parties includes CPN- Maoist Centre, CPN-UML, Naya Shakti Nepal and others. Before 2046 B.S., most of political parties of the country were struggling against Panchayat System of the country which was thought as autocratic in nature and people had no freedom of speech against King and Kingship. Presses were censored. Major political parties of that very time were NC and few communist parties led by Manmohan Adhikari, Manandhar, and others. During that period of time, Recruitment and selection of members of party was very much strict. They were visiting different schools, colleges, remote villages and towns to motivate people and take membership for their sister organizations and party itself. Members were provided strong orientation and trainings by political parties. They had provision of whole timer funds to maintain the livelihood of members who were involving as a full timer cadre to launch the activities of the party. Leaders of the party were closely assisting and monitoring their activities. Leaders were very much sensitive and kind towards health and safety of their members.

After restoration of democracy and formation of constitution in 2047 B.S. Nepali congress came into power and formed government with absolute

majority. The voices of few members of parliament raised by 'Janmorcha party' were discarded by government; as a result, CPN- Moist emerged in a violent manner and declared peoples' war. After 12 years of peoples' war, second peoples' revolution held in Nepal in 2062-63 B.S. under joint leadership of 7 political parties with indirect support of moist party which was banned during that period of time. The success of such revolution was helpful to throw-out King-ship and declaring Nepal as Federal Republic.

After declaration of federal republic to Nepal, all political parties came into government and enjoyed power and resources for their own. As a result, most of the political parties were broken down by their second man or by minister of their own party sent into government. Now, the question arise that what are the reasons behind that? Is there proper human resource management system?

### **Objectives of the Study**

1. To examine the recruitment and selection process of political parties.
2. To assess the system through which members or cadres are oriented, trained and developed.
3. To evaluate how cadres are utilized and maintained in political parties.

### **Limitations of the Study**

Since there are 138 political parties registered under Election Commission of Nepal. Many of them are very small.

It is almost impossible to study about their HRM system separately. So they are broadly classified into two categories i.e. Democratic parties and Communist parties.

### Research Methodology

This study is based on Factor Analysis where major factors are identified which has coverage of more than 80 percent of total problems. SWOT analysis has also been used for the analysis purpose. Group discussions with central committee members of different political parties and also with their sister organizations were held to collect facts and opinions regarding different aspects of human resource management.

### Results and Discussions

Basically, there are two philosophies regarding establishment of political parties in Nepal. They are Democratic and communistic philosophy. They have different sister organizations like students, youth, farmers, intellectuals, labor, etc.

As per the first objective of the study is to examine the recruitment and selection process of their members for political parties and their sister organizations, it is found that all the parties either democratic or communist party recruit and select their members to conduct the activities and launch the plans and programs of the party to aware them about situation of the country and for the sake of development of the society. The major problems regarding

this part of HRM functions of political parties are identified as follows;

1. The basic academic qualifications, skills, experiences and behaviors required for the membership and holding different posts in party and their sister organizations are not spelt out. Those who passed out their academic level and have no concern with activities of such group of people have been appointed as a leader. As a result, the goal of such organization cannot be achieved. Efficiency and effectiveness can also not be found.
2. Very few numbers of training and orientation programs are launched regarding the needs, objectives and strategies to grow their sister organizations and members of party itself to make them effective.
3. Political parties are service organizations involved in rendering services to the people without profit motive. The people involved in political parties must have career plan but leaders or executives of political parties have not made plan for their career development and develop successors. Mostly they have the tendency to use and throw. They have fear about capturing their leadership position but they donot realize that developing successors will enhance their goodwill and reputation.

At present, all the political parties are providing membership just to show their

number. They are not taking care about their background, behavior, commitment, orientations etc. Bad mannered, corrupted, gundas, smugglers are also allowed to take membership in the political parties. They are given good honor, status, and respect in political parties. They have also given security to conduct their evil activities indirectly. In return, they assist the political parties through providing economic assistance and capturing election booths by creating fear of dons towards people. It is mostly found that honest, committed and dedicated people are kept aloof from organizational activities. The ratio of honest and evil minded people is found to be 20:80.

There are different levels of management in the political parties. The Top level management involved in national and international affairs, Middle level constitutes regional and district levels affairs and lower level management involves in managing constituencies and VDC level affairs. To be a manager or leader of different levels need different level of qualifications, skills, experiences and behaviors, are not spelt out. The selection of member or cadres are to be done based on certain standard criteria but hardly 25-40 percent of criteria are found to be mitigated by them. As a result, most of the political parties are failed in achieving their targeted goals.

The most prominent factor regarding recruitment and selection part is found that there is high deviation between

philosophy and slogan of leaders and actual practice or behavior. They tell one thing and do another thing. As a result, most of the leaders have lost their goodwill, trust and image in the eye of people of the country.

Regarding second objective of this study, it is found that majority of cadre are not clear about objectives and goals of their parties specifically. In democratic parties, there is no culture of organizing orientation and training programs on regular basis to make them aware about current situation, objectives and strategies for their cadres. Lot of investments is made in organizing mass meetings but not for the development of skills and knowledge of the cadres. But in communist parties, it is organized on certain intervals mostly at lower level so their activities are found to be more effective than democratic parties.

Sometimes, it is found that if any opportunities provided by national and international organization for training and seminars, they are fulfilled or attended just for the sake of enjoyment or other purpose not for improving their knowledge. In this way, the development functions of cadres are not found systematic and satisfactory in political parties. As a result, they are unable to develop right kind of cadres to fulfill different level of posts in their organization.

Regarding utilization of cadres, it is found that political parties have diversified workforce around the country. They

have opened different units in different territories of the country and have cadres from different classes, ethnic groups, age, sex and academic levels. All members have certain motives to join the party. They have certain career plan in their mind. They are exerting their efforts to achieve them. But political parties and their sister organizations are unable to provide a plan for career development of their members. They have not developed the system of record keeping about the skills, efficiency, and experience of members. Therefore, they are unable to utilize them properly. There are number of posts at different level of political organizations. Competition is also high. The entire members need certain assignment and responsibilities but parties are unable to provide them responsibilities. Members are interested to contribute but parties have no plan to utilize them. As a result members are always raising their voice against the party leaders. Political parties are unable to provide them work to serve the society.

The maintenance part of political leader is also one of the important dimensions in HRM of political parties. It is well known that political parties are service organization. Their sources of revenue are limited. A leader is decided to stand as a prime ministerial candidate up to 17 times and defeated due to unfavorable situation but when favorable situation comes his candidature is discarded by party. Such type of situation certainly not fair and will create unhealthy environment within party too. Political parties can

maintain their cadres by providing due identity, recognition and respect. Which kind of respect and recognition is to be given to whom, depend upon the quality and quantity of contributions made by them? For this purpose, the mechanism of evaluation is required to be developed. The evaluation system must be fair and transparent which is found at lower degree in the political parties. Favoritism and nepotism is high. As a result, members are frustrated and not interested to exert their effort and also wanted to keep them aloof from the activities of the party.

### Conclusions

Since political parties are service oriented organizations established to serve the people of the country without any service charge. Members join the party to contribute towards society by offering different kinds of services as per needs of the people living in the society. The leaders or executives of the party are responsible to provide platform to serve the people at different level by organizing them in proper way of human resource management system. During this study following conclusion have been drawn regarding HRM of political parties.

1. Recruitment and selection part of members of party and posts are not based on proper qualifications, skills and experiences.
2. Proper training and development programs are not organized for cadres on regular intervals by political parties according to the need of level

and situation to uplift their skills and knowledge. As a result, they are unable to achieve their goals and objectives effectively.

3. Utilization of manpower of parties is found weak. Right men are not appointed according to the need of their central or executive posts. Nepotism and favoritism is high. As a result, they are not able to discharge their responsibilities effectively by sitting on that post and sometimes may create problems to the party itself and their goodwill.
4. Maintenance part is also found weak in political parties. Parties are unable to provide them proper career plan for their cadres through which member can be motivated to exert their maximum efforts towards activities of the party and for country. System of evaluation is not transparent and fair.

### Recommendations

1. Political parties are needed to be seen as service organization not business organization. Doing politics is not to be thought as profession but rendering services to the people without any service charge then only the image and goodwill of political parties will enhance.
2. Recruitment and selection of member of parties must be based on commitment and dedication for discharging services without any service charge. Selection of cadres

for different executive posts might be based on academic qualification, skills, and year of experience.

3. Training and development programs must be provided as per need of the cadres. Once they are promoted and given new responsibilities might be oriented about norms, values, culture and situations to be faced on that post.
4. Utilization of cadres is to be made in effective manner on the basis of their qualification, interest, skills and experiences hold by them.
5. As per proper recognition and respect might be given to members on the basis of seniority which has no cost at all. They are not to be humiliated within organization.
6. Evaluation system might be fair and transparent.

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# Performance Measurement and Organisational Performance in Nepalese Commercial Banks

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## Background

The performance of any economy to a large extent depends on the performance of the banking sector. In recent years the environment that banking sector have to face has brought changes and challenges. These challenges are compounded by deregulation in reaction to the increasing global competition and the shortened product life cycle stemming from technical innovations (Abdel-Kader & Luther, 2008). Competition within this sector, as well as customer awareness of different services offered by the banks, stimulates most banks to adopt non financial measures in order to acquire competitive ability.

Organizations usually do performance measurement to determine things, such as determining the needs of customers, and seeing if they are able to fulfill their requests or not; seeing if they are successful generally; making sure that the taken decisions are made with facts not with emotions. In this context, performance measurement is the way to measure performance across a range of critical success factors that are derived from the competitive strategy.

Performance measurement can be viewed as the process of quantifying the efficiency and effectiveness of purposeful action and decision-making (Waggoner et al., 1999). It is the way to measure performance across a range of critical success factors that are derived from the competitive strategy and critical to the survival of the business (Neely, et al., (1997).

Historically performance measurement systems were developed as a means of monitoring and maintaining organizational control (Nani et al.1990). It can be used to improve an organizational process by focusing on business processes that deliver value to the customers (Neely et al, 1996, Bititci et al, 1997; Neely et al, 2002). According to Dixon et al., (1990), performance measures provides a set of mutually reinforcing signals that direct managers' attention to strategically important areas that translate to organizational performance outcomes and guides managers' behavior toward key organizational outcomes. It has a critical role in translating strategy into action (Kaplan and Norton 1996).

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A business performance measurement system refers to the use of a multi-dimensional set of performance measures for the planning and management of a business (Bourne, et al. 2003). Several studies have emphasized the need to pay attention to performance evaluation measures (Ewert & Wagenhofer, 2006; Adelegan, 2000; Carmona, 2006; Abdel-Kader & Luther, 2006; Islam & Kantor, 2005).

Ittner and Larcker, (1998) states that performance measurement system is important for an organization, because it plays a key role in:

- developing strategic plans,
- evaluating the achievement of organizational objectives,
- and compensating managers.

Bourne et al. (2000) have noted that, for performance measurement to be effective, it must be integrated into the business's management. Parker, (2000), states that performance criteria should be:

- clear,
- reliable and healthy,
- and as well as easily understood by everyone.

A dynamic performance measurement system monitors the developments and changes in external and internal environments (Bitici et al. 2000). The changes in performance measurement systems refer to the methods and key performance indicators used as well as

to the ways performance management information are used (Ferreira and Otley 2009).

Traditional performance measurement introduced in early 1900, centered on its over-reliance on cost information and other financial data (Johnson and Kaplan 1987), worked well for industrial era (Basu, 2001). Prior to 1980's, organizations adopted financial measures (Net profit, return on equity, ROI, etc.) to appraise their performance (Namazi & Abhari 2010).

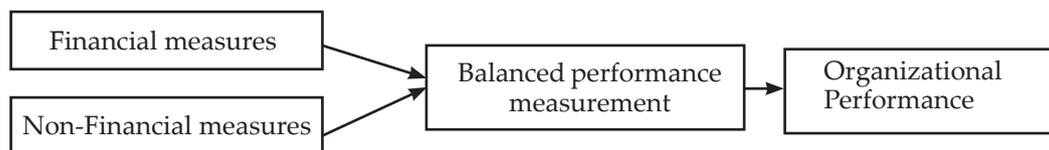
Nowadays many organizations have focused on managing intangible assets (e.g. customer relationships, innovative products and services, high-quality and responsive operating processes), which are non-financial in nature, rather than managing tangible assets (Kaplan and Norton 2001). Non-financial measures should be considered as the heart of describing strategy and of developing a unique set of performance measures that clearly communicate strategy and help in its execution (Kaplan and Norton, 1996, and Frigo, 2002). It highlights the change in strategies from managing tangible assets to intangible assets. The study of Alzoubi (2014) suggested for more attention and support of non-financial measures in evaluating the performance. It must be modified to adapt to the changes in circumstances (Kennerly and Neely 2003).  
Dave S R and

Dave S R (2012) highlighted the significance of measurement of intangible assets and integration of contingencies in performance evaluation and for the establishment of comprehensive

evaluation system in Indian banks. In Latvian banks, the attention was mostly focused on financial and customer measures (Titko J and Lacey N 2010). Wafaa1, and Abderrezzak, (2014) indicated the existence of a positive indirect impact of banking service quality, financial benefits and social bonding on customer satisfaction on Algerian Public Banks. Furthermore the overall performance indexes of commercial banks were higher in large foreign banks, followed by large domestic bank and lastly small banks in Tanzania (Raphael & Man 2013). Where large foreign banks were found to be more efficient compared to the counterparts. The high performance of large foreign banks was due to the fact that these commercial banks had long history of implementing BSC compared to the counterparts.

Scott and Tiessen's (1999) revealed that work teams having more diverse performance measures (i.e., both financial and non-financial measures) achieve higher self-assessed performance. Similarly the local banks in Ghana have been doing better than foreign banks in return on assets and return on equity (Matthew and Esther 2012). Hwang et al. (2009) revealed that privatized government-owned/old banks were larger than private/new banks in Taiwan. Moreover, privatized government-owned banks had significantly higher financial performance index than private banks but both types of banks were not significantly different from each other in non-financial performance index. Hoque and James (2000) also found a significant positive relation between perceived organizational performance and the use of a diverse set of performance measures.

**Figure 1: Frame work of balanced performance measurement and organizational performance**



Several scholars have noted that performance measurement has significant positive link with organizational performance and organizational excellence (Moullin, 2007, Fleming et al, 2009; Joiner et al., 2009). Thus the measures such as the customers, internal processes, growth, and innovation related tools should be integrated (Kaplan and Norton, 1996; Bitici et al., 2000; Laitinen, 2002; Neely et al., 2002; Henri, 2006). Firms that contain both financial and non-financial measures, they will benefit more than the firms that rely solely on financial measures (Bryant et al. (2004).

Performance measurement of financial institutions, particularly commercial banks, has received increased attention over the past several years (Seiford and Zhu, 1999). The financial sector reform of Nepal begins from mid 1980s. Several studies conducted in

banking sector shows that, the competition has been forcing to rethink on better ways of measuring performance. In this perspective, performance measurement and organizational performance in Nepalese banks has been considered an importance issue. Thus the study has attempted to address the following questions:

1. Which financial and non financial performance measures have been used by Nepalese commercial banks?
2. In what extent financial and non-financial performance measure is used in order to evaluate the performance?
3. Under what circumstances does the use of performance measurement systems have a significant influence on organizational performance?
4. What are the problems encountered during performance measurement practices?

### **Objectives of the Study**

The major objective of this study is to examine the performance measurement and organizational performance in Nepalese commercial banks. However, the specific objectives of the study are:

- i. To examine the extent use of financial and non-financial measures in order to evaluate the performance in banks.
- ii. To evaluate the relationship between performance measurement practices and organizational performance.

### **Rational of the Study**

Choosing performance measures is a challenge. The literature in the field of performance measurement emphasizes the importance of maintaining relevant measures that continue to reflect the issues of importance to the business (Lynch and Cross, 1991). Performance measurement and organizational performance in Nepalese banks has comprised in this study. Therefore this study may be fruitful for the managers and other stakeholders.

### **Methodology**

All commercial banks operating in Nepal have been considered as the population of the study. Basically, these banks are classified into three broad categories- government supported public banks, joint-ventures banks and private commercial banks. Only government owned and joint venture banks are the area of concern which was established as per the NRB records before 1990. Twenty seven respondents were selected from five different commercial banks on the basis of convenience sampling method, which constitutes the sample size. The design constitutes both descriptive and exploratory research design. Primary data were collected through self administered structured questionnaire from managers and high level authority of the concerned banks while secondary data from the banks' annual reports and financial reports including profit and loss accounts and balance sheets, government papers and consultancy reports.

## Findings and Discussion

**Table 1: Position Profile of Respondents**

	Frequency	Percentage
CEO/Executive Director	2	7.4
Departmental Head	15	55.60
Manager	10	37.00
Total	27	100.0

*Source : Field Survey 2014*

**Table 2: Respondents view on the significance of performance measurement in the bank**

	Types of Bank		Total Respondents	Percentage
	Government Owned Bank Respondents	Joint Venture Bank Respondents		
Limited Value	3	1	4	14.82
Highly Effective	2	4	6	22.22
A key Managerial Tool	10	7	17	62.96
<b>Total</b>	<b>15</b>	<b>12</b>	<b>27</b>	<b>100</b>

*Source : Field Survey 2014*

Table 2 indicates that most of the respondents of both type banks have expressed their opinion that performance measurement as a key managerial tool.

Table 3: Respondents view in the modification of performance measures when there is a change in the strategic objectives of banks-

	Types of Bank		Total Respondents	Percentage
	Government Owned Respondents	Joint Venture Bank Respondents		
Rarely	2	4	6	22.22
Usually	13	8	21	77.78
Total	15	12	27	100

*Source : Field Survey 2014*

According to table 3 performance measures are usually modified when there is a change in the strategic objectives of banks in both types of banks. It needs to modify the performance measures always for the alignment of measures with their strategic objectives.

#### **Financial Measures with Respect to their Significant Uses and Importance**

There are certain financial measures which must be prepared by all commercial banks in Nepal to follow the rules and regulations administered by Nepal Rastra Bank. Out of them only some measures which are normally plasticized has been considered in this study. ROA and ROE are also important financial measures and significantly used by Nepalese commercial banks.

**Table 4: Financial measures with respect to their significant uses and importance**

(Strongly disagree =1, Strongly agree =5)

	<b>N</b>	<b>Rank</b>	<b>Mean</b>	<b>Std. Deviation</b>
Operating Profit	27	3	4.9259	.26688
Net Profit Margin	27	2	4.9630	.19245
CAR	27	1	5.0000	.00000
EPS	27	5	4.4815	.50918
DPS	27	6	4.0370	.58714
Dividend pay-out ratio	27	7	3.9630	.51750
Credit to deposit ratio	27	4	4.8519	.36201
NPA	27	2	4.9630	.19245
Cost of fund	27	1	5.0000	.00000
Valid N	27			

*Source : Field Survey 2014*

The mean value of Operating profit, Net profit margin, CAR, NPA, Credit to deposit ratio and cost of fund is 5 or approximately 5. Therefore these measures have got significant importance in the performance measurement. Similarly EPS, DPS and Dividend pay-out ratio have moderate importance in performance measurement on both types of banks.

**Table 5: The existing practices over non-financial performance measures by types of banks**

(Strongly disagree =1, Strongly agree =5)

Measures	Government owned bank (Mean Value)	Joint bank venture (Mean Value)
Customer satisfaction index	2.6000	2.6667
Customer loyalty index	2.7333	2.6667
New customer acquisition rate	2.6667	2.5000
Customers per employee	3.3333	3.1667
Customer retention rate	3.4667	3.1667
Cost per customer	2.5333	2.8333
Revenue per customer	2.5333	2.9167
Market share growth	3.5333	3.5833
Percentage of on- time deliveries	4.000	3.7500
Process efficiency to provide services	3.7333	3.5833
Accuracy of handling transactions	3.2700	3.9167
Employee satisfaction scores	3.3333	3.4167
Transactions per employee	3.4000	3.3333
Employees training programmes	4.1333	4.1667
Employee turnover rates	3.1333	2.8333
Employee absenteeism	2.6000	2.5833
Employee skill levels	3.7333	3.9167
Qualification growth of employee	4.0000	4.1667
Implementation of employee suggestions rate	3.9333	3.9833
Corporate social responsibility	3.6000	3.6500
Number of ATMs	4.2000	4.2667
Number of branches	4.1333	4.3333
Number of employees	4.1333	3.7500

*Source: Field Survey 2014*

The use of non financial measures by types of bank is presented in table 5. It indicates that some of the measures are not normally in use in both types' banks but some measures are moderately in use.

**Table 6: Opinions towards the following non- financial measures with respect to their significant importance:**

(Strongly disagree =1, Strongly agree =5)

	Minimum	Maximum	Mean	Std. Deviation
Customer satisfaction index	3.00	5.00	4.3333	.55470
Customer loyalty index	3.00	5.00	4.2222	.50637
New customer acquisition rate	3.00	5.00	4.1481	.45605
Customers per employee	4.00	5.00	4.4815	.50918
Customer retention rate	3.00	5.00	4.2963	.54171
Cost per customer	3.00	5.00	4.2222	.50637
Revenue per customer	3.00	5.00	4.1481	.45605
Customer complaints	3.00	5.00	4.2222	.50637
Customers' wants and expectation in terms service quality and cost.	3.00	5.00	4.1481	.45605
Time taken to deliver new services to customers	3.00	5.00	4.2222	.50637
Market share growth	3.00	5.00	4.1481	.45605
Percentage of on- time deliveries	3.00	5.00	4.2222	.50637
Process efficiency to provide services	3.00	5.00	4.1481	.45605
Accuracy of handling transactions	3.00	5.00	4.2222	.50637
Employee satisfaction scores	3.00	5.00	4.1481	.45605
Transactions per employee	3.00	5.00	4.2222	.50637
Employees training programmes	3.00	5.00	4.1481	.45605
Employee turnover rates	3.00	5.00	4.2222	.50637
Employee absenteeism	3.00	5.00	4.1481	.45605
Employee skill levels	3.00	5.00	4.2222	.50637
Qualification growth of employee	3.00	5.00	4.1481	.45605
Implementation of employee suggestions rate	3.00	5.00	4.2222	.57735
Corporate social responsibility	3.00	5.00	4.1852	.48334
Number of ATMs	3.00	5.00	4.2593	.59437
Number of branches	3.00	5.00	4.2593	.59437
Number of employees	3.00	5.00	4.2593	.52569

*Source: Field Survey 2014*

The mean value of table 6 states that the use of non financial measure is significantly importance for the performance measurement in commercial banks if it used. It indicates the positive attitude towards the importance of nonfinancial measures in both banks.

**Table 7: Comparison of ROE between Government Owned and Joint Venture Commercial Bank**

Fiscal Year	Joint Venture Banks (Three sample banks)	Government Owned Banks (Two sample banks)
	Average Return on Equity (%)	Average Return on Equity (%)
2008/2009	30.19	0
2009/2010	30.16	0
2010/2011	28.38	0
2011/2012	26.24	0
2012/2013	30.29	0+102.96/2 =51.48
2013/2014	27.28	39.54
<b>Average</b>	<b>28.76</b>	<b>15.17</b>

Table 7 depicts the average value ROE of government owned and joint venture banks. It indicates that organizational performance in respect of ROE is greater in joint venture banks. The shareholders equity appears negative for the period of 2008/2009 to 2011/2012 in both governments owned commercial banks and also seems negative in Nepal Bank Limited for the period 2012/2013.

**Table 8: Comparison of ROA between Government Owned and Joint Venture Commercial Banks**

Fiscal Year	Joint Venture Banks (Three sample banks)	Government Owned Banks (Two sample banks)
	Average Return on Assets (%)	Average Return on Assets (%)
2008/2009	2.25	2.36
2009/2010	2.43	1.70
2010/2011	2.33	1.70
2011/2012	2.40	0.87
2012/2013	2.84	1.67
2013/2014	2.56	1.13
<b>Average</b>	<b>2.47</b>	<b>1.57</b>

Table 8 highlights the average value ROA of government owned and joint venture banks. It reveals that organizational performance in respect of ROA is greater in joint venture banks.

## Findings

After the discussions and analysis of various aspects, this study has explored the following major findings:

- Performance measurement has been considered as a key managerial tool by the Nepalese commercial banks.
- Performance measures are usually modified when there is a change in strategic objectives of the commercial banks.
- Financial measures have got significant use and importance while measuring the performance in both types of banks.
- Few of the non-financial measures have been used in minimum scale in both types of banks.
- Respondents of both types of banks have expressed their views towards the significant importance of non-financial performance measures in performance measurement system.
- Basically there is
- Unstable management, lack of professionalism and lack of information technology are the factors that have affected to the change of performance measurement system over time.
- Lack of researches and management information system has become the main problems encountered in the use of non-financial measures in both types of banks.
- Organizational performance in respect of ROA and ROE depicts greater in joint venture Banks.

## Summary and Conclusion

The contemporary competitive environment during the last few decades, organizations all over the world has made several changes to gain and sustain competitive advantages in global markets. It has results the services organizations, to acquire new capabilities for competitive success. Performance measurement systems in today's business environment are different from the 1960s and 1970s and the maintenance of an effective performance management system is a fundamental issue that every organization must continuously pay attention in order to ensure its survival. Traditional financial measures are not sufficient in this globalized environment.

The choice of a performance measurement system is critical for every company in every industry. The discussion and analysis of this study reveals that Nepalese commercial banking sector has relying on the use of financial measures. Non-financial measures have got negligible importance in evaluating the performance which is not a good symptom for Nepalese commercial banks to its long term success.

Unstable management; lack of professionalism and lack of information technology are the factors that have affected to the change of performance measurement system. Similarly lack of research, lack of information and management information system are the main problems encountered during the use of non-financial measures in commercial banks under this study.

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# Identification of Factors Affecting Customer's Satisfaction for Fast Food Menu

Jagat Timilsina\*

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## Abstract

*The Fast Food Companies dealing with products facing major problem of customer taste and quality, because of not being able to fulfill customers expected satisfaction. This paper aims at exploring and comparing the customer satisfaction towards different parameters of quality of the product; it also attempts identifying key determinates by defining a measure of key determinants index. A Customer Satisfaction Index (CSI) is developed to identify the level of customers' satisfaction. The potential advantages of CSI include proper representation and weights assigned to the responses of customers for different parameters of quality.*

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## Introduction

Products that have a quick turnover and relatively low cost are known as Fast Moving Consumer Goods (FMCG). These products are mostly those that get replaced within a year. Examples of FMCG generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. FMCG may also include pharmaceuticals, packaged food products, soft drinks, tissue paper and chocolate bars.

## Measurement of Customer Satisfaction

### Satisfaction

"Satisfaction is a state of mind that arises from having one's needs and desires fulfilled by a product one has purchased". It is what one has when he/she uses a product and is able to say: "Yes, that was a good product; I got everything I wanted'. Of course, it is rarely as clear-cut as that; it is perfectly possible to be both satisfied and dissatisfied at the same time. Priorities differ from individual to individual and they also differ from product's parameter to parameter, so it can be challenging for FMCG sector to generate significant level of satisfaction across all the groups of consumers.

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There is obviously a strong link between customer satisfaction and customer retention (Kathleen, 2012). Customer's perception of service and quality of product will determine the success of product or service in the market (Bhave, 2002).

Several studies find that a higher level of customer satisfaction leads to greater customer loyalty. Through increasing loyalty, it is argued, customer satisfaction helps to secure the future revenue (Bukit, 2006) . "If you cannot measure it, you cannot improve it". There is a need of an Index, which can measure the customer satisfaction.

## Objectives

It has tried to identify the following:

- To find out the market share of a particular brand;
- To find out the Customer satisfaction level (Customer Satisfaction Index);
- To find out the key influencing factors for purchasing of a product;
- To find out the dominating factors affecting the customers' satisfaction.

## Method

The population frame for those consuming FMCG products is not available; one cannot go for probability sampling. Quota sampling has been used. Sample was selected with respect to the location and income of consumers. Following is the quota tracking report.

**Table 1.1 Quota Tracking Report**

		Rural	Urban	Total
<b>Monthly income (in Rupees)</b>	Below 5000	16	13	29
	5001-10000	26	19	45
	10001-15000	20	21	41
	15001-25000	9	17	26
	25001-35000	1	16	17
	Above 35000	3	14	17
<b>Total</b>		<b>75</b>	<b>100</b>	<b>175</b>

The survey was conducted by personal delivery techniques (Dillman, 1999) . Respondent's were targeted location wise in rural and urban areas according to their income level and asked for their participation in a survey. One hundred and seventy five customers

were selected as the sample respondents for the study on the basis of quota sampling. The survey technique ensures that each respondent understands each question and answers them correctly. 100 customers from urban area (Kathmandu) and 75 customers from rural area (Kavre) took part in the survey. Data were collected through questionnaires that were administered to respondents in rural and urban areas. Participation was voluntary and confidential. Nepali was the medium of interviewed at the places involved in data collection. However, the questionnaire administrator was fluent in Nepali as well as English so that he could effectively answer any question raised by respondents. Language was not a problem for the respondents.

**Use of Customer Satisfaction Index (CSI)**

CSI Measures customer satisfaction level, and it Identifies opportunities for improvement in the quality of the product.

**CSI Index**

Consumer Satisfaction Index measures the degree of satisfaction of customers with the FMCG products they use. Researchers have looked at customer satisfaction in terms of different parameters (i.e. Chicken MoMo, Veg. MoMo, Buff MoMo, Chowmin, etc.) and for each of these; respondents have provided an indicator of satisfaction. From scores, one can also calculate an overall satisfaction score.

**Table 1.2: CSI Scale**

<b>Not at all satisfied</b>	<b>Not satisfied</b>	<b>Neutral</b>	<b>Satisfied</b>	<b>Very satisfied</b>
1	2	3	4	5

**Table 1.3: How to calculate the CSI Index?**

Scale	Description	Total	Importance Value
5	Very Satisfied	90	=( Very Satisfied + Satisfied)/Total = (90+68)/169 =0.93
4	Satisfied	68	
3	Neutral	4	
2	Not Satisfied	3	
1	Not at all Satisfied	4	
Total		169	

Average Importance: Importance value each factor/Total Importance value

Performance = Overall mean value of quality parameters

CSI = Performance\*Average Importance

**Materials**

The questionnaire of the survey was prepared by looking at the objectives of the study. In the questionnaire, necessary instructions were given in bold letters and in an easily understood language. Before starting the actual data collection, the questionnaire was

tested on 20 respondents for its simplicity, so that respondents can understand the information required and fill up the questionnaire quickly.

The formats of responses for most of the questions were standardized to reduce the time needed to complete the survey. However, a space was also provided for the responses not included in given standardized answers. The demographic questions were given at the beginning of the questionnaire. This decision was made on the basis of the "foot-in the door" survey approach (Seiders, 2005), which states that, if one agrees to perform a small task, he is more likely to agree later to perform a larger task. The demographic questions focused on name, address, age, education qualifications, contact number which could be considered by some people as sensitive information. In general, the

researcher did not find any difficulty in getting such information.

**Results and Discussion**

**Table 1.4 Frequency Distribution of Brand**

Brand	Market Share
MoMo	90 (51.42%)
Chowmin	6 (3.42%)
Bread Items	15 (8.57%)
Khaja Set	47 (26.85%)
Pizza	4 (2.28%)
Any Other	13 (7.42%)
Total	175

*Source: Survey Data*

The table 1.4 reveals that MoMo has the highest market share (51.42%) and Pizza has the lowest market share (2.28%).

**Table 1.5 Influencing Factors**

Quality Parameter	1	2	3	4	5	Total	Importance	Ave. Imp.	Performance	CSI**
Opinion on Taste	4	4	2	64	93	169	0.93	0.2	4.4	0.88
Opinion on Easy Access	3	6	18	84	60	171	0.84	0.18	4.08	0.73
Opinion Quality	12	21	15	93	27	168	0.71	0.15	3.61	0.55
Opinion on Quick Service	9	8	14	64	75	170	0.81	0.17	4.08	0.71
Opinion on Price	2	17	33	89	30	171	0.68	0.15	3.71	0.54
Opinion on Food Presentation	5	10	34	76	47	171	0.68	0.15	3.71	0.54
Total							4.68	1		3.96

*Source: Survey Data; \* Total vary from 175 (Total Sample Size) because of some non responses.*

\*\*KIFI –Key Influencing Factor Matrix

**Steps for Calculating KIFI**

1. Importance = (Some What influenced +Influenced+ Highly Influenced)/Total Score
2. Average Importance = Importance/Total Importance
3. Performance = Average of the 5 point scale
4. KIFI = Importance\*Performance

Table 1.5 reveals that the taste of fast food is so important factor with easy access. Quality of fast food is still lower position whether quick service is played the importance role to sell the products. Somehow, customer focus on food presentation is also the considerable factors in fast food business.

**Table 1.6 Customer Satisfaction Index**

Quality Parameter	1	2	3	4	5	Total	Importance	Ave. Imp.	Performance	CSI**
Opinion on Taste	3	2	2	40	40	87	0.92	0.2	4.33	0.87
Opinion on Easy Access	2	5	8	46	27	88	0.82	0.18	3.97	0.71
Opinion Quality	4	22	7	45	10	88	0.61	0.13	3.37	0.45
Opinion on Quick Service	3	6	7	36	36	88	0.81	0.18	4.06	0.71
Opinion on Price	1	8	15	46	17	87	0.72	0.16	3.75	0.59
Opinion on Food Presentation	4	8	18	40	18	88	0.7	0.15	3.81	0.59
<b>Total</b>							<b>4.60</b>	<b>1</b>		<b>3.92</b>

*Source: Survey Data; \*Total may vary from 175 (Total Sample Size) because of some non responses.*

\*\*CSI –Customer Satisfaction Index

It is inferred from Table 1.6 that the opinion on taste has the highest CSI (0.87); customer attach high importance to taste. The quality parameter, opinion on price and opinion on food presentation value is shown in low position meaning that MoMo is fabulous products for Nepalese fast food business.

## Conclusion

Several studies have highlighted that a higher level of customer satisfaction leads to greater customer loyalty. Customer satisfaction helps to secure the future revenue. Identification of customer satisfaction by CSI will help the manufacture to understand how fast food products and services provide value to his customers. One can prepare an online CSI module, which continuously monitors the customer satisfaction and analyzes the customer feedback on low CSI values. These give the producer an insight into what they lack in delivering their products or services and where is the scope of improvement.

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# Profitability Performance Analysis in Nepal: With Special Reference to Nepal Telecom Ltd.

Achyut Gnawali\*

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## Abstract

*The main role of Profitability analysis is to lubricate the gears facilitating the economic operations. The communication system plays a major role in transferring information from the person to person. Nepal has adopted financial liberalization policy from the beginning of 1980s by opening financial markets to private sectors and inviting foreign partnership in financial sectors. As a result positive impact has been experienced in development of financial market. The revolutionary development in the information and communication technologies have made possible the modern means of communication to bring to the doorstep and common people. To be able to cope with the situation it is important that Nepal Telecom should maintain its financial health and expands its activities to remain the leader. This paper aimed at investigating the position of profitability of Nepal Telecom. This paper used return on assets (ROA) and return on Equity as a measure of profitability. In developing countries, communication helps to make people sensitive, active, enthusiastic and skilful. Communication is one of the basic infrastructures for national development.*

**Keywords:** Profitability, Productivity, Performance, Nationalized, Communication, NTC

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Nepal is one of the least developed countries with poorest economic condition of the world. Nepal has adopted mixed economic policy for its economic prosperity. It creates the co-existence of private and public sector. The private sectors have a predominant role in market. Most of private organizations are profit oriented; they try to maximize profit by exploiting the people and by providing less quality goods and services. Nepal has adopted financial liberalization policy from the beginning of 1980s by opening

financial markets to private sectors and inviting foreign partnership in financial sectors. As a result positive impact has been experienced in development of financial market. The revolutionary development in the information and communication technologies have made possible the modern means of communication to bring to the doorstep and common people.

Telecommunication is a quick and reliable means of transmitting information. Without telecommunication facilities

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neither the government nor the business community can work effectively. The importance of the telecommunication is not limited to the national boundaries. In developing countries, communication helps to make people sensitive, active, enthusiastic and skilful. Communication is one of the basic infrastructures for national development.

The technology has knocked to the worldwide networking of the communication organization in the present scenario of Nepalese economy, organization should think of some other alternative ways of profit.

In this context, this study has tried to address the following research issues:

- a. In this globalized scenario, what is the position of profitability ratios related to performance of Nepal Telecom?
- b. What is the impact of cost analysis on profitability?

### Objective of the Study

The study mainly intends to evaluate the profitability position & position of NTC and makes suggestions regarding concerned questions. The specific objectives of the study are as follows:

- a. To find out different profitability ratios related to performance of Nepal Telecom.
- b. To examine the impact on cost on profitability.

### Review of Related Studies

**Dhakal (2071)** has published an article titled "*Telecom Industry: Impact of Business Intelligence*". In this competitive world there are limited resources and nothing is constant except change; timely, wise and optimum utilization of these resources is guru mantra for sustainable profitability in this competitive business world. Business Intelligence is about delivering relevant and reliable information to the right people at the right time with the goal of achieving better decision faster; requires methods and programs to collect and structure data and convert it into information and present information to improve business decision. It is pretty much the same as the purpose of "military intelligence": to give commanders at every stage of a campaign a good view of the battlefield and the pros and cons of their options. In the business context, this means telling the business on an ongoing basis the state of the business (production, sales, profits, losses) and the factors that affect success (success of a sales campaign, customer satisfaction, manufacturing efficiency, planning and budgeting).

**Bajracharya (2004)** found the following findings as the topic of "*An evaluation study of telecommunication development in Nepal*". He used secondary data for collection.. The Government of Nepal has given low priority in each and every development plans for telecommunication development of Nepal. The telecommunication facilities in Nepal are very low in comparison with the development countries. The main problems of telecommunication development of Nepal are lack of financial resources, lack of technical

knowledge and problem of management and administration and International telecommunication union has contributed to the establishment of a training institute to train the telecommunication technicians of Nepal are the *major findings of the study*.

**Koirala (2011)** has submitted a thesis entitled "A Study on Sales Planning and its impact on Profitability of Nepal Telecom Limited". The objective of the study is to evaluate the Sales Planning system and its impact on profitability of NTC. The secondary method of data collection has been used. Ratio analysis, Percentage, diagram and correlation are used to make proper analysis purpose.

As per the analysis, actual operating income of the NTC is increasing in fluctuating trend. Sales plan of NTC is not systematic. So, it has not achieved its target to increase operating income. NTC has not adopted of practice of preparing monthly revenue earning reports. The revenue plan prepared by the branches and sub branches were not taken as reference for preparation of central revenue plan. NTC is maintaining its periodic performance report systematically. NTC has launched various services to its customers to increase revenue but in rural area it is not able to fulfill the demands of customers for communication services. Profit position of NTC is good but lack of systematic plan. Operating profit is satisfactory but net profit is not good. A popular and reliable accounting tool. CVP analysis is not applying to analyze the financial performance. NTC has a practice of preparing both strategic long term and tactical short run revenue plan.

## Research Methodology

This study is based on descriptive as well as analytical research design to achieve the objective of the research. This study is based on secondary data. Secondary data have been collected from the annual published accounting and financial statement of NTC. Similarly, other necessary data have collected from publication of the Nepal Telecom (NTC), Central Bureau of statistic and related publications. The Nepalese Public Enterprises are the population. Among the population size, the sample NTC has been chosen and selected which represents the characteristic of the whole population. Mainly statistical, financial and accounting tools have been applied like Return on equity (ROE), Earnings per share (EPS), Net profit margin, Return on total assets (ROTA) and Return on capital employed (RoCE)

## Presentation and Analysis Of Data

Since the profit is the major element of each and every organization for survival, further development and to fulfill corporate social responsibility. In modern business efficiency and effectiveness of any business organization are measured on the basis of profit. Hence, profitability is an important yardstick of a company's success. The long term survival of a company depends on income earned by it. Moreover a firm should earn sufficient profit on each rupee of sales to meet the operating expenses and to avail returns to the owners. But profit is not a matter of chance it should be properly managed with better managerial skills. So profit is the planned and controlled output of management. Sufficient profit is a must to have good liquidity, grab

investment opportunities expand business transaction, finance government is needed to develop budget, overcome the future contingencies and meet internal obligation for the organization.

This ratio shows the relationship between net profit and net sales. The main objective of computing this ratio is to determine the overall profitability of a firm. It reflects the cost price effectiveness of the operation. A higher ratio ensures adequate return to the owner and enables the firm to face adverse conditions arising from declining selling price, rising cost of production and decreasing demand. This ratio is computed by dividing net profit after tax by net sales and expressed as percentage of net sales.

$$\text{Net Profit Margin Ratio} = \frac{\text{Net Profit After Tax}}{\text{Sales}} \times 100\%$$

**Table 1: Showing Net Profit Ratio**

Particulars	Fiscal Year						Average
	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071	
Net Profit After Tax	10178	10775	12120	11605	11299	11681	67658
Sales	20482	25058	26409	32808	34108	35581	174446
NPR%	49.69	43.00	45.89	35.37	33.13	32.73	38.78

The table 1 shows high Net profit margin in different fiscal years. A higher NPR indicates higher overall efficiency of the business and better utilization of total resources. The highest Net profit margin ratio is 49.69% in FY 2065/66 and lowest ratio is 32.72.% in f/y 2070/071. In f/y 2070/071 net profit ratio indicates that one rupees increase in sales helps to further increase profit by Rs. 0.32.

#### **Return on Assets (ROA)**

This ratio is a primary indicator of managerial efficiency. It measures the overall effectiveness of management in generating profit with its available assets. The higher the NTC's ROTA indicates higher efficiency in the utilization of the total assets and vice-versa.

The ratio is expressed as,

$$\text{Return on Total Assets} = \frac{\text{Net profit After Tax}}{\text{Total Assets}}$$

**Table 2: Return on Total Assets (%)**

Fiscal Year	2065/66	2066/67	2067/68	2068/69	2069/70	2070/071	Average
(ROA)	17.30	16.10	15.90	10.90	9.90	9.40	12.30

The table 2 shows that the ratio of Nepal NTC has ranged between 9.40% (in the year 2070/071) to 17.30% (in the year 2065/2066) with an average of 12.30%. NTC has decreasing ROA ratio, this showed that the overall effectiveness of management in generating profit with its available assets is in moderate condition. There are enough opportunities for the management of NTC to effective utilization of accrued assets. The return on assets 12.30 % implies that the NTC's investment in total assets offers 12.30 % return after recovering all operating expenses, interests and taxes.

### Return on Equity Ratio (ROE)

Equity refers to the owner's claim of the NTC. The excess amount of total assets over outsiders' liabilities is known as shareholder's equity. It is also known as net worth. This ratio measure how prudently the management has employed shareholders fund keeping the interest of shareholders and maximize their net worth. The ratio provides the foundation necessary for the company to deliver good return on equity. Higher ROE is better for owner. This ratio is calculated dividing net profit by total equity capital.

The ratio is expressed as,

$$\text{Return on Equity} = \text{Net profit After Tax} / \text{Total Equity Capital}$$

**Table 3: Return on Equity Ratio (ROE) (%)**

Fiscal Year	2065/66	2066/67	2067/68	2068/69	2069/70	2070/071	Average
(ROE)	24.44	22.85	26.75	23.43	21.06	20.28	22.94

The table 3 shows that the return on equity ratio of NTC is fluctuating. The ratio of NTC fluctuates within (20.28%) to (26.75%) with an average of (22.94%). NTC has positive ROE due to the profit during six fiscal years. It means that NTC's total shareholders' investment offers 22.94% return after recovering all operating expenses, interests and tax payments. It can be concluded that ROE is decreased in the year 2070/71 compared to the previous year 2069/70.

### Return on Capital Employed (ROCE)

Return on capital employed measures management efficiency on how well the funds in total have been used to generate optimum profitability. This ratio provides a test of Profitability related to the source of long term fund. It also reveals how much the fund is efficiently utilized by company. Higher ROCE implies more efficiency in utilizing the capital employed.

The ratio is express as,

$$\text{ROCE} = \text{Net profit after tax} / \text{Total capital Employed}$$

Whereas, capital employed = Total assets- Current liabilities

**Table 4: Return on Capital Employed (ROCE) (%)**

Year	2065/66	2066/67	2067/68	2068/69	2069/70	2070/71	Average
Ratio	24.94	20.19	16.76	15.52	14.55	14.49	17.74

The table 4 shows that the return on capital employed fluctuating. The ratio of NTC fluctuates within (24.94.07%) to (14.49%) with an average of (17.74%). NTC has positive Return on Capital Employed during six fiscal years but in decreasing order.

**Earnings per Share (EPS)**

The performance and achievement of NTC can be identified with the earning power of the NTC. In general case, higher earning implies the strength if the NTC. EPS is the widely quoted statistics in every investor’s world. Every shareholder is much interested in the return on the share. A company is ingestible when the capital invested can earn adequate return per share.

The ratio of earning available to the common shareholders to their outstanding share capital is express as,

$$\text{Earnings per share} = \text{Net profit available to equity holders} / \text{No. of ordinary share outstanding}$$

**Table 5: Earnings per Share**

F/Y	2065/66	2066/67	2067/68	2068/69	2069/70	2070/071	Average
EPS	67.85	71.83	80.80	77.36	75.32	77.87	75.18

The table 5 exhibits that earning per share of Nepal NTC has ranged between Rs 67.85 (in the year 2065/66) to Rs 80.80 (in the year 2067/68) with an average of Rs75.18.

**Correlation Analysis**

Correlation is a statistical tool design to measure the degree of association between two or more variables. In other word if the changes in one variable affects the changes in other variable, then the variable are said to be correlated when it used to measure the relationship between two variables, then it is called simple correlation. The coefficient

of correlation measures the degree of relationship between to sets of figures. One of the very convenient and useful ways of interpreting the value of coefficient of correlation ( $r$ ) between the two variables is coefficient of determination, which is denoted by  $r^2$ . It explains the total variation independent variable is explained by independent variables.

#### Correlation between Profit and Sales Revenue

Table 6:

Coefficient of orrelation( $r$ )	Relationship	$R^2$	P.E	6.P.E.	Sig/Insig
0.6308	Positive	0.3979	0.1567	0.94	Insignificant

The table 6 shows the relationship between Profit and Sales revenue. The coefficient of correlation between Profit and sales revenue is 0.6308. The company has positive correlation between profit and sales. Coefficient of determination ( $R^2$ ) is measured of the degree of the linear association between profit and sales revenue. The  $R^2$  of NTC is 0.3979. It indicates that the company has 39.79 percent variation explained in Profit due to changes in sales revenue respectively.

To measure the significant of the relationship between Profit and Sales revenue, it would be more preferable to calculate probable error of correlation coefficient. The correlation of the company is less than 6.P.E.i.e 0.94, which indicates there is insignificant between Profit and Sales revenue.

#### Correlation between Profit and Cost

Table 7:

Coefficient of correlation( $r$ )	Relationship	$R^2$	P.E	6.P.E.	Sig/Insig
0.7533	Positive	0.5675	0.1191	0.7146	Significant

The table 7 shows the relationship between Profit and Cost. The coefficient of correlation between Profit and Cost is 0.7533. The company has positive correlation between profit and Cost. Coefficient of determination ( $R^2$ ) is measured of the degree of the linear association between profit and Cost. The  $R^2$  of NTC is 0.5675. It indicates that the company has 56.75 percent variation explained in Profit due to changes in Cost respectively.

To measure the significant of the relationship between Profit and Cost, it would be more preferable to calculate probable error of correlation coefficient. The correlation of the company is more than 6.P.E, which indicates there is significant between Profit and Cost.

## Findings and Discussion

NTC has decreasing ROA ratio, this showed that the overall effectiveness of management in generating profit with its available assets is in moderate condition. Actual profit of NTC for 2070/071 is less compared to actual profit forecasted by regression equation. The profitability of NTC is satisfactory, as it has not beard losses during six fiscal year of the study. NTC has positive ROE due to the profit during six fiscal years. It means that NTC's total shareholders' investment offers 22.94% return after recovering all operating expenses, interests and tax payments. NTC has positive Return on Capital Employed during six fiscal years but in decreasing order where in the year 2065/066 is highest and lowest in 2070/071. The EPS of NTC is fluctuating during the six years. Year 2066/67 shows the highest EPS during the study period. The profit of NTC raises from 2065/066 to 2067/068 then tends to decrease afterwards during the study period. All the profitability ratios (ROA, ROE, EPS and Sales to total assets ratio) are positive which shows satisfactory profitability position of NTC. There is Positive correlation between Profit and sales revenue i.e. (0.6308). The Probable error of profit and sales revenue is 15.67 percent. There is insignificant relationship between profit and sales revenue. the researcher comes to the conclusion that the profitability position of the NTC has satisfactory results.

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# Tax-to-GDP Ratio in Nepal: A Critical Analysis

Jit Bahadur K.C.\*

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## Abstract

**Purpose** – This paper aims to analyse the status of tax as percentage of GDP to attain the form and nature of reality in order to reform the tax system.

**Methodology/design/approach** – This descriptive study includes historical data of the time series nature sourced from the Economic Survey, the World Bank Data Base, CBS Booklets, Journals, Bulletins, etc. and comprises the categorical amount of tax, non-tax, and GDP for research variables.

**Findings** – The study found that low tax to GDP ratios in Nepal as compared to other developing, and developed countries. However, results showed that the performance of tax to GDP ratio of Nepal is quite appreciable in the recent years compared to Afghanistan, Bangladesh, India, Pakistan and Sri Lanka. But, there is a large fiscal gap in budget of Nepal. Thus, we suggest that to apply the proper measures of improvement in the tax system to attain the best result of tax to GDP ratios.

**Originality/value** – This paper provides an explicit result of the tax as a percentage of GDP of Nepal for the duration of 39 years. Thus, the study includes the new knowledge and differs from existing literature.

**Keywords** – Tax revenue, non-tax revenue, gross domestic product, economic growth.

**Paper type:** Empirical

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## 1. Background

The economic growth is closely linked with the human prosperity, which is possible only through an effective tax system. The programs, policies and functions of the government directly influence all the activities of the society. The experts of

public finance believe that taxation is a tool to levy the taxes on income, wealth, and expense of their citizens without direct *quid pro quo*, which plays a key role in the economic performance of the State.

The taxation is the crucial and interdisciplinary subject that closely

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links to the political ideology of the government. For example, Lamb (2005) argued that interdisciplinary subject and Kenny and Winer (2001) claimed that is one of the cornerstones of all the political regimes. Thus, the tax system of a country significantly influences the laws, accounting, economics, psychology and philosophy.

The raising of revenue is the foremost objective of the taxation. In the same way, the efficiency, long-run growth, redistribution, and state building are the subsidiary. However, the developing countries have been suffering from the large scale of fiscal gap and the governments are quite unable to finance the required goods and services to their citizens. In this respect, the economists suggest that various methods for reducing the fiscal gap. For example, Silim (2013) suggested that some noticeable areas for raising the more tax revenues using three weapons, i.e., taxing to unpopular area, raising of the tax rate to mainstream of taxation, and searching of the new area to levy the tax.

The governing tax system and collection of tax revenue substantially influence the gross domestic product (GDP) of a country. But, there is a never ending debate among the economists about the tax and GDP concerning which effects to which. Some economists argue that the collection of tax in a year effects the amount of GDP in the latter year, and some argue that the increased GDP of a year effects the collection of tax in the latter year. However, we argue that the collection of tax on income, wealth and expense occurs during the year in Nepal except some

arrears of taxes. Thus, the measurement of relationship of tax to GDP is to for the same year.

The GDP is a yardstick of all the economic activities, which measures the value of goods and services that a country produces within a particular period of time (especially in a fiscal year) communicating them in either nominal or real terms. The former reflects the value of all the goods and services which produced in a country during a particular period, using their price at the time of production, and the latter also reveals the value of the produced goods and services, but it uses constant consumer, and producer price indices to remove the effects of rising price levels (inflation).

The results of the real GDP exist either in positive or negative. The former denotes the welfare of individuals in an average, the rise of income, and higher level of consumptions and the latter represents the lower incomes, lower consumption of goods and services consequently a lower level of standard of living of the people (K.C., 2015).

In fact, there is an inseparable association between the variables of taxation with the GDP. However, the composition of tax structure and their rates vary country to country according to their natural endowment, and the state governing principles by their governments. Thus, in this article, we conclusively discuss the various ratios concerning to the tax to GDP of Nepal to explore the level of economic performance.

### 1.1 Problems

The agriculture is the major occupation of the Nepalese people, but it is a least productive sector too. USAID (2011) reported that two-thirds of the labour force of agriculture generate only one-third of total output of the GDP. The 13% labour force of industry and 20% labour force of services sector produce 17% and 50% output of the GDP respectively.

There are several weaknesses in revenue sectors in Nepal. For example, the IMF (2011) claimed that the weaknesses as import base Customs revenue, weakest non-tax revenue collection, weakest income tax revenue collection; tax base erosion unscientific exemptions and incentives, weak productivity in both VAT and income taxes, low tax rate, and weak export promotion.

There is a great disparity and inequality between the rich and poor in income in Nepal. For example, CBS (2012) testified that Gini-Coefficient of Nepal is about 0.328 (0.353 in urban and 0.311 in rural) and GDP growth rate averages 4.63 percent in every year. The preliminary estimate of per capita GDP at current prices stands for the Nepalese people 57,726 rupees (USD 735) in 2011/12 (CBS, 2011).

Nepal is the one of the poorest country of the world and the poorest in the South Asia too. It needs stable financial systems for economic growth where the Government can draw required and appropriate policies, and programs to attain the targeted goals for the economic prosperity. The growth of a country needs a rapid increase of public expenditures to

make the overall infrastructure of general interests (K.C., 2012).

Nepal has been suffering from the huge fiscal gap, however, it has been completed nearly 13 periodic plans. Thus, we conducted this study of tax to GDP ratio to suggest the appropriate measures for economic growth.

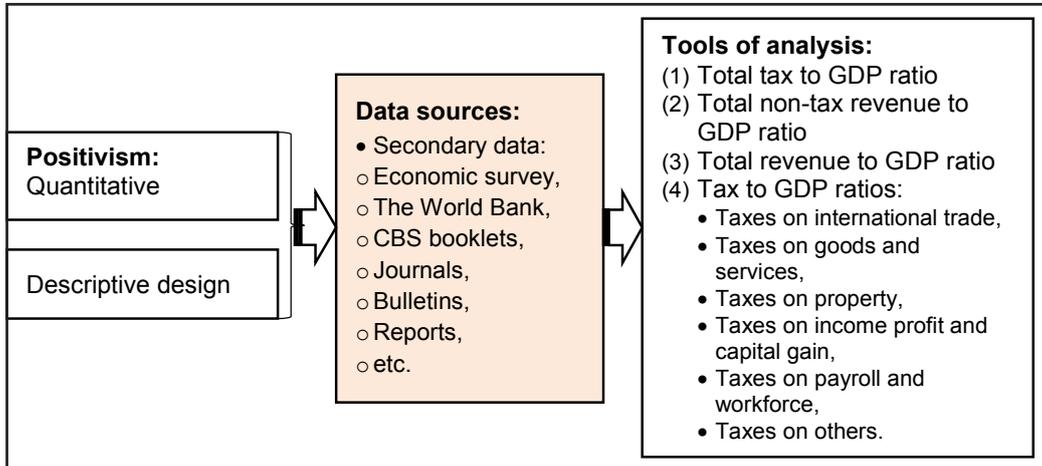
### 1.2 Objectives

The main objective of the study is to analyse the tax as percentage of GDP of Nepal for the 39 years (from the fiscal year 2074/75 to 2012/13) for the implications of the tax policy reform. The subsidiary objectives of the study consists: (a) to analyse the total revenue as percentage of GDP, (b) to analyse as a percentage of every major categories of taxes with the GDP, and (c) to suggest the appropriate for corrective measures.

### 1.3 Materials and Methods

The construct of the study bases on the basic belief of the positivism with quantitative methods (Denzin & Lincoln, 2000). This descriptive analysis includes the historical data sourced from the Economic Survey 1975 to 2013, the World Bank database, CBS booklets, Journals, Bulletins, etc. The obtained data of tax, non-tax revenue, and GDP, tabulated in the required format and applied them into the percentage of GDP, i.e., different types of revenues (major categories of the tax revenue and non-tax revenues collectively) divided by the GDP of the current year and multiply by hundred. The calculation of the ratios grounds on the following features and format.

Figure 1: Methodology, design and approach



Source: Author's elaboration

The study presents all those ratios based on the tax, non-tax, and overall revenue (excluding the grants) to the GDP for the respective years. In order to obtain the results from the ratio, we used established formula, which most of the experts of the IMF, the World Bank, USAID, etc., use them frequently. To conclude the results of the 39 years, we trace the resulted data into the figures to analyse the economic activities in relation of the taxes.

#### 1.4 Scopes and Delimitations

The study examines the revenues and GDP activities of the past 39 years, which presents an economic history of Nepal. Indeed, it is a lesson for the future. Thus, the study is equally important for the historians, lawyers, analysts, policy makers, scholars, and the government officials. Because, it highlights about the policy implications for the governments and add a brick to the academic literature in respect to further study on the subject.

The study covers the duration of 39 years (since the fiscal year 1974/75 to 2012/13) and includes all types of major categories of taxes and non-tax revenue excluding grants and debts of Nepal. In analysis, we used established formula, i.e., tax or non-tax or overall revenues as percentage of the GDP and did not apply other tests due to the sufficiency of the ratios to interpret the results.

## 2. Review of Literature

The research review concerns to the critical examination of the previous literature for the examination, test, discussion, survey in order to accumulation of knowledge in the related subject. Thus, in this section, we review the different existing literature about the tax to GDP ratio precisely in the following table.

**Table 1: Literature review**

Researchers	Findings	Suggestions
Ssewanyana and Okidi (2008)	Low tax to GDP ratios in Uganda by the lack of proper mobilization of the available resources	To reform the existing tax system.
Pasha (2010)	Low tax to GDP ratios in Pakistan	To reform the taxation to build an appropriate tax structure (progressive, broad base and balanced).
Chaudhry and Munir (2010)	Determinant factors of low tax to GDP ratio, i.e., the closeness, broad money, external debt, foreign aid, and political instability in Pakistan.	To boost the openness, literacy level, political stability, broadening the tax base, and by controlling income inequality, tax evasion and tax exemptions.
Nawaz (2010)	The negative relationship between corruption and tax to GDP ratio, i.e., the high rate of the corruption lowers the tax to GDP ratio and vice versa.	To control of corrupting areas.
Mansur and Yunus (2010)	Various weaknesses of the Bangladesh: lower level of revenue mobilization, regressive nature of taxation, higher tax incidence, narrow tax base, high degree of tax evasion, limited administrative capacity, resource constraints (human and logistics), and cumbersome legal procedures. Lowest tax to GDP ratio in SAARC followed by Pakistan and Nepal.	To reform the tax system.
Mashkoor, Yahya, and Ali (2010)	Direct tax to total tax ratio, and direct tax to GDP ratio causes the real GDP growth in the short-run, in the same way direct tax to total tax ratio Granger causes real GDP growth and direct tax to GDP ratio, but in the long-run direct tax to total tax to total tax ratio do not cause GDP growth in Pakistan.	
Itriago (2011)	The tax policies of the IMF have negative impact in the developing countries because it encourages indirect taxes (regressive taxes).	To implement the progressive and fair tax to raise the required tax revenue in Pakistan.
Le, Moreno-Dodson, and Bayraktar (2012)	The countries ranking into the four different groups: low tax collection, low tax effort; high tax collection, a high tax effort; low tax collection, a high tax effort; and high tax collection, low tax effort based on benchmarking methodology globally.	

Therefore, there is an entire gap in the Nepalese literature in the field of the tax to GDP ratio. Thus, the study aims to analyse the basic status about the tax to GDP ratio in Nepal.

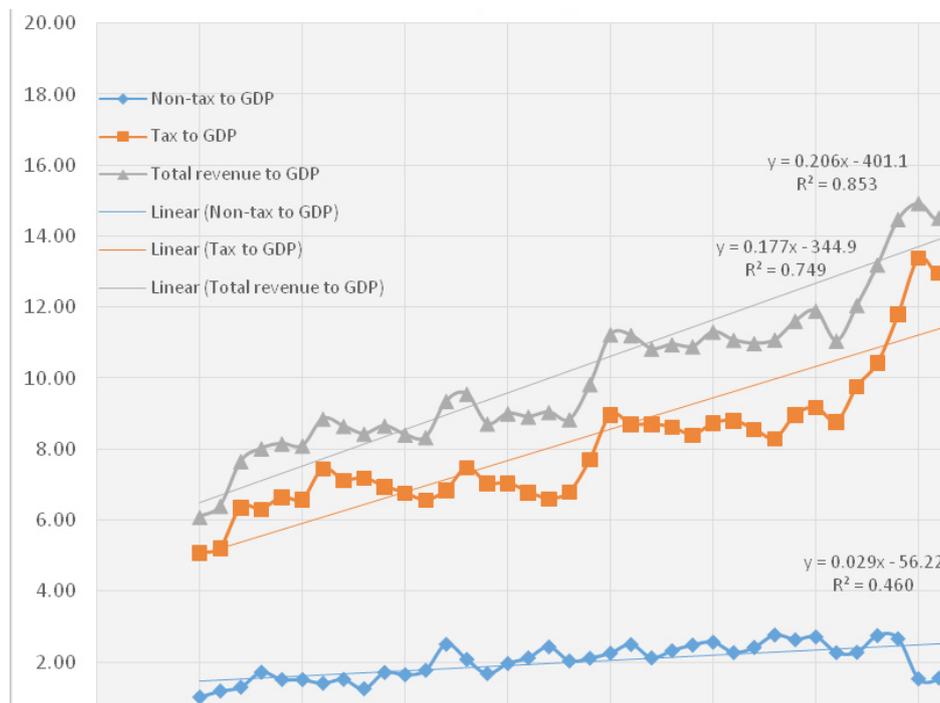
### 3. Result

A ratio is a tool to compare the two or more similar quantities or amount, and alternatively, it is also known as a proportion of the two or more amount of data. Thus, tax, non-tax and overall revenue (individually or collectively) can measure with the GDP as a proportion to check the performance of the tax, non-tax, and overall revenue variables. Thus, in this section, we presented the tax, non-tax and overall revenue as percentage of GDP in the first section, and major categories of taxes to GDP of Nepal in the latter sections.

#### 3.1 Tax, non-tax and overall revenue as percentage of GDP.

Under this section, we present the result of tax, non-tax and overall revenues as percentage of GDP to view the performance and trend of those revenues since the 1974/75 to 2012/13 in the following figure 2.

Figure 2: Tax, non-tax and overall revenue as percentage of GDP



Source: Annex -1

Tax revenue refers to compulsory transfers to the government for public purposes, however, the certain compulsory transfers, i.e., fines, and penalties are excluded from the tax revenue. Similarly, non-tax revenues consist prices received by the government and overall revenues concern for the total of both.

The observation revealed that the overall revenue to GDP ratio stood in growing trend, but, in the micro analysis some years found lower performance than their previous years. For example, F/Y 1980, 1982, 1983, 1985, 1986, 1989, 1991, 1993, 1996, 1997, 1999, 2001, 2002, 2006 and 2011 found lower performance than their respective previous years. Similarly, the overall tax to GDP ratio also found in the increasing trend, but, in the year to year analysis they also fluctuated in some years from their respective previous years. The highest value of negative found in 2011 by the 0.43% and lowest negative in 1983. The value of negative resulted years were 1978, 1980, 1982, 1984, 1985, 1986, 1989, 1991, 1992, 1996, 1999, 2002, 2003, 2006 & 2011. On the other hand the overall non-tax revenue also fluctuated in some years. The largest negative was in 2010 by the 1.14% and lowest in 1981 by 0.10%.

The largest change in overall revenue to GDP from the previous year was 2012 and 2013 by 1.49% and lowest in 1992 by the 0.13%.

### **3.2 Taxes on international trade; goods and services; property; income, profit and capital gain; others; and payroll as percentage of GDP.**

Nepal has divided the tax revenues into the broad six heads. The first head taxes on

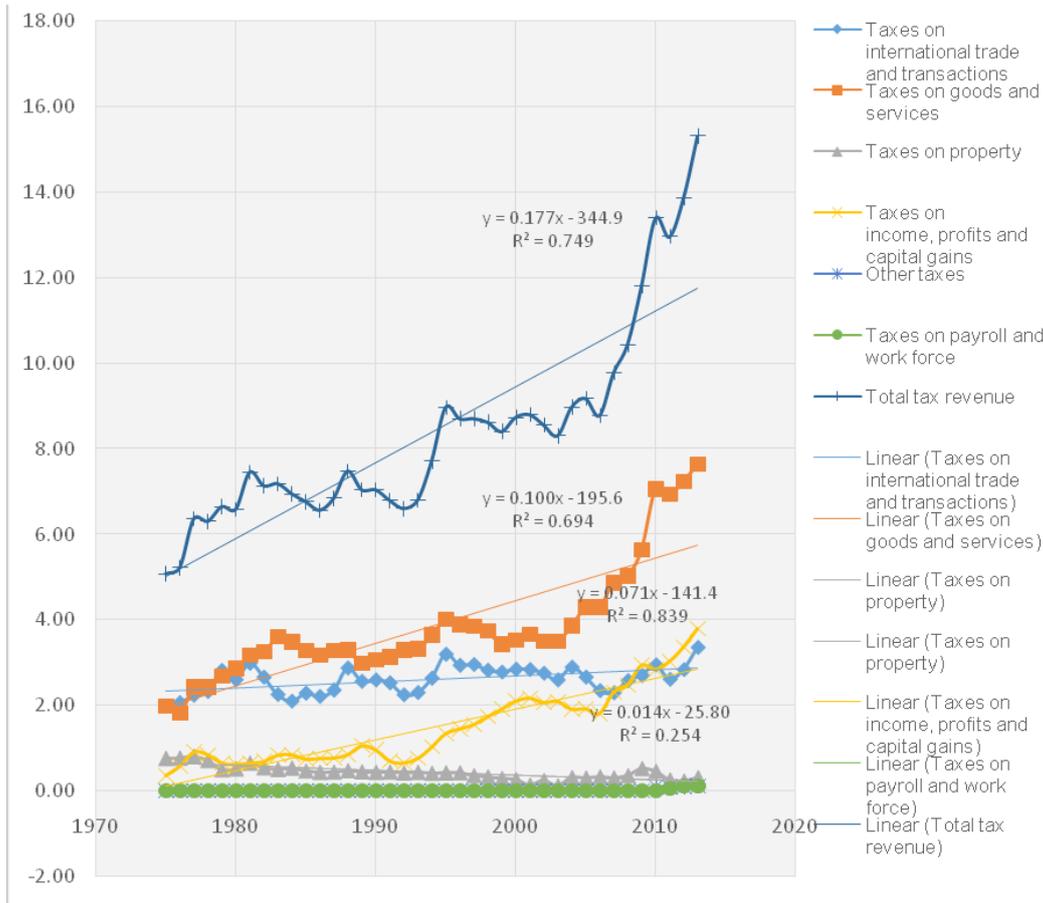
international trade includes 3 subheads, i.e., import duties, export duties, Indian excise refund and others. The goods and services tax include industrial product, liquor contract, sales tax/value added tax, tax on specific services, taxes on the use of the goods on permission to use goods, entertainment tax, hotel tax, air flight tax, contract tax and road bridge maintenance tax and others. Similarly, the third head property tax includes Land revenue and house and land registration. The fourth head income, profit and capital gain comprise income tax from public enterprises, income tax from semi-public enterprises, income from private corporate bodies, income from individuals, income from remuneration, urban house and land tax, vehicle tax, tax on interest and other taxes. The fifth other taxes take account of registration fee and ownership certificate charges and finally in sixth heads social security taxes on payroll.

In 1997, Nepal introduced a value added tax system, replacing the sales tax, entertainment tax, hotel tax, air flight tax, contract tax, and road and bridge maintenance tax and others.

Nepal introduced taxes on the use of goods and permission to use goods in 2010 under the head taxes on goods and services. In the same year, Nepal introduced other two subheads of taxes on other tax like registration fee and ownership certificates charges. The taxes on payroll and work force implemented in 2011.

Thus, we present the performance status of those major heads and their trend in the following figure 3.

**Figure 3: Taxes on international trade, goods and services, property, income profit and capital gain, others, payroll and workforce and total tax revenue as percentage of GDP**



Source: Annex - 2

The stated figure 3 showed that the growing trend of tax revenue, but, in some years it is negative. The actual performance on overall tax revenue to GDP was 5.08% in 1974/75 and it reached 15.31% in 2013. The performances, higher than the trend line were 6.37% (1977), 7.45% (1981), 8.97% (1995), and 13.40% (2010). Similarly, the performance, lower than the trend lines were 6.57% (1986), 6.61% (1992), 8.41% (1999), 8.31% (2003) and 8.78% (2006).

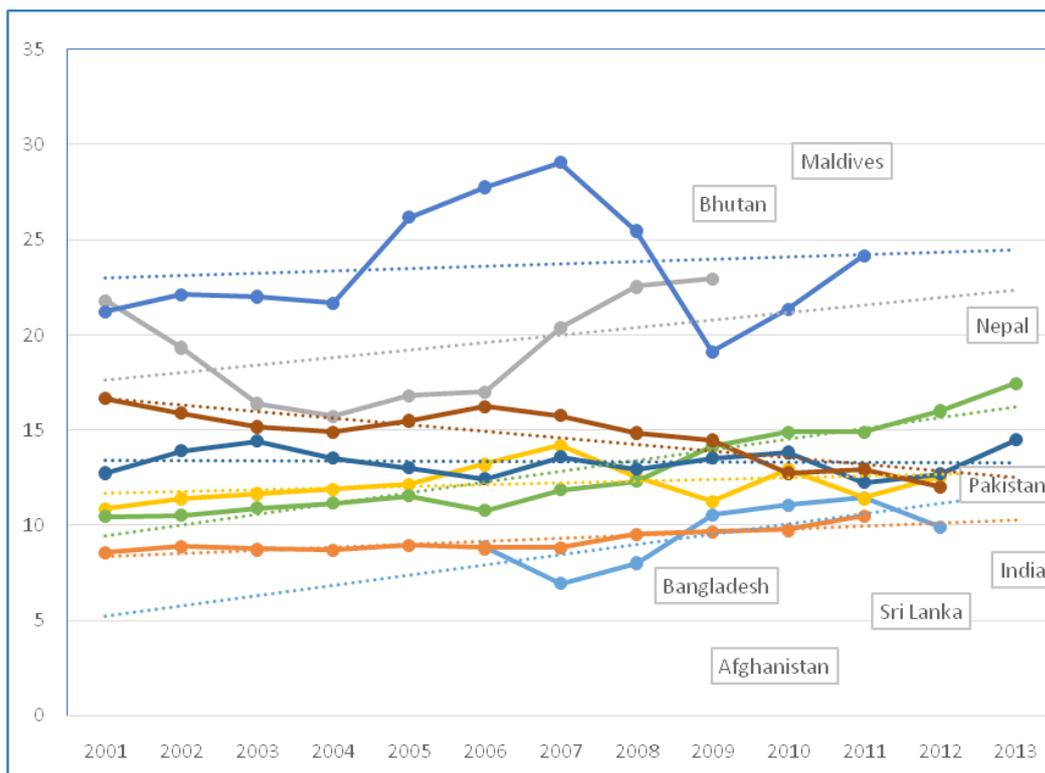
In Nepal, there is a predominant role of the goods and service tax where the major players are the taxes on industrial product and VAT followed by income tax and taxes on international trade. The remaining heads have a minor role in the government revenue.

#### 4. Discussion

There is no universally recognized theoretical framework of conclusive empirical literature on how to craft a system of tax revenue that grows the human prosperity. The taxes or the price both may be the major weapon for the benefit of human prosperity. In this respect, the discussion includes the three sections: the first section regards the comparative evaluation of the ratios of the Nepal with the neighbouring SAARC countries, the second section highlights the fiscal gap in Nepal and third section discusses the improvement criteria.

The comparison of revenue-to-GDP requires benchmarking to conclude the results. In SAARC region, there are eight countries including Afghanistan. The following figure 4 highlights the tax-to-GDP ratio of the SAARC region for the durations of nearly one and a half decades (since 2001 to 2013).

**Figure 4: Revenue excluding grant as percentage of GDP in SAARC countries**



Source: Annex - 3

The above figure revealed that total revenue excluding grant to GDP of all the SAARC nations which accounts the low income and developing countries in the world. In recent years, Nepal ranked third position from top to bottom out of eight SAARC countries in 2013, but, it was third from the bottom to top in 2001. Among the countries, the performance of Afghanistan in this regards showed poorest while Maldives showed efficient.

The priority relationship of tax to GDP ratio of Nepal found positive because these two variables always exist in positive relationships. It means that if the total tax revenue collected by the government increases the GDP also increases or vice versa.

Most of the development work of Nepal depends either on grant or debt capital due to the fiscal gap. There is scarce government budget to finance the public goods and services. The following table explicitly highlights the situation of fiscal gap in Nepal.

**Table 2: Fiscal gap (2013/14 to 2015/16)**

Heads	FY 2015/016	FY 2014/015	FY 2013/014
Total budget	100.00	100.00	100.00
Revenue (tax and non-tax)	57.97	68.42	68.17
Refund of principals	0.24	0.16	1.06
Foreign grant	13.54	11.87	13.37
Deficit	28.25	19.55	16.87
Foreign debt	11.59	8.01	8.40
Net deficit	16.66	11.53	8.46
Internal debt	10.74	8.53	8.46
Cash stock	5.93	3.00	0.00

*Source: Budget speech for the income year 2015/016 (2015)*

The above table 2 revealed that fiscal gap 16.87% (2013/14), 19.55% (2014/15) and 28.25% (2015/16) of the total budget of Nepal in recent last three years. The total revenue of the Nepal covers near about 58 to 68.42% of the total budget.

## 5. Conclusion

The levy of taxation influence the decisions of the citizens. The taxes have both positive and negative impact on the economic growth because all the economic activities of the State directly associate with the GDP. However, the imposition of taxes through applying the effectiveness and optimal tax system and its structure is a significant tool for both the developed and developing nations to boost the economic growth for human prosperity.

The tax-to-GDP ratio is a benchmarking tool to compare the results of its own country within certain time interval and with other countries in the same period of time because bases of tax and GDP have positive relationships.

The revenue to GDP and tax-to-GDP ratio of Nepal found increasing trend, but in fewer rate. In 1975, they (revenue to GDP and tax-to-GDP) were 6.09 and 5.08 percent and reached 17.49 and 15.31 percent in 2013 fluctuating in every year and growing the percent of 11.40 and 10.23 respectively in the duration of 39 years. At an average the growth rate per year stood only 0.2923% in revenue to GDP and 0.2623% in the tax-to-GDP.

The tax-to- GDP ratio relatively low in the developing countries compared to developed countries, like Finland (57%), Norway (55.4%), Sweden (51.8%), France (51.7%), Italy (48.2%), Germany (45%), etc. (CIA, 2016). In the same way, the tax revenue collection by these two economies (developed and developing) are quite contrary. The developed countries collect more than 2/3 tax revenue in total from direct taxes while developing countries collect this percentage of tax revenue from the indirect taxes.

Thus, the developing countries like Nepal need to change their structure in the taxation system and policy for economic growth. For the structural change, we suggest that improvement on: (a) management of demography, (b) level of literacy for the skilled population, (c) stable and patriotic government, (d) tax base (broadening), (e) tax policy and

economic environment, (f) non-corrupt tax administration, (g) establishment of the domestic industries to reduce the import, (h) creation of employment opportunities, (i) control of inflation, etc.

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## Annex 1: Tax, non-tax and overall revenue to GDP ratios and their fluctuations

Year	Ratios			Fluctuations from previous year/s		
	Non-tax to GDP	Tax to GDP	Total revenue to GDP	Non-tax to GDP	Tax to GDP	Overall revenue to GDP
1975	1.01	5.08	6.09	0	0.00	0
1976	1.18	5.22	6.40	0.17	0.14	0.32
1977	1.29	6.37	7.66	0.11	1.14	1.25
1978	1.71	6.30	8.02	0.42	-0.06	0.36
1979	1.51	6.65	8.16	-0.21	0.34	0.14
1980	1.50	6.59	8.09	0.00	-0.06	-0.06
1981	1.40	7.45	8.85	-0.10	0.86	0.76
1982	1.51	7.14	8.65	0.11	-0.32	-0.21
1983	1.25	7.19	8.43	-0.27	0.05	-0.22
1984	1.71	6.95	8.66	0.46	-0.24	0.22
1985	1.64	6.76	8.41	-0.06	-0.18	-0.25
1986	1.77	6.57	8.33	0.12	-0.20	-0.07
1987	2.51	6.85	9.35	0.74	0.28	1.02
1988	2.08	7.48	9.56	-0.43	0.63	0.20
1989	1.67	7.04	8.72	-0.40	-0.44	-0.84
1990	1.96	7.04	9.01	0.29	0.00	0.29
1991	2.12	6.79	8.91	0.16	-0.25	-0.09
1992	2.43	6.61	9.04	0.31	-0.19	0.13
1993	2.03	6.80	8.83	-0.40	0.19	-0.21
1994	2.11	7.71	9.83	0.08	0.91	0.99
1995	2.26	8.97	11.23	0.14	1.26	1.40
1996	2.50	8.71	11.21	0.24	-0.26	-0.02
1997	2.12	8.71	10.83	-0.38	0.00	-0.38
1998	2.33	8.62	10.95	0.21	-0.08	0.12
1999	2.48	8.41	10.89	0.16	-0.22	-0.06
2000	2.57	8.74	11.30	0.08	0.33	0.41
2001	2.27	8.80	11.07	-0.30	0.07	-0.23
2002	2.42	8.56	10.98	0.15	-0.24	-0.09
2003	2.77	8.31	11.08	0.35	-0.25	0.10
2004	2.64	8.97	11.61	-0.13	0.67	0.53
2005	2.72	9.18	11.90	0.08	0.20	0.28
2006	2.27	8.78	11.05	-0.45	-0.40	-0.85
2007	2.28	9.77	12.05	0.01	0.99	1.00
2008	2.75	10.44	13.19	0.48	0.67	1.14
2009	2.67	11.81	14.47	-0.09	1.37	1.28
2010	1.53	13.40	14.92	-1.14	1.59	0.45
2011	1.55	12.97	14.51	0.02	-0.43	-0.41
2012	2.14	13.86	16.00	0.59	0.90	1.49
2013	2.17	15.31	17.49	0.04	1.45	1.49

Source: Economic Surveys 1975 to 2013

## Annex -2: Different types of tax to GDP ratios

Year	Taxes on international trade & transactions	Taxes on goods & services	Taxes on property	Taxes on income, profits & capital gains	Other taxes	Taxes on payroll & work force	Total tax revenue
1975	1.98	1.98	0.77	0.35	0.00	0.00	5.08
1976	2.06	1.82	0.77	0.57	0.00	0.00	5.22
1977	2.23	2.42	0.81	0.90	0.00	0.00	6.37
1978	2.33	2.43	0.72	0.84	0.00	0.00	6.30
1979	2.82	2.69	0.50	0.64	0.00	0.00	6.65
1980	2.60	2.86	0.52	0.61	0.00	0.00	6.59
1981	2.99	3.17	0.65	0.64	0.00	0.00	7.45
1982	2.66	3.25	0.55	0.68	0.00	0.00	7.14
1983	2.25	3.60	0.51	0.83	0.00	0.00	7.19
1984	2.10	3.48	0.54	0.84	0.00	0.00	6.95
1985	2.28	3.28	0.47	0.73	0.00	0.00	6.76
1986	2.21	3.17	0.44	0.75	0.00	0.00	6.57
1987	2.36	3.28	0.44	0.76	0.00	0.00	6.85
1988	2.88	3.29	0.48	0.84	0.00	0.00	7.48
1989	2.57	2.99	0.45	1.04	0.00	0.00	7.04
1990	2.60	3.06	0.44	0.95	0.00	0.00	7.04
1991	2.53	3.13	0.45	0.69	0.00	0.00	6.79
1992	2.25	3.29	0.43	0.64	0.00	0.00	6.61
1993	2.30	3.31	0.44	0.75	0.00	0.00	6.80
1994	2.64	3.64	0.42	1.01	0.00	0.00	7.71
1995	3.20	4.01	0.43	1.33	0.00	0.00	8.97
1996	2.94	3.89	0.43	1.44	0.00	0.00	8.71
1997	2.96	3.84	0.36	1.54	0.00	0.00	8.71
1998	2.83	3.74	0.33	1.72	0.00	0.00	8.62
1999	2.78	3.43	0.29	1.90	0.00	0.00	8.41
2000	2.85	3.53	0.27	2.09	0.00	0.00	8.74
2001	2.84	3.66	0.14	2.16	0.00	0.00	8.80
2002	2.76	3.50	0.25	2.06	0.00	0.00	8.56
2003	2.60	3.50	0.12	2.09	0.00	0.00	8.31
2004	2.90	3.86	0.32	1.90	0.00	0.00	8.97
2005	2.66	4.30	0.31	1.91	0.00	0.00	9.18
2006	2.35	4.30	0.33	1.80	0.00	0.00	8.78
2007	2.30	4.87	0.31	2.30	0.00	0.00	9.77
2008	2.58	5.03	0.36	2.47	0.00	0.00	10.44
2009	2.70	5.64	0.53	2.94	0.00	0.00	11.81
2010	2.95	7.06	0.46	2.84	0.09	0.00	13.40
2011	2.61	6.93	0.26	3.02	0.08	0.05	12.97
2012	2.84	7.24	0.23	3.36	0.09	0.10	13.86
2013	3.36	7.64	0.32	3.79	0.09	0.11	15.31

Source: Economic Surveys 1975 to 2013

**Annex - 3: Revenue excluding grant as percentage of GDP**

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Afghanistan						8.86	6.94	7.99	10.52	11.04	11.43	9.89	
Bangladesh	8.56	8.87	8.72	8.66	8.95	8.78	8.81	9.51	9.64	9.74	10.46		
Bhutan	21.80	19.32	16.38	15.71	16.80	16.97	20.39	22.55	22.95				
India	10.85	11.39	11.65	11.87	12.13	13.19	14.18	12.50	11.22	12.93	11.40	12.54	
Maldives	21.20	22.11	21.99	21.65	26.19	27.75	29.04	25.44	19.11	21.33	24.15		
Nepal	10.45	10.50	10.91	11.14	11.55	10.74	11.87	12.30	14.13	14.90	14.89	15.99	17.44
Pakistan	12.71	13.90	14.39	13.49	13.00	12.43	13.58	12.93	13.51	13.80	12.23	12.65	14.45
Sri Lanka	16.64	15.89	15.16	14.89	15.48	16.23	15.77	14.86	14.47	12.74	12.95	12.03	

*Source: The World Bank (2016).*

# Financial Ratios and Their Effects on Profitability of Commercial Banks in Nepal

Kapil Khanal\*

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## Abstract

*The purpose of the study was to understand the impact of some financial ratios on the profitability of commercial banks in Nepal. Secondary data were collected through annual reports and publications of thirty commercial banks. Multiple regression models were used to analyze and interpret the data. Analysis showed that the amount of impact of the financial ratios on bank's profitability varies from bank to bank in Nepal.*

*Key words: Bank profitability; financial ratios; commercial banks; Nepal.*

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## 1. Introduction

The impacts of financial ratios on bank profitability have received much attention from academic researchers. In this context, the importance of this research study is an attempt to identify the impact of some of the selected financial ratios on bank profitability in Nepalese commercial banking industry. This study follows a study of Vong and Chan (2006), Athanasoglou et al., (2006) and Naceur (2003), among others.

To identify the impact of some of the financial ratios on profitability, three profitability measures, namely return on assets (ROA), return on equity (ROE) and net profit (NP) have been used. The first is the rate of return on average assets (ROA),

calculated as net profit before tax divided by average total assets. ROA denotes banks management efficiency to generate revenue through utilizing the bank asset base and hence has emerged as a key measure frequently used in the literature for evaluating bank performance.

The second measure widely used in the literature, as an alternative measure of banks profitability is the rate of return on average equity (ROE), calculated as net profit before tax divided by shareholders' average total equity. It reflects a bank's efficiency at generating profits from every unit of shareholders' equity. However, evaluation of bank profitability based on

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the use ROE as a profitability indicator must not be interpreted in isolation but should be construed in the context of the bank's debt-equity relationship.

The third measure is the bank's net profit, calculated as the net interest income (the difference between the bank's interest revenues and its interest expenses). As net profit measures ex-post interest rate spread (the difference between the rate the bank charges on loans and other users of bank credit and that the bank pays on deposits), it is considered a good proxy of banks' cost of intermediation thereby it reflects how efficiently the bank's funds are being intermediated and how profitable the bank's interest-earning business is.

## 2. Objectives of the Study

1. To analyze competitive position of commercial banks with respect to return on assets, return on equity and net profits.
2. To evaluate the impact of capital adequacy, assets composition, deposit, credit risk and cost of management on bank's profitability.

## 3. Review of Literature

There are five financial ratios, selected for analysis. Among them, one is capital adequacy ratio. Capital adequacy ratio is the capital strength which is calculated by dividing equity over total assets. Its impact on bank profitability is found to be ambiguous. Higher the ratio, higher the profitability as there will be less need for external funds which decreases cost of capital (Molyneux, 1992). A lower capital ratio suggest a relatively risky position

and negative coefficient on this variable is expected (Berger, 1995).

The ratio of operating expenses to total assets is used to measure the efficiency of banks in managing its expenses. Majority of studies suggest a negative impact of operating expenses on profitability as efficient banks are able to operate at lower cost. However, Molyneux and Thornton, 1992 observed a positive relationship between the two, suggesting that higher profits earned by firms may be appropriated in the form of higher payroll expenditure paid to more productive human capital.

Using a sample of 201 American banks during 1984-1990 Miller and Noulas (1997) analyze the effect of bank portfolio mix on large bank profitability and report insignificant negative effect of real estate loans on large bank profitability but strong positive effect between profitability and construction & land development loans and consumer loans. As far as loan portfolio risks is concerned, (Papadamou, 2008) gives some evidence from South Korea and indicate that less diversified across industries, loan portfolios are correlated with higher non-performing loan ratio. A shift from manufacture lending towards real estate and lease business lending can reduce the risk of bank loan portfolio. This can give some useful insights on how bank loan portfolio risk may affect profitability. Credit risk is calculated by dividing net non-performing assets over net advances. It is a measure of asset quality. Bad asset quality is expected to have a negative impact on profitability as it reduces interest income.

## 4. Methodology Used

### a. Types and Sources of Data

Secondary data was gathered from the banks' annual reports and financial reports including profit and loss accounts and balance sheets via the internet (Nepal Rastra Bank's website), government papers and consultancy reports.

### b. Population and Sample Size

The population of the research study is all commercial banks in Nepal of mid-July, 2015. Basically, these banks are classified into three broad categories- government-owned banks, joint-ventures banks and private sector commercial banks. All types of banks are the area of concern. The financial information of all the banks is available for the year 2011 to 2015. Therefore, pooled regression is based on the data of 2011 to 2015. This study includes all commercial banks established as per the NRB records at the mid July, 2015. There were 30 commercial banks by the end of fiscal year 2015. All 30 banks were selected for analysis.

### c. Different Forms of Dependent Variables

The primary focus of this research is the relationship between net profits and profitability, and bank's characteristics indicators. Three measures of bank performance are used in the study: the net profits (NP), the return on assets (ROA) and the return on equity (ROE). The net profit variable is defined as the net profits earned by commercial banks in a particular fiscal year. Return on assets is a ratio computed by dividing the net income

over total assets. Return on equity is a ratio computed by dividing the net income over shareholders' equity. NP, ROA and ROE have been used in most commercial banks' performance studies.

#### *Return on Equity (ROE)*

Return on Equity is one of the profitability ratios. It measures the profit earned per rupee of shareholders' equity. Return on equity (ROE) measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners while net profit is focused on the profit earned by commercial banks.

The ROE is calculated by dividing net income by the shareholder's equity.

The formula for return on equity is,

$$= \frac{\text{Net income}}{\text{Share holders' Equity}}$$

#### *Return on Assets (ROA)*

Return on assets is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. ROA measures the profit earned per rupee of assets and reflect how well bank management use the bank's real investments resources to generate profits. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "Return on Investment".

The formula for return on assets is,

$$= \frac{\text{Net income}}{\text{Total Assets}}$$

ROA tells what earnings were generated from invested capital (assets). ROA for public companies can vary substantially and will be highly dependent on the industry. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA numbers.

#### d. Different Form of Independent Variables

##### *Capital Adequacy Ratio*

It is a percentage ratio of a financial institution's primary capital to its assets (loans and investments), used as a measure of its financial strength and stability. According to the Capital Adequacy Standard set by Bank for International Settlements (BIS), banks must have a primary capital base equal at least to eight percent of their assets. It can be calculated by applying the following formula:

The formula for capital adequacy ratio is,

$$\text{Capital Adequacy Ratio} = \frac{\text{Paid up Capital}}{\text{Total Assets}}$$

##### *Operating Expenses Ratio*

An expense incurred in carrying out an organization's day-to-day activities, but not directly associated with production. Operating expenses include such things as payroll, sales commissions, employee benefits and pension contributions, transportation and travel, amortization and depreciation, rent, repairs, and taxes. These expenses are usually subdivided

into selling expenses and administrative and general expenses.

The formula for operating expenses ratio is,

$$\text{Operating Expenses Ratio} = \frac{\text{Operating Expenses}}{\text{Total Assets}}$$

##### *Assets Composition Ratio*

Bank loans (ACR) are expected to be the main source of income and are expected to have a positive impact on bank performance. Other things constant, the more deposits are transformed into loans, the higher the interest margin and profits. However, if a bank needs to increase risk to have a higher loan-to-asset ratio, then profits may decrease. In addition, as bank loans are the principal source of income, it is expected that noninterest bearing assets impact negatively on profits.

The formula for assets composition ratio is,

$$\text{Assets Composition Ratio} = \frac{\text{Total Loan}}{\text{Total Assets}}$$

##### *Credit Risk Ratio*

The amount of debt owed on revolving lines of credit relative to the total amount of all available credit limits on all revolving accounts. Lenders assume that borrowers with a lower debt to credit ratio are more likely to be using credit responsibly and less likely to default. A debt to credit ratio below 30% is considered good.

The formula for credit risk ratio is,

$$\text{Credit Risk Ratio} = \frac{\text{Non Performing Loans}}{\text{Total loan}}$$

**Credit Deposit Ratio**

The amount of a bank's loans divided by the amount of its deposits at any given time is called credit deposit ratio. The higher the ratio, the more the bank is relying on borrowed funds, which are generally more costly than most types of deposits.

The formula for credit-deposit ratio is,

$$\text{Credit-Deposit Ratio} = \frac{\text{Total Credits}}{\text{Total Deposits}}$$

The profitability ratios of return on assets return on equity and net profits were gathered for six years 2011 to 2015. Likewise, some financial ratios such as CAR, OER, ACR, CR and CDR were also gathered for the same periods. It is

expected that CAR, ACR and CDR will raise the bank's profitability whereas OER and CR would lower down the profitability of commercial banks.

The relationship between return on assets, return on equity and net profit and selected five financial ratios can be expressed by the following formula:

$$\text{ROA} = \alpha + \beta_1 \text{CAR} + \beta_2 \text{OER} + \beta_3 \text{ACR} + \beta_4 \text{CR} + \beta_5 \text{CDR} + \dots + \text{et} \quad (1)$$

$$\text{ROE} = \alpha + \beta_1 \text{CAR} + \beta_2 \text{OER} + \beta_3 \text{ACR} + \beta_4 \text{CR} + \beta_5 \text{CDR} + \dots + \text{et} \quad (2)$$

$$\text{NP} = \alpha + \beta_1 \text{CAR} + \beta_2 \text{OER} + \beta_3 \text{ACR} + \beta_4 \text{CR} + \beta_5 \text{CDR} + \dots + \text{et} \quad (3)$$

Where,

ROA=Return on Assets, ROE=Return on equity, NP= Net profits  $\alpha$  = intercept of dependent variable,  $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  are constants i.e., slopes of ROA CAR=Capital Adequacy Ratio, OER= Operating Expenses Ratio, ACR=Assets composition ratio, CR=Credit Risk Ratio, CDR=Credit Deposit Ratio and et= Error term

**Table 1: Regression result: ROA as dependent variable**

$(\text{ROA})_{it}$	$= \beta_0$	$+ \beta_1(\text{CAR})_{it}$	$+ \beta_2(\text{OER})_{it}$	$+ \beta_3(\text{ACR})_{it}$	$+ \beta_4(\text{CR})_{it}$	$+ \beta_5(\text{CDR})_{it}$	$+ (e)_{it}$
	$=3.73^{**}$	$-0.08\text{CAR}^{**}$	$-0.29\text{OER}^*$	$-0.06\text{ACR}^{**}$	$-0.07\text{CR}$	$+0.08\text{CDR}^*$	
S.E.	$= (2.64)$	$(0.04)$	$(0.07)$	$(0.02)$	$(0.89)$	$(0.03)$	
t	$= (1.41)$	$(-1.79)$	$(-4.14)$	$(-2.94)$	$(-0.78)$	$(2.67)$	
	$R^2=0.51$	$F(5,54)=5.63$	$DW=1.98$				
	Number of obs. 60		d.f.=54				

Note: \* Significant at 0.01 levels  
 \*\* Significant at 0.05 levels  
*i* = 1, 2, 3, ... commercial banks  
*t* = 1, 2, 3... year.

The present study hypothesized that CAR, ACR and CDR factors have significant positive relation with ROA whereas OER and CR have negative relation with ROA. The regression result shows that out of five independent variables, the sign of three independent variables namely OER, CR and CDR are as per expectation. The signs of CAR and ACR showed a negative impact on ROA which is just the opposite as per priori. The regression results from multiple regression models explain that the explanatory power of the model is reasonably high given as the R<sup>2</sup> is estimated at 51%. The F statistic is also statistically significant at 5 percent. The value of DW 1.98 indicates that there is no autocorrelation. It means that other variables keeping constant one unit (ratio) increases in operating expenses ratio will decrease by 0.29 units (ratio) in ROA.

Similarly, keeping other variables constant, one unit (ratio) increase in CDR will increase by 0.08 units (ratio) in ROA. Similarly, one unit (ratio) increases in ACR will decrease by 0.06 units (ratio) in ROA by keeping other variables constant. There is no significant positive relation between CR and ROA.

**Table 2: Regression result: ROE as dependent variable**

ROE <sub>it</sub>	=β <sub>0</sub>	+β <sub>1</sub> (CAR) <sub>it</sub>	+β <sub>2</sub> (OER) <sub>it</sub>	+β <sub>3</sub> (ACR) <sub>it</sub>	+β <sub>4</sub> (CR) <sub>it</sub>	+β <sub>5</sub> (CDR) <sub>it</sub>	+....+e <sub>it</sub>
	=144.57*	- 2.18CAR**	-2.67OER*	-1.14ACR	+2.09CR	+0.25CDR*	
S.E	=(38.95)	(1.25)	(0.53)	(1.41)	(2.78)	(0.06)	
t	=(3.71)	(-1.74)	(-5.04)	(-0.81)	(0.75)	(4.16)	
R <sup>2</sup> =0.58		F(5,54) =12.85	D.W.=1.96				
Number of obs. 60			d.f. =54				

Note: \* Significant at 0.01 levels

\*\* Significant at 0.05 levels

*i* = 1, 2, 3, ...commercial banks

*t* = 1, 2, 3, ...year.

It is estimated that CAR, ACR and CDR factors have significant positive relation with ROE whereas OER and CR have negative relation with ROE. The regression result shows the sign of two independent variables namely OER and CDR are as per expectation. The signs of CAR, ACR and CR showed a negative impact on ROE which is just the opposite as per expectation.

Above table depicts regression results from multiple regression models. Here, the explanatory power of the model is reasonably high given by the R<sup>2</sup> at 0.58 for the ROE model. The F statistic of this model is statistically significant at 1 percent. The value of DW 1.96 indicates that there is no autocorrelation. It means, keeping other variables constant, one unit (ratio) increases in operating expenses ratio will decrease by 2.67 units (ratio)

in ROE. Similarly, keeping other variables constant, one unit (ratio) increase in CDR will increase by 0.25 units (ratio) in ROE. There are no significant positive relation of ACR and CR on ROE.

**Table 3: Regression result: Net profits as dependent variable**

$(NP)_{it}$	$= \beta_0$	$+ \beta_1(CAR)_{it}$	$+ \beta_2(OER)_{it}$	$+ \beta_3(ACR)_{it}$	$+ \beta_4(CR)_{it}$	$+ \beta_5(CDR)_{it}$	$+ \dots + e_{it}$
	$=1773.56^*$	$- 62.57CAR^*$	$-50.31ER$	$-80.46ACR^*$	$-18.62CR$	$+55.87CDR^*$	
S.E.	$= (304.74)$	$(14.32)$	$(47.09.00)$	$(23.58)$	$(14.47)$	$(16.39)$	
t	$=(5.82)$	$(-4.37)$	$(-1.07)$	$(-3.41)$	$(-1.29)$	$(3.38)$	
	$R^2=0.78$	$F(5,54) = 14.74$	$DW = 2.05$				
	Number of obs.=60		d.f.=54				

$i= 1, 2, 3, \dots$ commercial banks

$t=1, 23, \dots$ year.

Note: \* Significant at 0.01 levels

\*\* Significant at 0.05 levels

This study predicted that CAR, ACR and CDR factors have significant positive relation with net profit whereas OER and CR have negative relation with net profit. The regression result shows that out of five independent variables, the sign of three independent variables namely OER, CR and CDR are as per expectation. The signs of CAR and ACR showed a negative impact on net profit which is just the opposite as per priori.

The explanatory power of the model is very high given by the  $R^2$  at 0.78 for the net profits model. The F statistic of this model is also statistically significant at 1 percent. The value of DW 2.05 indicates that there is no autocorrelation It means that other variables keeping constant one unit (ratio) increases in capital adequacy ratio will decrease by Rs. 62.57 million in net profit. Similarly, keeping other variables constant, one unit (ratio) increase in CDR will increase by Rs. 55.87 million in net

profit. There are no significant positive relations of OER and CR on net profit.

#### 4. Conclusion

Based on the results of the empirical analysis, bank-specific determinants such as capital adequacy ratio, operating expenses ratio, assets composition ratio, credit risk ratio and credit deposit ratio are able to explain significant part of bank profitability in Nepal. The regression result confirms that a high credit deposit ratio is affecting profit through translating the safety advantage into profit. The study also concludes that the lending activities in commercial banking sector are associated with profit, and in order to maximize the profit, commercial banks in Nepal maintaining sizable volume of lending activities.

Another finding of the study is that the operating expenses are associated with significant inverse relationship with

profitability in commercial banks. An increased operating expense in Nepalese banking sector is lowering profits. So, to improve the profitability of Nepalese banks, banks should work to improve the efficiency of cost management, which according to the analysis crucially affect profits of Nepalese banks. Finally, the study concludes that the amount of impact of the bank-specific determinants on bank's profitability varies from bank to bank.

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# Consumer Research: Emerging Issues and Trends

Santosh Kumar Ghimire\*

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## Abstract

*This article focuses on a range of emerging marketing research techniques that have augmented the scope. The central focus in the article is to explore new technology which impacted the marketing research. The article explores the rise of ethnographic approaches to understanding consumers, particularly through the visual and the textual/linguistic. To this end the realms of videography, netnography, blogging and virtual life worlds are explored. The article then considers some of the advances in the use of data technologies for understanding consumers and markets.*

**Keywords:** *consumer research, videography, netnography, blogs, virtual community.*

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## Introduction

The practice of marketing research has changed dramatically in recent years. The opening up of world markets through globalization, and the increased speed up of business transactions brought about by technological developments, have changed both our understandings of markets, and the tools we use to interpret them. While markets have changed, so too have consumers, who are now increasingly market literate and highly informed about the expanding choice of products, brands and services available to them. Marketing researchers, therefore, are operating in an increasingly complex environment. The emerging technological infrastructure of

the internet has become indispensable for many consumers (Hoffman et al., 2004). This dialogical relationship between consumers and market researchers call for new qualitative and quantitative approaches to understanding these new forms of data. Marketing researchers have also experienced a shift in their whole concept of the consumer. Researchers have moved away from demographic and psychologically informed views of consumers as information processors, having innate characteristics, wants and needs, towards a sociologically informed view of consumers whose identities emerge through their relations with others and the world around them.

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Where market research was previously focused on identifying pre-existing consumer attitudes and motivations in order to tap into these, research is now more squarely focused on understanding the social formation of consumer identity, in order to provide identities consumers will want to associate with. That is not to say that earlier traditions have been entirely replaced by a new wave of approaches, as Barker et al. (2001) suggest, instead we are seeing a new eclecticism in marketing research approaches:

*there is a move towards a way of doing, using and thinking about market research which is quite different in character and application from what has gone before. This may represent both a shift towards the interpretivist pole of the continuum and more interestingly (and healthily) reflect a tangential shift towards a more eclectic industry – something we might call informed eclecticism. (Barker et al., 2001, p. 26)*

### **Videography**

Videography is a method which has recently emerged in consumer research. Its increasing popularity has been brought about by improvements in video technology and reductions in the price of equipment. It is now relatively easy to use video cameras and produce reasonable results. The technique of videography also offers considerable diversity, Belk and Kozinets (2005, p. 129) identify three main applications in consumer research:

**1. Videoing individual or group interviews** – This application adds a visual dimension to the more traditional voice recording of interviews. Being able to see the facial expressions and gestures of informants, as well as the proxemics and group dynamics, are helpful in interpreting meaning. Some of the difficulties associated with this technique, however, are that the video camera can be intrusive and make participants ill at ease and it may also prompt a degree of acting for the camera.

**2. Naturalistic observation** – This application has been widely used in tandem with an ethnographic approach to studying consumers. Here the emphasis lies in getting on the level with consumers to try and understand the world as they see it. In addition, the approach has many advantages over traditional interview accounts of consumer behaviour because the way that people account for their activities and experiences is often very different from what they actually do in practice. It is usual in ethnography for the researcher to take detailed notes on their experiences in the field, this would typically be called a field diary, the benefit of using a video camera means that the researcher does not have to rely on their memory and ability to record the situation. Video also offers a richer source of information than observational notes. In addition, the recorded material can be a useful source of stimulation for discussion. The researcher and participant can watch the video together and reflect on their past comments and behaviours.

**3. Autovideography** – These videos are directed by the participant and therefore include material that they themselves feel is important. Giving the participant the camera to video themselves and their own experiences gives them control over the situation. The absence of the researcher means that the participant is more relaxed and may be more candid in what they choose to reveal.

The researcher, therefore, does not necessarily have to be in sole charge of the filming experience. Belk and Kozinets (2005) suggest that collaborative filming projects may be a further fruitful avenue for understanding consumers. They cite the example of a study of the new black elite in Zimbabwe which was conducted jointly by Belk and the MBA students of Africa University (2000). Because they were part of the community in question, the students could easily gain access for interviews and observation. However, this familiarity between researchers and participants meant that issues relating to conspicuous and deliberate self-presentation were perhaps more pronounced.

### **Netnography and Online Communities**

Netnography is a relatively recent research approach that has also been developed largely in the field of consumer research. Kozinets (1998, 1999, 2002, 2006) and Catterall and Maclaran (2001) have been key proponents of this approach. Kozinets describes netnography as follows:

*“Netnography,” or ethnography on the Internet, is a new qualitative research methodology that adapts ethnographic research techniques to study the cultures and communities that are emerging through computer-mediated communications. (2002, p. 62)*

Here the approach of ethnography has been adapted as a technique to study consumer behaviour in online worlds. In ethnography the emphasis is on immersion in the everyday life of the community in question in order to observe social life as it unfolds in situ (see Arnould and Wallendorf, 1994; Elliott and Jankel-Elliott, 2003).

Netnography has a number of distinct advantages over more traditional forms of marketing research. Discussion in online communities is entirely consumer directed, and thus offers insights into what really matters for consumers. As such, Kozinets observes that netnography offers the researcher ‘a window into naturally occurring behaviours’ (2002, p. 62). Also, when compared with the traditional interview format, there are much lower costs to collecting this data in terms of time, money and the emotional energy required. The researcher can merely download extracts of conversations for analysis. Due to its unobtrusive nature this approach is also useful for exploring sensitive research topics (see Langer and Beckman, 2005). Drawbacks of this approach are that the sample is limited to online users who are

likely to possess specific characteristics, (such as reasonable levels of familiarity with technology and an existing interest in a particular subject). This means that they may not be representative of the larger population. In addition groups are often anonymous and therefore individuals cannot be identified along the lines of age, gender, profession, etc.

The communities under study in netnography are 'online communities'. Rheingold characterizes these communities as 'Social aggregations that emerge from the Internet when enough people carry on those public discussions long enough, with sufficient human feeling, to form webs of personal relationships in cyberspace' (1994, p. 5). Thus he marks online communities out from other more casual exchanges of news or information. Consumers are therefore developing 'relationships' in online environments (Maclaran et al., 2006). However these relationships may often be quite fleeting. Consumers may dip in and out of these communities, using them as much as a source of information about a product or service, as for the experience of social bonding they may offer. Kozinets (2002) identifies five different types of virtual communities:

1. **Boards** – These function as electronic bulletin boards (usenet/newsgroups).
2. **Web rings** – These bring together thematically linked web pages, these may be independent web pages.

3. **Lists** – These are email lists distributed to users united by a common interest.

4. **Multiuser dungeons** – These are themed virtual locations in which interactions are structured by role playing rules.

5. **Chat rooms** – These are un-themed virtual locations loosely organized around common interests.

A sixth type of online community not specifically mentioned by Kozinets, undoubtedly due to its relatively recent popular emergence, is the virtual life world. As with dungeons, these are themed virtual locations or islands where visual representations of users, called 'avatars', interact in three-dimensional space. They are distinct from dungeons in that interactions are not structured by role playing rules and social interaction proceeds in a manner similar to real life. Given the distinctly different nature of these virtual communities they are discussed in a separate section below.

Online communities allow consumers from a diverse range of cultures, social settings and geographical locations to connect through discussion of an array of products and services. Topics include, for example, films, sports, music, eating out, travel and holidays, fast food, electronics, computers, cars, toys and so on. Discussion in these communities ranges from the general, such as where to obtain the best dining out

experiences, to the very specialized: such as the technicalities of coffee making, which beans to use, how to best grind them, etc. Commentators observe that there is much to gain by expanding markets through these virtual communities (Hagel, 1997). In consumption terms, these communities act to advocate, and give the seal of approval, to brands and products. They also act to create and disseminate (often quite detailed) information about brands and products and their use (Sandin, 2007). Kozinets (2002, p. 70) suggests that they may be usefully 'construed as individual market segments that are of interest in their own right'. However, while these communities can be useful to companies in providing feedback and information on consumer evaluations of the brand, they can also be a threat to the company. Consumer readings of these postings as an unbiased and 'truthful' source of information, combined with the large audiences some of these communities attract, can mean that negative postings can cause significant damage to a brand's reputation. In marketing research terms however, it is very useful to know about negative feedback early on so that problems can be addressed.

### **Blogs and Blogging**

Blogs are one of the more recent sites for marketing researchers' attention. Blogs have been described as follows:

*A blog (a contraction of the term "Web log") is a Web site, usually maintained*

*by an individual, with regular entries of commentary, descriptions of events, or other material such as graphics or video (Wikipedia).*

Blogs are another example of the increasing emphasis on visual methods of communication in today's society. They are largely about individual expression, and often involve a high degree of individual creativity. A study by the marketing research firm Perseus Development found that over 4 million

blogs have been created to date. The same research found that 66 percent of blogs had not been updated in the past two months. Blogs also seem to be the preserve of young people, with over 90 per cent being posted by the under thirties (Perseus Development, 2003).

At present blogs remain underused by marketing researchers. This is unfortunate as they are useful for consumer and market researchers for a range of reasons. Companies have used blogs to engage and interact with their consumer group, either with respect to individual products, or the brand itself. Here important insights can be gleaned around consumers' views of the brand or products, their experiences of using them, and perhaps, some of the problems they have encountered in using them. Blogs may be useful, therefore, not only to understand individual consumers, but also communities of consumers as they discuss and compare experiences.

### Virtual Life Worlds

The marketing and consumer research potential of virtual life worlds, such as Second Life, EntropiaUniverse and There.com, has yet to be fully explored. Existing commentary suggests that they offer significant opportunity for understanding consumers. These life worlds take the self presentation found

in blogs to another level. Here individuals are represented by their own digital 'avatars' which may or may not resemble their offline appearance. These three-dimensional virtual selves allow for significant play and creativity in identity formation. Recent research by the Global Market Institute (cited in

Novak and Anderson, 2007) found two main motivations for people to use Second Life: 'because it is a creative outlet for me' and 'to escape real life, which I am not satisfied with'. These virtual societies have an active commercial sphere where clothing, furniture and household goods can be purchased. The potential for market insights is therefore significant. Avatars also run a range of businesses such as real estate brokering, event planning and advertising agencies. These goods and services can be purchased using virtual currency, which can then be converted by merchants into real world currency on a range of internet exchanges. A handful of avatar merchants (in particular fashion designers and land speculators) have been able to build up very significant incomes in this way, allowing them to give up their

real world jobs and concentrate solely on their virtual career.

Researchers have begun to explore the potential of these virtual worlds for offering insights into consumer. There is certainly current untapped potential for marketers to understand consumers' priorities in a world where real world constraints are significantly loosened. Having said this, and as Bonsu and Darmody (2008) stated, the emancipatory potential for these new communities might easily be overstated. Marketing, after all, relies on seeking out and shaping people's dreams, and in virtual worlds these dreams are played out for all to see. Marketers could observe and collect data around how people both choose and interact with products and services, observing the features they prefer, and the ways in which they possess and adapt goods into their everyday virtual lives (Williams, 2007). Marketing researchers have also begun to create avatars themselves, and either start up their own virtual marketing research business, and/or conduct research through virtual world participant observation, interviews, etc.

### Data Capture and Data Mining

Narrowly defined, data mining is the automated discovery of "interesting," non obvious patterns hidden in a database that have a high potential for contributing to the bottom line. "Interesting" relationships are those that could have an impact on strategy or tactics, and ultimately on an organization's objectives.

(Peacock 1998, p.10) Rather than trying to understand consumers' psychologically or sociologically based motivations for purchase, marketers rely here on mathematics to predict the probability of a consumer making a specific purchasing decision. In order to do this, companies collect vast amounts of data on consumers' spending histories.

The central purpose of data mining is to support decision making within an organization. The whole mining process is automated, using various forms of 'machine learning' to extract information

from data sets with little or no human involvement. These forms of machine learning are relatively recent and have their basis in artificial intelligence. The emphasis in these techniques is on discovery, in particular the discovery of relationships that were not apparent before.

There is a wide array of applications for data mining, Peacock (1998) identifies four which have wide application:

**1. Customer acquisition** – data mining methods are used to discover attributes that predict customer responses to communications such as special offers. Households from lists of non-customers are then identified using these attributes for mailings and other forms of communication.

**2. Customer retention** – data mining is used to identify customers who both contribute

to the company's profits, but who are also likely to move to other companies. These households are then targeted with special offers not available to other customers.

**3. Customer abandonment** – here data mining is applied to the purchase histories of customers to find which ones are costing the company more than they are contributing, i.e. in banking keeping

small deposits but requiring a lot of servicing, or in online retailing, ordering goods but continually returning them. These customers are often discouraged from staying with the company.

**4. Market basket analysis** – Here product and brand purchase affinities are identified from purchase histories, and communications tailored and targeted accordingly.

Data mining technology might be used for developing new products, discovering cross-selling opportunities, managing customer churn, discovering patterns in customers' satisfaction, and tracking studies. These functions might typically be put into practice through direct marketing and customer relationship management.

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#### Internet Resources

- Carling One All, where users can set up blogs of their favourite team. <http://www.carling.com/oneall/>
- eLab city, a virtual island set up for consumer research purposes. <http://www.elabcity.com/>
- Flamingo International, qualitative marketing research company. <http://www.flamingo-international.com/>

Second Life Brief, a site where findings from consumer research in Second Life are reported. <http://www.slbrief.com/>

The Social Research Foundation which has set up the First Opinions

Panel in Second Life. <http://www.socialresearchfoundation.org/index.html>

Voxpops International, a video based marketing research company. <http://www.voxpops.co.uk/>

# Causes of Work Stress and Employee Job Performance: A Theoretical Foundation

Manoj Kumar Chaudhary\*

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## Abstract

*Every type of organization has been recognized employee performance in work settings. However, work stress affect the performance of the employee that may lead to affects organizational growth and performance. So, the main objective of this study is to identify the cause of work stress in organizational settings that can have an impact on their job performance. For this matter, present study reviewed the available literatures related to work stress and job performance. The present study find that majority of available research related to work stress have been developed and imperially tested in western context. However, the problem of job related stress and its consequences is more important for developing countries like Nepal as there are undergoing enormous social, political and economical change. Therefore, the research hopes that more research will be conducted in Nepal on work stress and employee performance in future because less study have found in Nepalese context.*

**Keywords:** *Work, stress, employee, performance, job, developed countries, organization, Nepal.*

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## Introduction

The term stress considered as an attitude of mind and it is a mind set of people in which stress is a negative experience. It is therefore, essential to understand the cause of stress well before thinking of managing it. The definition of stress has changed over the years. Initially it was considered as environmental pressure, then strain within the person. Stress is a psychological and physical state that results when the resources of the individual are not

sufficient to cope with the demands and pressures of the situation. Thus, stress is more likely in some situations than others and in some individuals than others (Michi, 2002). Stress is defined as a response to a demand that is placed upon a person. It can be simply understood as “a condition where one experiences a gap between the present and desired state.” Merriam defined stress as a physical, chemical or emotional factor that causes bodily or mental tension and may be a factor in

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disease causation. It is a normal reaction when the brain recognizes a threat. When the threat is perceived, the human body releases hormones that activate its "fight or flight" response. Psychologist Richard S. Lazarus described stress as "a condition or feeling that a person experiences when s/he perceives that the demands exceed the personal and social resources the individual is able to mobilize." Beehr (1976) defined stress in very general terms as „anything about an organizational role that produces adverse consequences for the individual. For most people, stress is a negative experience. However Lazarus (1991) argued that, stress is a transaction, a dynamic process that keeps on changing according to the role played by stress moderators with the changing external economic and financial environment in different societies. Hans Selye (1956) cited in Sengupta (2007), one of the founding fathers of stress research, first introduced the term "stress" to describe physical and psychological responses to severe conditions or influences. He used the word "stress" which is an engineering term, to describe the responses to a force that when implemented in bodies, causes deformation. He further stated that stress is not necessarily something bad; it depends on how you take it. The stress of exhilarating, creative, successful work is beneficial while that of failure, humiliation or infection is detrimental. The stress can be classified into two types: Eustress: Positive, pleasant or curative stress and Distress: Dysfunctional or negative stress. Occupational stress has become a challenge

for the employer organizations as it results in low productivity, increased absenteeism and collection of other employee problems like alcoholism, drug abuse, hypertension and host of cardiovascular problems (Meneze, 2005). Seibt et al., (2008) stated that stress is always present among employees. However it can be reduced by improving the working conditions and quality of benefits in the companies. Today's organization has realized that stress is a serious problem, and that challenge for the organizations is to manage work stress in order to reduce health-care costs and improve productivity (Lawrence, 1995). It may lead to increased health problems leading to higher rate of absenteeism and turn over, more accidents and poor job performance. While there is an agreement among researchers on the stress related terminology adopted (Maslach, 1998 cited in Ahmed & Ramzan, 2013), Cummings and Cooper (1998) pointed out the difficulty in developing a coherent theory on stress, as different research methodologies and disciplines (medicine, psychology, sociology, management) have looked into this area. Owing to this difficulty, not much quality research is available in this subject area. Beehr & Newman (1978) attributed the lack of progress in the area of stress research to the fact that stress seemed to be related to a large number of conditions that prevented a systematic focus. Majority of available research and theories about job related stress have been developed and empirically tested in western context. However the problem of job related stress and its consequences is

more important for developing countries as these are undergoing enormous social and economical changes.

The literature depicts impacts of stress affect the performance of employee performance and therefore it is important to understand how it can be reduced well so as not only keep oneself happy and healthy but perform to best of the ability. Therefore, the main aim of this article is to identify the causes work stress and employee job performance in Nepalese settings that they have.

### **Stress and Employee Performance**

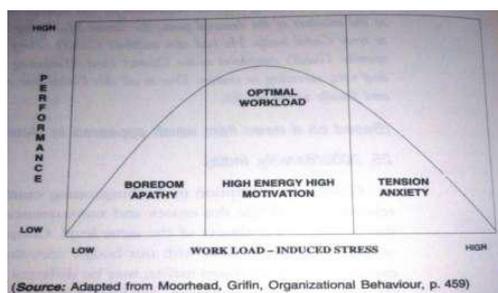
The stress experienced by different job types and job roles has been discussed in many studies with a number of different occupations being described as experiencing above average levels of stress, such as all level of employee that they have. Furthermore, role demands could be stressful when they are excessive (Johnson et al, 2005). Several studies have revealed that both role conflict and role ambiguity are associated with low satisfaction, absenteeism, low involvement, low expectancies and task characteristics with a low motivating potential and tension, which all affect the productivity and efficiency at the organization. Role ambiguity refers to the uncertainty, on the part of employees, about key requirements of their jobs, and about how they are expected to behave in those jobs. Role conflict occurs when different groups or persons, with whom an individual must interact hold conflicting expectations

about that individual's behaviour and can result from inconsistent information (Chang and Lu, 2007).

Stress has significant impact on company and people performance and it terribly affects health of employees. The studies conducted in western countries have shown that the sources of stress that we name as Occupational Stress Inducers (OSI) in this study are negatively related to well-being and job satisfaction of employees. Shah et al. (2012) in their study on impact of stress on employee performance among teaching faculty, found a negative relationship between organizational structure and employee efficiency while rewards were found to be positively correlated to employee efficiency as expected. Rubina et al. (2008) too found a negative relationship between job stress and job performance. However the male employees were found to be affected more than their female counter parts. Munir and Islam (2011) tested relationship between work stressors like role ambiguity, workload pressure, home-work interface, performance pressure, relationship with others and role conflicts on one side and job performance on the other with motivation as mediator and found that "role conflict" and "role ambiguity" have a positive relation with stressors against the common notion while the relationship is found to be negative between other stressors and job performance. Imrab et al. (2013) found that stress is responsible for decreasing the performance of bank employees. Ahmed & Ramzan (2013) too

found a negative correlation between stress and job performance i.e. as the stress increases the job performance goes down and vice-a-versa. Deshinger (2003) suggested that different aspects of employee job performance that are likely to be affected by stress include Productivity, Job Satisfaction/Morale, Absenteeism, Decision Making Abilities, Accuracy, Creativity, Attention to Personal Appearance, Organizational Skills, Courtesy Cooperation, Initiative, Reliability, Alertness, Perseverance and Tardiness.

Based on above presented literature, it can be observed that work stress can emerged from variety of sources which effect people in different way. If it is not managed timely then impact of stress affect the performance of people in an organization. So that, it is an essential for everyone to understand the nature of stress and how it can be managed for organizational as well as individual benefit. Following figure 1 (Sengupta, 2007) depicts the effect of stress on performance.



**Figure 1: Work stress and performance**

The following figure clearly depicts the effect of stress on employee job

performance because the organizational concern is performance of their employees irrespective of factors and conditions. Contribution and performance of employees leads to good organizational performance which is an indicator of their success and growth. Ultimately success or failure of an organization is largely determined by the performance of their employees. Sengupta (2007) stated that stress may cause physiological, behavioral or even psychological effects:

**Physiological** – hormone release triggers fight or flight response of humans. These hormones help them to either fight harder or run faster. They increase heart rate, blood pressure, and sweating. Stress has been tied to heart disease. Because of the increase in heart rate and blood pressure, prolonged stress increases the tension that is put on the arteries. It also affects the immune system which is why cold and flu illness usually show up during exams.

**Behavioral** – it may cause people to be jumpy, excitable, or even irritable. The effects of stress may cause some people to drink or smoke heavily, neglect exercise or proper nutrition, or overuse either the television or the computer.

**Psychological** – the response to stress may decrease the ability to work or interact effectively with other people, and be less able to make good decisions. Stress has also been known to play a part in anxiety and depression.

## Methodology

The main aims of this article is to review the literature about the source and impact of work stress on employee performance. This information was presented by researcher based on the available articles and reports published in different journal and books. The study method is not survey based, so it is therefore, information disseminated in the study are almost acquired from published literature rather than perception of employees and employers. It is an imperative for both to understand about the cause of work stress and its impact on employee as well as organizational performance in every type of organizational settings. In order to get complete picture about work stress and employee job performance, the study reviewed the literature based on two parts such as: cause of stress and impacts of stress, which may be important for all level staffs and organization in work settings in Nepalese context.

## Findings and Conclusion

Stress has significant impact on company and individual performance and it extremely affects health of employees. Based on the literature review the study find that the stress is negatively influence to the well being and job performance of an employee in an organization. The findings of this study confirm that poor working conditions, role ambiguity, workload, and family problems act as a full mediating variable in the relationship between stress and job performance in the Qatari banking sector sample. This finding is consistent

with the occupational stress literature surveyed in literature review of this paper which mainly reflects the Western countries. Therefore, practice within workplace needs to consider these four variables as critical factors of occupational stress. The paper further suggests that stress play significantly negative role on work performance. As a result, literatures suggested few steps to be taken in order to improve the work performance (e.g., improve salaries and wages, reducing the amount of working hours., more vacations, increase opportunities for promotions, justice in the assessment, improve relations with managers, more authorities, define responsibilities and competencies). Thus, these positive outcomes may lead to sustained and achieved organizational strategy and goals. Based on the finding of this study it can be concluded that the most important work stress causes of: Increase in the amount of workload to be performed, Difficulties in assigned tasks, Poor coordination between the departments and sections, Discrimination in performance evaluation process, Limited promotion opportunities, Staff family problems, Problems with customers, Receipt of contradictory orders and directives and Ambiguity in the employee's role around the globe.

Furthermore, findings indicated that the employees suffered high levels of job stress. The job stressors affecting the employees included role conflict and ambiguity, lack of promotion opportunities and feedback, lack of participation in decision making,

excessive workload, unsatisfactory working conditions and interpersonal relations were found to have positive and/or negative association with the physical health of the employees, their performance and overall satisfaction about their jobs as well as their commitment. The today's organization in global context needs to elevate the situation and resolve all the factors affecting the employees which might help in reducing the costs incurred when the trained, well experienced employee who leave the organization. Based on the above findings, the study conclude if organization wish to sustain and attend organizational performance then, organization have to give more attention towards the following matters like: Improving the level of salaries and wages of employees, Provide more opportunities for promotion to staff with equitable chances, Work reduction of the amount of work should be done by the staff, Preparation of job descriptions that specify tasks and duties for each position in clear and precise manner, Increase the degree of coordination and cooperation between departments and administrations in the organization, More attention to performance evaluation through the development of equity and objectivity and unbiasedness, Improving financial conditions for the employees, Understanding family problems facing employee of the organization, Adopting the principle of unity of commands and directions at work and Performing further studies on work stress and its impact on performance. Therefore, the present

study conclude that majority of available research related to work stress have been developed and imperially tested in western context. However, the problem of job related stress and its consequences is more important for developing countries like Nepal as there are undergoing enormous social, political and economical change. So that, the study can be significant for both side namely the employers who after knowing the occupational stress can adopt appropriate strategies to reduce the work stress thereby enhancing the employees job performance and the employees who after being aware can take appropriate steps to reduce their own stress saving themselves from variety of health and career issues and also help management to implement the stress management policy and strategy. For the organization concern, it can be suggested that when a work stress increased, the job performance of employee decreased. Therefore, every employee should know how to handle stress and reduce and manage them. In this regards organization should be more attentive in managing overall activities that will reduce stress among their employee in Nepalese organizations. So, information provided from this reviewed will be very useful as it could help the both employees and employers to take further decisions overcome from causes of stress. The researcher hope that more research will be carried out in Nepal on work stress and employee performance in future because less study have found in Neplese context.

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# Critical Analysis on Women Entrepreneurship in Nepal

Dinesh Mani Ghimire\*

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## Abstract

**Purpose-** This paper aims to analyze the critical factors of women entrepreneurship development in Nepal. Women entrepreneurship represents a vast untapped source of innovation, job creation and economic growth obstacles in accessing credit, training, networks and information, as well as legal and policy constraints. The economic gap between men and women shows wider level in Nepal.

**Design/methodology/approach** - Structured questionnaire were distributed for fifty rural entrepreneurs in three region of Nepal. Only forty questionnaires were received back for conducting research work.

**Findings** – The result have been revealed that there are important similarities among Nepalese women entrepreneurs with respect to their present status in rural area. Successful women entrepreneurs in Nepal were described as being persistent and determined, patient, mentally strong and visionary and innovative. The questionnaire also revealed that exploiting unique opportunities in the business environment, working for the good of society and being independent in one's decision and actions are the major factors behind Nepalese women entrepreneurs' decision to become entrepreneurs.

**Research limitations** – The study is only focused on rural area and small sample size only represents small voices of women. The generalizability of the findings is limited, as the study is analytical, rather than exploratory in nature.

**Originality/Value** - Provides a thought framework for women entrepreneurship in Nepal.

**Keywords** Nepal, Women Entrepreneurship, Problems of Women Entrepreneurs, Opportunities

**Paper type** – Case study

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## Introduction

This is the entrepreneurial age. Economists and academics agree women entrepreneurs are under-tapped force that can rekindle economic expansion. Entrepreneurs start companies when they see a need in the marketplace that they can fill, whether it is creating a new product or service or targeting an underserved segment of the market.

Women entrepreneurship is the process of creating new venture by women through risk-taking, innovating and managing for rewards. It refers to women in independent business. The process of entrepreneurship is common to both men and women (Friedmann, 1992). It is only the gender that distinguishes the women entrepreneurship from men entrepreneurs. However, women stand as a special focus group for entrepreneurship development. They differ in terms of motivation, business skills and occupational background. Leasing the power of women entrepreneurship can have a dramatic effect on a country's economy. Women's entrepreneurship index measures the development of high potential female entrepreneurship worldwide. Successful entrepreneurs are usually inspired by other successful entrepreneurs.

Women's empowerment is essential for women's entrepreneurship. Women are crucial to economic growth around the country. Women entrepreneurs in the informal economy in Nepal make the transition into the formal economy (Acharya, 1997). Whilst the informal economy is prevalent in most developing countries, women are over-represented

in it due to existing and enduring gender disparities. It is important to consider women as a heterogeneous group whose involvement in the formal and informal economic sectors may differ along several socio-spatial dimensions, especially as there is limited data to explain why informal female entrepreneurs to provide nuance to and understanding of the experiences of different groups of Nepali female entrepreneurs. The expansion and recognition of the formal standing of entrepreneurship were among the major changes brought about by the transition from the planned economy to the liberalized market economy in Nepal in the 1990s (Ghimire, 2011). In the rapidly changing social and economic environment of the political transition period of Nepal after promulgation of new constitution, 2015, Nepalese economy and its growth is only possible to empower the entrepreneurship development in the country as in all level. Entrepreneurship held the potential to contribute to both economic development and social inclusion. Moreover, entrepreneurship is also provided another means of income generation among men and women in economies characterized by limited growth in employment even during high-growth years,

Entrepreneurship also has a broader economic impact and is important from the perspective of job creation, private sector development, and wealth creation. Women's participation in entrepreneurship can enhance the expansion of these economic goods and simultaneously lead to less inequality in the two largest subgroups in the population; men and women. Business owned and managed

by women are different from businesses owned and managed by men; thus, the gender specialization that appears to occur in the labor market is reflected in entrepreneurs as well. One important issue is whether the smaller number of women entrepreneurs and the different in the businesses of women reflect preferences or are the result of constraints placed on women that unfairly target the ability of women to growth businesses and accumulate wealth (Badan, 2008).

Entrepreneurship and business creation can be significant contributors to private sector enlargement and to the dynamism of an economy. However, it is difficult to estimate the size of the private sector in any economy. The same is true of women's contribution to and participation in entrepreneurship. Every woman must develop the negotiation skill in every possible matter for providing their ideas; they should be aware about the opportunities that are exist but has not been mobilized yet (UNDP, 2006).

#### Problems in Women Entrepreneurship in Nepal

- Family constraints which depend upon how the women are developed and how they are nurture in the family and community.
- Excess and control before and after marriage is another major hindrance.
- Proper mobility is lacking for women's entrepreneurs.
- Lack of appropriate education has been a major stumbling block for the growth of women entrepreneurship. Lack of knowledge about business or

know-how on marketing is challenging force in women entrepreneurship in Nepal. This has adversely affected their capacity to take risks.

- Women find limited opportunities for developing business relationships. It takes time and effort to get acceptance in male dominated groups and networks in Nepalese society.

#### Data Analysis

Economists and academics agree women entrepreneurs are under-tapped force that can rekindle economic expansion. Entrepreneurs start companies when they see a need in the marketplace that they can fill, whether it is creating a new product or service or targeting an underserved segment of the market.

**Table 1.1: Population and Household Characteristics**

Population	2001	2011
Nepal	23151423	26494504
Male	11563921	12849041
Female	11587502	13645463
Annual Population Growth Rate	2.52%	1.35%

*Source: (CBS, 2011)*

The population size of female is more over than men populations but entrepreneurial opportunities for women comparatively very low in position. If Nepalese governments take care on women entrepreneurship development by offering different packages towards skills development, it will positively hit the Nepalese economy. It should be

ensured that women entrepreneurship in small business secures the sustainability in Nepalese economy. Population is itself resources in 21st century. China achieve their growth by using human capital equally but Nepal is not given the environment to women equally causes that Nepalese economy falls down day per day.

Individual who really want to become an entrepreneur, confidence, resources mobility, knowledge, risk taking ability etc. are major factors that influence entrepreneurship. Nepalese women were taking the initiation for organizing first international women's trade expo, 2016 at April 1 to 3, 2016, Kathmandu, Nepal.

Women empowerment depends on taking part in various developmental activities. The participation of women in various entrepreneurial activities has empowered them in social, economic and cultural fields. The power of and access to taking decisions has increased for women in Nepal. Nepal has more than 26 millions populations. Women constitute more than half of the population in Nepal. Economically, women are very weak in rural area of Nepal. For economic development, it is essential to empower women towards entrepreneurship. The condition of rural women in Nepal is very pathetic. In rural areas, child marriages are still prevalent. The percentage of literacy among women in rural areas is almost negligible. The condition as a whole of rural women is more critical than their counterparts in the urban society where there is more active in their rights in urban area. The socio-economic status of women

in rural village of Nepal is very poor. The women are being discriminated in every aspect of the society.

**Table 1.2: Self-Employment for Women in Nepal**

Category	(%)
Employer	0.46
Self-employed	84.75
Employee	11.85
Unpaid family worker	2.95
	100

*Source: (NRB, 2015)*

Statistics on women self-employed in Nepalese economies are provided top position as a contributor factor in entrepreneurship. Examining the role of women's entrepreneurship is to estimate the percentage share of the female workforce that is self-employed. In Nepalese economies, we can observe that self-employment represents a very important alternative for women in order to gain income. There is an important country variation where 84% of the female labor force is estimated to be self-employed in Nepal. Women's entrepreneurship deals with both the situation of women in society and the role of entrepreneurship in that same society (OECD, 2000). Perceived lack of innovation is a more common problem for women. Women entrepreneurs tend to self-assess the level of innovation of their own business lower than male entrepreneurs and 8.3% of patents awarded by the European Patent Office in 2008 were awarded to women across the EU (EC, 2008).

**Table 1.3: Female-headed Households (%HHS)**

Area	2001	2011
National	14.9	25.7
Urban	17.0	28.1
Rural	14.5	25.2

Source: CBS, 2001 and 2011

Female-headed households in 2001, overall nearly 15% and it increases at nearly 11%. Urban population is female-headed households only 17% but nearly 28%.

**Table 1.4: Female Ownership on House & Land or Land only**

Area	2001	2011
National	11.7	19.7
Urban	15.2	26.8
Rural	10.0	18.0

Source: CBS, 2001 and 2011

Women ownership on house and land is important for collateral perspective. Women's entrepreneurship needs to be studied separately for two main reasons. The first reason is that women's entrepreneurship has been recognized during the last decades as an important untapped source of economic growth. Women entrepreneurs create new jobs for themselves and others and by being different also provide society with different solutions to management, organization and business problems as well as to the exploitation of entrepreneurial opportunities. The second reason is that the topic of women in entrepreneurship has been largely neglected both in society in general and in the social sciences. Not

only have women lower participation rates in entrepreneurship than men but they also generally choose to start and manage firms in different industries than men tend to do.

The promotion of micro and small-scale enterprises has been recognized as an important strategy for advancing the economic empowerment of women while reducing poverty and gender inequality. Small businesses are engines of growth and considered a backbone for economic expansion by many Governments. At the household level, women's microenterprises and small subsistence businesses play a crucial role in ensuring the survival of poor households and in building up women's confidence, skills and socio-economic status with social benefits occurring to the community and future generations.

**Table 1.5: Barriers to Nepalese Women Entrepreneurs**

Barriers	Entrepreneurs	
	Mean	Rank
Lack in Financing	3.82	3
Low level of confidence	3.75	4
Lack of education and training	4.62	2
Political Instability	3.25	5
Lack of appropriate policy	2.89	6
Family dependency	4.85	1
Low mobility	2.72	7

Nepalese women entrepreneurs have been facing a lot of obstacles to establish new venture. Family dependency is the major

barriers towards entrepreneurship. It mean score 4.85, shows that without getting prior approval from parents or family, women are not able to create new venture on their risk. Similarly, education and training is also the important determinants in entrepreneurship. Risk taking is essential for any types of businesses but in the case of Nepalese women, they don't have opportunity to gain appropriate education and training to enhance their skills towards entrepreneurship development in the nation. Normally, women confidence, political stability, formulation of appropriate policies and women mobility from one place to other seems to be barriers for women entrepreneurship development in Nepal.

### Conclusion

Finding and managing capital emerged as the most important problem for women entrepreneurs in Nepal despite the existence of various support mechanisms. Finally, the findings showed that the majority of women entrepreneurs in Nepal use traditional ways. Family members and business partners are the other sources of financial support, which may also provide moral support to women entrepreneurs. Increase the ability of women to participate in the labor forces by ensuring the availability of affordable child care and equal treatment in the work place. More generally, improving the position of women in society and promoting entrepreneurship generally will have benefits in terms of women's entrepreneurship. Women entrepreneurs play an important role in the entrepreneurial economy, both in their ability to create jobs for themselves

and to create jobs for others. Women who are poor, have few if any of their own assets, and have limited means of accessing such resources from others. The women involved in cottage and small-scale industries in Nepal face numerous problems in the field of production techniques, management, finance and marketing as well as in policy-related matters like: problems in identification of variable business; lack of access to land and property and control over financial and productive assets or resources; lack of access to bank loans and credit and lack of fixed and working capital; lack of adequate level of education and appropriate business training, lack of support from families and society and limited government resource allocation for women's entrepreneurship development etc.

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# HR in the Service Economy: An Observation

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## Abstract

*People's capabilities are the key factors for gaining sustained competitive advantages. In the service organization, people's knowledge and innovative capabilities are the important factors of strategy and organizations that excel in attracting, creating and managing HRM is able to demonstrate its position as a strategic partner to executive management.*

*In this article researcher explored the role of knowledge workers in the service economy. Knowledge workers should respond to the key challenges presented by the knowledge economy. Researcher identifies four knowledge priorities: becoming expert in identifying and defining strategic knowledge capabilities, developing and managing knowledge workers by leveraging the knowing-learning-doing nexus, building knowledge value as an organizational as well as an individual assets, and minimizing knowledge risk. Some experience from Nepalese organization is also incorporated in the paper. In Nepal, the prospect of knowledge economy is not in the priority of Nepalese managers but some of them are emphasizing the role of knowledge workers in acceleration of economy. Nepalese economy is also turning to service economy. So, the Nepalese managers are now started emphasizing in knowledge workers.*

**Keywords:** *Knowledge economy, knowledge management, knowledge workers, Nepal*

**Paper Type:** *Conceptual research paper.*

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## Background

The emergence of the knowledge economy, partly attributed to globalization and technological advances, has ushered in a wide ranging debate about the demand for higher levels of competencies. While there is growing agreement on the importance of skills as a key factor for economic

growth (OECD, 2010) and the spread of the knowledge economy, there is far less agreement on which competencies and skills make the difference. Today the world is turning from manufacturing economy to service economy. This paper is trying to explore the traditional HRM practices and required HRM in service economy. From a labour market perspective, there

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is also an increased attention given to specific competencies such as the ability to use information and communication technologies (ICT), to solve problems, to work in teams, to supervise and lead and to undertake continuous learning. This perspective of skill requirement is also compelled to develop the new skills and knowledge. What kinds of competencies are important for success in the service economy? This paper seeks to inform the on-going debate by trying to answer some questions related to the competencies required to participate effectively in the knowledge economy. Such an understanding is important for developing skills and decides over various kinds of incentives most likely to promote the development of needed competencies.

### Service Economy

The service economy encompasses all jobs, companies, and industries in which the knowledge and capabilities of people, rather than the capabilities of machines or technologies, determines competitive advantage. Of the 19.5 million jobs that are projected to be created in the United States from 2008 to 2015, 19.1 million of them will be in the service sector (Hecker, 2012). Although the service sector is a place to find more knowledge-intensive work, the manufacturing sector is also becoming more dependent on knowledge and human capabilities.

The service economy came into existence as a result of the commercialization of information and communication technologies what is collectively known as *information* technology (Burton-

Jones, 2009). The rapid development of computers and microprocessors has made it possible to collect and use vast amounts of information from a variety of sources in a more integrative manner than ever before.

In this information-intensive economy, competitive advantage is based primarily on the application of knowledge, and not all of the data, intelligence, and wisdom with which a global company needs to compete can be found in one place (Doz, Santos, & Williamson, 2011). Knowledge is dispersed around the world. Furthermore, the cost of overcoming distance is falling rapidly for commodities that are mobile, such as capital, goods, and information.

Knowledge, rather than the concrete characteristics of goods or services or the mechanics of production processes, is becoming the defining characteristic of economic activities. Human know-how is a crucial component in virtually every service we produce, and it determines how we produce valued services. As Don (2006) asserts, more added value is created by brain than technology.

Knowledge creation, use, sharing and retention have always been important. What is new is the significant shift towards a systematic and strategic approach to managing the primary assets of the knowledge economy: people, knowledge processes, and knowledge products. Globally, knowledge has become the most important factor in economic development and knowledge assets are considered essential for economic growth, competitive

advantage, human development and quality of human life (Malhotra 2003).

**Four key points distinguish the service economy:**

Knowledge is recognized as important to organizations and is acknowledged as critical to organizational success. Globalization, rapid change, and competition in a global market of increasingly sophisticated consumers have led organizations to seek a sustainable advantage that distinguishes them in their business environments (Davenport and Prusak 2008).

**Relationships amongst employees are more complex (Klemp 2001).** New types of business-to-business relationships require everyone to develop skills that emphasize interdependence, communication, and the ability to build and maintain strong work relationships. Virtualization has changed the ways that humans interact, and the need for physical contact has been reduced or in some cases eliminated. Information and communication technology is embedded in most human interactions and business transactions. People are more 'technologically savvy' than at any other time in history (Prusak 2001; Raven and Stephenson 2001). Fundamental IT skills are requisite for all employees but in addition, the speed with which employees can learn new software and technology is critical.

**Time span of discretion.** Speed has become the key to competitiveness, but paradoxically, people need to plan over a longer time span. There is a stronger

need for efficiency, analytic thinking, and planning skills (Raven and Stephenson 2001). Taken together, these characteristics change the landscape in which HRM operates and herald the opportunity for new contributions. Further, impetus for a revised role is provided by knowledge-related changes at the firm level.

**Knowledge at the firm Level**

For service organizations, capability based on knowledge-based resources is critical to sustained competitive advantage. However, simply possessing knowledge based resources will not itself achieve competitive advantage – these resources must be managed in ways that allow the organization to leverage them for strategic advantage (DeNisi, Hitt and Jackson 2003).

Knowledge management is the discipline that formalizes approaches to understanding and benefiting from knowledge assets at the firm level. The intellectual antecedents of knowledge management include economics, sociology, philosophy and psychology (Prusak 2001). Reflecting this, knowledge management is best thought of as a *framework* rather than as a single approach – a collection of elements that work together in varying combinations to accomplish the goal of leveraging an organisation's knowledge capital (Saint-Onge and Wallace 2003). Knowledge management has been described as involving "the design, review and implementation of both social and technological processes to improve the application of knowledge, in the collective interest of stakeholders"

(Standards Australia 2003). Information technology contributes to effective knowledge management. It alone does not fulfill the promises of knowledge management. Attention to four elements - People, Process, Technology and Content - is essential to optimize results from knowledge (Standards Australia 2003). Nevertheless, it is our experience that in practice Information Technology takes a stronger leadership role in knowledge management (KM) than does human resource management (HRM).

### **Mode of Theorizing**

Conceptual framework like institutional theory (Meyer and Rowan 1997), Resource dependency theory (Pfeffer and Cohen 1984), Human capital theory (Becker 1964) and resource based theory of the firm (Barney 1991; Wright and Snell 1991) have been used to explore the relationship of HRM and organizational performance. Most of the studies have reported positive association (Arthur 1994).

### **Human Resource Management**

In this global era, scholars of management focus their study in the resources that can help a firm develop a sustained competitive advantages that competitor can not imitate quickly. Human Resource (HR) is such resource which can help to obtain sustained competitive advantages. Human Resource Management (HRM) has traditionally viewed as a cost minimization function. But nowadays various studies and works proved that HRM can be the unique source of competitive advantages enhancing organizational performance.

HR faces the opportunity to prove that it can contribute to organizational success through the development of more strategic role, the delivery of efficient services and the facilitation of organizational change.

Human Resources are considered the most valuable asset in an organization but they make bottom line only for a few organizations (Pfeffer 1998; Wimbush 2005). According to the resource based view of the firm, which poses that superior performance is the outcome of the idiosyncratic mix of corporate resources, HR practices may lead to higher firm performance and a source of sustained competitive advantages because these practices are often unique, casually ambiguous and difficult to imitate (Barney 1991; Wright, Dunford and Snell 2001; Voss, Tsikriktsis, Funk, Yarrow and Owen 2005). Essentially, as confirmed by a growing body of empirical evidence, not every HR practice can be a source of sustained competitive advantages and associate with the performance (Guest 1997; Ahmad and Schroeder 2003; Cardon and Stevens 2004; Givord and Maurin 2004; Barringer, Jones and Neubaum 2005).

Guest (1997) argues that performance is company dominant criterion while outcome is potential much boarder. They may include environmental issues, job satisfaction, organizational commitment, contribution to community activities and so on. Guest (1995) has presented the range of related outcomes. He explores a framework which is essential to measure HRM outcomes to understand how HRM impacts on performance. He

further categorized the performance and outcomes in basic four groups, i.e. HRM outcomes that comprises Commitment, Quality and Flexibility; Behavioral outcomes which includes efforts/motivation, cooperation, involvement and organizational citizenship; performance outcomes includes productivity, quality, innovation, absenteeism, labour turnover, conflict and the financial outcomes which indicate profit and return on investment (ROI). Similar to Guest and Huselid (1995) define that HRM has an economically and statistically significant impact on both intermediate outcome and corporate financial performance. Intermediate outcome includes the turnover and productivity. Where as the financial performance indicates the short term and long term measure of financial benefits like; profitability and ROI. Among the number of HR practices which enhance performance, one of them is training and development.

Zhu (2004) reviewed the changes in the area of HR development in Japan and observed that some companies and industries have shifted towards a more strategic approach that emphasizes the impact of effective learning at both individual and organizational levels on long-term organizational competitiveness.

#### **Human Resource Management's Opportunity in the Service Economy**

Don Tapscott (1996) argues that "the human resources function in general, and human resource professional should be uniquely positioned to provide leadership formation

of the enterprise." However, rather than being an agent of change and adaptation, the HR function is too often slow to respond. As Tapscott notes, "although some human resource professionals are rising to the challenge, too many are not. The basic problem is that, in the first era, human resource professionals were mere suppliers of human resource functions, such as staffing needs and compensation planning. This may have made a lot of sense during a period of stability and steady growth. But as we move into the digital economy, the human resource profession needs to reinvent itself and force to partnership with others in the organization for transformation.

Regarding the functions of HRM in service economy, Ulrich (1999) poses the following questions:

#### **What Is the Work of Human Resource Management?**

In the service economy, HRM works will not conventional functions of staffing, training and development, performance management. Human resource management work in the service economy includes both activities that overlap with other traditional business functions (for instance, finance, marketing, strategy) and some that are nontraditional (for instance, knowledge management). For this reason, HRM is no longer simply focused on "managing people" in the conventional meaning of the phrase. Human resource management is responsible for managing the capabilities that people create and the relationships that people must develop.

### Who Does Human Resource Management Work?

HR professionals still do much of the traditional HR works, although some of them have been outsourced (staffing, benefits, and so on) or digitized (for example, electronic HR). Furthermore, a substantial portion of conventional HRM work is now being done by line managers and professionals from other fields, such as information technology, or in other parts of the organization, such as the entrepreneurial units. In the knowledge economy, as HRM work expands, responsibility for HR will truly be shared jointly among HR managers, employees, and external vendors.

### How will technology change the HRM function?

By increasing administrative efficiency, technology allows HR to have fewer staff making more value-added contributions to their organizations. The rapid evolution of electronic HR delivery systems is pushing more information in more usable formats to employees and managers who can use it directly for the benefit of their organizations. Boyett et al., (2001) found the following technology trend affecting HR:

- Fast and cheap access to accurate real time HR information
- Ubiquitous access to information to improve employee effectiveness and efficiency
- A variety of analytics and decision tree: like algorithms helps anticipate

and forecast possible turnover, pay, recruitment etc.

- Smart self service- Smart phone
- Customized content- Enabling employees to do work optimally by providing knowledgeable content.

### What is the role of HRM?

Much current thinking in HRM suggests that its practices must be integrated around common themes (Ulrich,1999). The role of HRM is to provide a logical basis for constructing common themes that support an organization's ability to adopt the demands of service economy.

### HRM in the service economy

The nature and characteristics of work in the service economy herald new opportunities for HRM. To maximize benefit from knowledge assets, a fourfold contribution from HRM is proposed. In the service economy, HRM must have:

#### Strategic knowledge capabilities

The most significant contribution that HRM can make is strategic. We have seen that knowledge capabilities underpin strategy in the knowledge economy, and HRM practitioners are well placed to understand and define the organization's strategic knowledge capabilities. Strategic knowledge capabilities comprise the 'core competence' (Ulrich and Smallwood 2003) of the organization (i.e. what it is good at now) and emerging capabilities to sustain future performance. As such they comprise knowledge and skill areas that contribute value to the organization, offer

real or potential competitive advantage, and are hard to replace.

Understanding strategic knowledge capabilities is at the hub of HRM in the knowledge era. For example, the aim of recruitment and selection in the knowledge economy is to source high caliber talent possessing a range of skills and capabilities related to the strategic knowledge areas. A key challenge is selecting employees who are capable of contributing to the organization in a variety of ways now and in the future, rather than simply filling the current vacancy. This requires long-term planning with senior management and the flexibility to hire when the talent is available. The focus is a flexible and agile workforce. Partnering with external organizations for specialist knowledge when required will become more commonplace.

#### **The knowing-learning-doing nexus**

Given that the competitive advantage of an organization resides in the abilities of its employees, knowledge workers and the capacity they contribute are fundamental to success. Peter Drucker introduced the terms 'knowledge work' and 'knowledge worker' in the early 1960s (see Drucker 1993). However, what would have then been described as a rare type of work is now increasing in prevalence and economic significance (Andrews 2000; Andrews and Delahaye 2000). According to the Australian Bureau of Statistics, knowledge workers now represent 38% of all employed persons in the Australian labor force, and the fastest-growing occupations are in knowledge work

(ABS website 2003). Knowledge workers identify and solve challenging and complex problems, relying on imagination and creativity and high levels of education and skills. Importantly, they move beyond applying existing codified knowledge to working with inferences from the body of knowledge (Lockett and Legge 1993). Knowledge work is characterized by ambiguity, complexity, and long feedback cycles. Thus, knowledge workers are employed for their ability to think for themselves and their work involves a high degree of autonomy. Collaboration is also a key element of knowledge work and involves building and maintaining relationships both inside and outside the organization.

The characteristics of knowledge work throw the spotlight on HRM and its management of the knowledge workforce. The autonomy of knowledge workers, their interdependencies with others, and the long feedback cycles typical of their work pose clear challenges for traditional approaches to performance management. Traditional performance management focuses on narrowly-defined tasks or job roles and observable outputs rather than long-term and diffuse contributions. In today's economy, performance management must be re-conceptualized with knowledge work in mind. The process by which people obtain results becomes much less significant and the focus shifts to managing outcomes, many of which are long-term and difficult to attribute to individuals. For HRM professionals, the key switch is from one of 'performance

management' to performance support or performance facilitation.

In addition, HRM must tap into the intrinsic motivations of knowledge workers. Knowledge workers are self-motivated, curious and passionate about learning, and have a strong desire for exposure to new ideas and perspectives from both inside and outside their primary knowledge discipline. HRM has a key role to play in creating rich work opportunities. A specific example relevant here is provided by Sveiby and Simons (2002) who noted that after 15 years working in the same field for the same company, professionals experience anger, frustration and burnout. The 'career plateau' (Sveiby 2002) transcends professions and creative workers are thought to be particularly vulnerable. Obviating or minimizing the impact of professional burnout is a worthwhile area of focus for HRM.

It is noteworthy that whilst technical discipline based knowledge has traditionally defined professional work, additional 'generic' capabilities (abilities to adapt, learn, collaborate and share knowledge) are essential attributes of knowledge work. For knowledge workers, learning and work are intimately connected. Current approaches to training and development that view professional development as 'on-top-of', or supplementing an employee's work are challenged. Learning and professional development is relevant to knowledge workers to the extent that it is intimately connected with the context of their ongoing work. Further, knowledge workers' self-

motivation to learn suggests that the control over the diagnosis and design of professional development activities are best given to the knowledge workers themselves. Learning and development that is 'just-in-time' to support the current context of the knowledge work will be more common. HRM professionals have a key role to play in supporting the ongoing development of knowledge workers, but many of the current ways in which that support is provided may be revised.

### **Build knowledge value**

The essence of managing knowledge is to build knowledge value for the organisation and leverage that value for competitive advantage. The value for the organisation is not derived from simply providing access to information. People create value from information by doing something with it (Andrews 2003b). Specifically, applying knowledge to real life opportunities is the source of value creation: leverage comes from making knowledge and expertise available firm wide. For example, an emphasis on sharing knowledge and expertise across the enterprise is likely to improve both efficiency and innovation.

Thus, the important shift for HRM is to build knowledge value as an organizational as well as an individual asset. The focus for HRM is the whole organization as a system, rather than the sum of its parts. In addition to supporting the management of knowledge, HRM practitioners as knowledge brokers have a vital role in terms of knowing what the strategic knowledge capabilities of the organization are and where the pockets

of skill and expertise lie (both inside and outside the organization). HRM is uniquely positioned as the facilitator of knowledge and value creation.

Building knowledge value spans the breadth of HRM activities. A primary function is the rapid deployment of skill and knowledge. For example, currently the emphasis in training and professional development programs is on the provision, coordination and monitoring of training opportunities for individual employees. This emphasis must shift to developing the strategic knowledge capabilities of the organization in such a way that they may be rapidly developed and deployed. The challenge for HRM is to offer personalized development opportunities to underpin the organization's needs for responsiveness and agility.

Facilitating knowledge transfer between individuals, groups, and from outside to inside the organization (and vice versa) becomes critical to building organizational capability. Ideally, HRM has established relationships across the organization based on understanding of business needs. This pivotal role will assist HR to anticipate and plan for emerging knowledge needs.

#### **Minimize Knowledge risk**

In addition to leveraging organizational knowledge, a new focus for HRM is to minimise knowledge risk. Knowledge risk refers to the real or potential loss of knowledge either through under-utilization or loss of valuable hard to replace knowledge when people leave the firm (Andrews 2003a). A topical example

of knowledge risk is associated with the aging workforce. An investigation of the Australian Public Service (APS) Commission (2003) found that the APS has an ageing profile with an increasing proportion of mature-aged workers, particularly at senior management levels, and declining youth employment. Approximately 30% of APS employees are aged between 45 and 54, compared with 19% a decade ago, and this age group is clustered at higher classification levels. The report also indicates a likely departure of a significant proportion of its current workforce, estimated at 23%, by 2008.

Management of this risk begins with an assessment and the development of strategies to mitigate the impact of potential knowledge risk. Traditional approaches to workforce planning in many organizations tend to address current and short-term resource needs for organizational units individually, by developing employees' skills and knowledge through training and development, or acquiring skills and knowledge with recruitment. The current approach emphasizes 'head count'. From a knowledge management perspective, HRM must focus on 'head contents' instead. In the knowledge economy forecasting future knowledge requirements for the whole organization in the medium and long-term is of primary importance. In particular, the focus becomes one of identifying where the 'knowledge risk' is. Workforce planning involves mitigating this risk. This requires an intimate knowledge of the strategic knowledge capabilities and how they are supported.

**Glimpses of HR role in service Economy**

HRM Focus	Traditional HRM	HRM in knowledge Economy
<b>Recruitment and Selection</b>	<p>Seek and select resources</p> <p>Describe job requirements and fill vacancies</p> <p>Select from pool of applicants available at the time the vacancy is identified.</p>	<p><b>Identify, attract and sustain talent</b></p> <ul style="list-style-type: none"> <li>- Seek out high caliber talent</li> <li>- Focus is on a flexible, agile workforce</li> <li>- Partner with external providers of knowledge</li> <li>- Identify alternative forms of remuneration</li> </ul>
<b>Training and Development</b>	<p><b>Develop individual skills and competencies</b></p> <ul style="list-style-type: none"> <li>- Plan and coordinate training programs</li> <li>- Provide and monitor professional development programs</li> <li>- Focus is on individual skill acquisition</li> </ul>	<p><b>Develop individual and organizational capability</b></p> <ul style="list-style-type: none"> <li>- Recognize the nexus between learning, knowing and doing</li> <li>- Focus is on personalized capability development embedded in work</li> <li>- Build 'time-to-capability' by accelerating learning</li> <li>- Identify and share excellent practices</li> <li>- Facilitate knowledge networks</li> <li>- Build organizational capability by facilitating knowledge</li> </ul>
<b>Workforce Planning</b>	<p><b>A focus on 'head count' - address current and short-term resource needs by organizational unit</b></p> <ul style="list-style-type: none"> <li>- Identify current and short-term resource needs</li> <li>- Develop skills to meet needs via training and development</li> </ul>	<p><b>A focus on 'head contents' – manage knowledge value and risk for the whole organization</b></p> <ul style="list-style-type: none"> <li>- Forecast knowledge required in strategic knowledge domains for the medium and long term</li> <li>- Rapidly develop and deploy knowledge sets of employees (individuals and teams)</li> </ul>
<b>Performance Management</b>	<p><b>Monitor and modify individual performance</b></p> <ul style="list-style-type: none"> <li>- Reduce or eliminate undesirable behaviors and set desired behaviors to enhance individual performance</li> <li>- Reinforce organizational culture</li> <li>- Monitor adequate compliance with policies and procedures</li> </ul>	<p><b>Knowledge worker productivity</b></p> <ul style="list-style-type: none"> <li>- Manage outcomes characterized by long feedback cycles (rather than managing inputs and processes)</li> <li>- Retain skilled knowledge workers and key knowledge in strategic knowledge domains</li> <li>- Tap into knowledge worker intrinsic motivations</li> <li>- Enhance team/business unit performance</li> </ul>
<b>Strategy</b>	<p>Develops HR strategy to align with business strategy</p>	<ul style="list-style-type: none"> <li>- HRM contributes to business strategy development as the expert on strategic knowledge capabilities</li> <li>- Knowledge acquisition, creation, and utilization are definitional to business strategy.</li> </ul>

### **Nepalese scenario on HR role in service economy**

From the various studies it is found that HR activities are performed to comply with the provision of rules and regulation but not for the development of human capital.

Adhikari (2010) found that Nepalese academic institutions are characterized by less organizational efforts in creating knowledge, few occasions to share it, less scientific approach in creating it and less use of created knowledge. They are surrounded by non knowledge-based activities and many other features. The concept and practice of KM has yet to arrive in these institutions and there is no criteria to evaluate academic activities of these institutions.

Adhikari (2003) suggested that there have been no significant changes at firm level HR policies and practices even after the changes in the economic and political priorities in the last decade. Nepal is still at the initial stage of development of human resource management. Personnel management system is still preoccupied with operational issues rather than managerial one. HR planning and practices are not in the priorities of Nepalese managers. Nepalese decision makers are still in position to hold power rather than delegate.

Shrestha (1991) analyzed the practices of personnel management in private industrial enterprises in Nepal. He found that personnel management in Nepal had not yet acquired professional competence. Nti(1991)'s study on "Personnel

Administration in the Civil Service of Nepal" (1991) found that the personnel administration system of the civil service of Nepal had most of the elements required to make such a system effective, such as appropriate legislation, rules and regulations that spell out rights and obligations and serve as a guide to action. Mechanisms existed to ensure equal opportunity, operation of the "merit" principle in appointments and fairness and objectivity in promotions and disciplinary control. Provisions were made regarding monetary and non-monetary perquisites, fringe benefits etc.

Pant ( 1983) concluded that the country had no human resource policy and had relatively few human resource development programme. Significant proportions of the active population had virtually no opportunity to improve their educational and skill levels. Thus active labour market and human resource development policies at the national level would improve the conditions of labour supply by matching supply with demand through more effective labour market information, more adequate education and job training programmes.

In HR practice, Nepal is in infancy period. Even though it can be seen that Nepal is in between two developed and largest market country. If Nepal is able to utilize the workers as knowledge workers and able to flourish the service sector where plenty of opportunities for the development is there and can differentiate its service so that it can attract to the tourists to see the natural beauties so that tourism sector can enhance the Nepalese economy. If Nepal

is able to differentiate its product by the use of knowledge workers then we have plenty of market opportunities which will also support to the Nepalese economic development (Pradhan, 2001).

Nepalese hydroelectricity projects are most costly in practice but if Nepal is able to motivate the workers through motivation of team and individual than construction cost remains low which will help to develop the Nepalese economy. If Nepal is able to identify, attract and sustain knowledge workers, develop them and focuses on head content than nepotism and favoritism then fly of quality human resource can be minimize and industrial unrest can be minimized.

In Nepal, Private banking sector is using new technology i.e. computer technology. They utilize the information and deployed new services like debit cards, credit card, employees are laced into different places to develop their skills through experience and they develop the pool of employees as per their requirement so that their performance seems to be better than the old banks which are traditionally operated (Chalise, 2006). They have manpower planning considering to the knowledge context. They utilize the experienced aged people from outside as chairman, Board of Directors and CEO so that they are trying to mitigate the knowledge risk.

### **Conclusions**

Knowledge is considered as the key resource and source of competitive advantage in the recent global economy. Due to the development of service

economy the growth of the knowledge worker is increased. Such increase is possible due to flow of information freely all over the world and the growing recognition of the importance of intellectual property and intellectual property rights. Knowledge is taken as a character of economic activity. The rise of service economy is due to accessibility of information and information technology. Such scenario is seen due to greater organizational complexity, the growth of virtual and global organization and rapid change in the service of the organization as well as the technology. It requires drastic change in HRM to cope to the changing demand of the economy.

This paper argued about the change in the role of HR in the service economy. Whatever the traditional theorists argue about the role of HR in the past settings, such role can not absolutely cope to the new concept and practice of service economy. This paper has discussed the new role of HRM for implicating in the service sector and role of HRM in facilitating innovation and creativity as well it is trying to identify the new role of HR in the service economy turning from the traditional role. Finally Nepalese service sector is still not able to understand the concept of service economy and they are using the HR in the traditional way and they are not been able to recognize the new role of HR in this present situation of globalization and virtual organizational settings. If they are not able to recognize timely they can not achieve their goal in the future business settings and they will face the severe problem in the near future.

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# Impact of Perceived Organizational Support on Perceived Job Performance with Mediating Role of Perceived Job Satisfaction: an Evidence from Nepalese Hotel Industry

Gangaram Biswakarma\*

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## Abstract

*This study investigated the interrelationship of Perceived Organizational Support (POS), Perceived Job Satisfaction (PJS), and Perceived Job Performance (PJP). In this study, data collection was performed with a respondent sample of 158 Employees from Nepalese hotel industry that caters international tourists. Results indicate that POS is directly correlated with PJS & PJP. PJS partially mediate the effect of POS on PJP. Thus, POS can strongly relate with achieving higher level of PJP in hotel industry with mediations of PJS. It suggests job satisfaction mediated POS-PJP relationship.*

**Key Words:** *Perceived Organizational Support (POS), Perceived Job Satisfaction (PJS), Perceived Job Performance (PJP), Nepal, Nepalese Hotel industry.*

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## Introduction

Employees respond and perform better in alignment of the objectives of the organization when employee feel that their organization attends to their welfare. The employees therefore help the organization reach its objectives to save the source based on exchange norm (Hakkak, Gashti, & Nawaser, 2014). Likewise, working environment for employee is resulted out of organizational support and thus resulted in job satisfaction, job performance and exerts an important

influence on organizational performance. Job satisfaction and its correlates have received considerable attention in the western as well as non-western literature. It is because of job satisfaction remains a leading construct that divines the workforce behavior towards their organization. Substantially, with this assumptions, the purpose of this paper is to confirm the relationship of Perceived Organizational Support (POS), Perceived Job Satisfaction (PJS) and Perceived Job Performance (PJP). It is also to identify the mediating

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role of Perceived Job Satisfaction between Perceived Organizational Support (POS) and Perceived Job Performance (PJP). Why Nepalese hotel industry that caters the need of international tourist? The answer is simple, such investigations are particularly important for a country like Nepal, where the Travel, Tourism and Hospitality Industry/Sector contributes 8.9% of GDP (2014)(World Travel and Tourism Council, 2015). This paper targets both academicians and practitioners in Nepalese setting. As an academicians, it will facilitate the understanding of the potential relationship between POS, PJS and PJP and the mediating role of PJP in between. Reflecting the relationship and mediating role of these variables, a practitioner can have the knowledge to which components to draw on for attention. They may know the effects of POS, PJS and PJP and consequently, they make themselves armed to combat these effects in Nepalese Hotel Industry that cater the need of international customers.

### Research Objectives

This research aims to investigate the relationship between **Employees' Perceived Organizational Support (POS), Employees' Perceived Job Satisfaction (PJS), and Employees' Perceived Job Performance (PJP)** in Nepalese hotel industry.

### Literature Review

#### **A synthesis relationship of perceived organizational support, job satisfaction, and job performance**

Research indicates that companies with an excellent customer service record reported

a 72% increase in profit per employee, compared to similar organizations that have demonstrated poor customer service; it is also five times costlier to attract new customers than to retain existing customers(Duncan & Elliott, 2004). Bitner (1992) also supported the notion that employee and customer responses to the firm environment influence the social interaction between them. In similar manner, job performance has been shown to be the best method for achieving better hotel service, productivity, and efficiency as well as improving guest satisfaction(Sternberg, 1992).

#### **Perceived Organizational Support and Perceived Job Performance:**

POS refers to "the extent to which the organization values [employees'] contributions and cares about their well-being" (Eisenberger, Huntington, & Hutchison, 1986). The idea of POS was first introduced officially by Eisenberg in an article in organizational literature 1986 (Hakkak, Gashti, & Nawaser, 2014). There are several existing studies that have examined the relationship between POS and various kinds of work performance (Rhoades & Eisenberger, 2002). POS captures an employee's beliefs concerning the extent to which the organization values (employees') general contributions made on the organization's behalf and cares for their well-being (Eisenberger, Huntington, & Hutchison, 1986, Wickramasinghe & Wickramasinghe, 2012). POS can have direct and indirect effect on employee behavior and the relation between them(Hakkak, Gashti, & Nawaser, 2014). Armeli, Eisenberger, Fasolo, & Lynch, (1998), studied patrol officers in USA with high socio-emotional

needs, found that there was generally a positive relationship between POS and performance. POS is the extent to which employees perceive that the organization values their contributions and cares about their well-being (Guan, Sun, Hou, Zhao, & Luan, 2014). POS may be encouraged by employees' tendency to ascribe human-like traits or characteristics to organizations (Eisenberger, Huntington, & Hutchison, 1986). Positive relationship between POS and work-related outcomes has been found in (Armeli, Eisenberger, Fasolo, & Lynch, 1998). Likewise, POS was found positively related to evaluative and objective measures of performance in standard job activities (Armeli, Eisenberger, Fasolo, & Lynch, 1998, Eisenberger, Huntington, & Hutchison, 1986). In other studies like Settoon, Bennett, & Liden, (1996) and (Wayne, Shore, & Liden, 1997), it was found no relationship between POS and work performance using structural equation modeling. The analysis previous literature like (Guan, Sun, Hou, Zhao, & Luan, 2014) indicated that the relationship between POS and PJP was mediated by job satisfaction. Given past empirical evidence and arguments, it is believed that POS will be linked to job performance.

**Perceived Organizational Support and Perceived Job Satisfaction:** POS is regarded as an exchange relationship between organization and employees based on organization support theory (Eisenberger, Huntington, & Hutchison, 1986). In previous studies like Ahmad & Yekta, (2010), Burke & Greenglass, (2001), Hassan, Hassan, & Shoaib, (2014), Guan, Sun, Hou, Zhao, & Luan, (2014) have shown that POS was positively associated

with levels of PJS and POS has been proved to influence on employees' satisfaction. Consistent with past empirical findings, the theory of reasoned action lends theoretical rationale for why POS is positively linked to job satisfaction. The object of interest is the job, then only job-related beliefs will predict job-related attitudes (e.g., job satisfaction). To determine if these requirements are met in the relationships between POS and job satisfaction, we need to examine the definition of POS (Miao, 2010). Thus, it appears that POS carries perceptions about both the organization's support of the employee as a person as well as the importance of the job performed by the employee, and would therefore impact job-related attitudes (i.e., job satisfaction) (Miao, 2010).

**Perceived Job Satisfaction and Perceived Job Performance:** Job satisfaction has been defined as the "positive emotional state resulting from the appraisal of one's job" (Locke, 1976) cited in Pugno & Depedri, 2009). The relationship between job satisfaction and job performance is not new in the psychology literature (Pugno & Depedri, 2009). The idea that job satisfaction leads to better performance is supported by Vroom's (1964) work which is based on the notion that performance is natural product of satisfying the needs of employees (Davar & Bala, 2012). Research examining the relationship between job satisfaction and job performance has been conducted since at least as early as 1945 and methodology utilized has varied greatly (Davar & Bala, 2012). The close relationship between job satisfaction and job performance is not something that has arisen recently addressed Argyris, (1964),

Gross & Etzioni, (1985) cited in Platisa, Reklitisb, & Zimerasc, (2015). These studies establish the idea of satisfied employees are more productive. Several previous studies Judge et al. (2001), Hanan (2009), Kahya (2008), (Pugno & Depedri, 2009), Nabirye, Brown, Pryor & Marles (2011), and Platisa, Reklitisb, & Zimerasc (2015) draws main conclusion that there is correlation between job satisfaction and job performance is positive and significant. However, there are contradictory perspectives on the relationship between job satisfaction and job performance. Keaveney and Nelson (1993) and Ravindran (2007) found no significant correlation between job satisfaction and job performance.

### Mediating role of Perceived Job Satisfaction

The study of (Guan, Sun, Hou, Zhao, & Luan, 2014) signifies that POS influenced job performance indirectly via job satisfaction. Job satisfaction has been defined as the "positive emotional state resulting from the appraisal of one's job" (Locke, 1976) cited in Pugno & Depedri, 2009). Our position that job satisfaction functions as a mediator within the nomological network has seldom been explicitly articulated in the organizational literature (Miao, 2010). Social exchange theory suggests that employees engage in positive or negative behaviors toward the organization only in response to positive or negative actions that are seen to originate from the organization (Miao, 2010). This suggests that job satisfaction mediates the relationship between actual organizational support and workplace behaviors (Miao, 2010).

### Research gaps

Most of the research in international arena has covered or focused, POS, PJS as determinants of PJP separately. However, to the best of author's knowledge, few studies focused on employee POS, PJS and PJP, with understanding role PJS in the past. Specially, in Nepalese context there is no studies to empirically support the relationship of POS, PJS and PJP. Therefore, the present study theses linkage, it would be a valuable attempt to plug the gap.

### Research framework and hypotheses

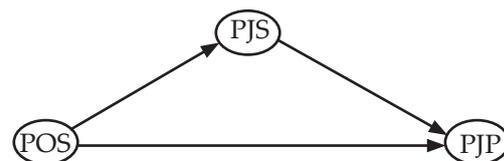
Based on literature review, the relationship of POS, PJS, and PJP seen under the proposed framework in Figure 1, the following hypotheses were advanced to identify the relationship of POS, PJS and PJP.

*H1: POS has significant positive direct effect on PJP*

*H2: POS has significant positive direct effect on PJS*

*H3: PJS has significant positive direct effect on PJP*

*H4: PJS will mediate the influence of POS on PJP*



**Figure 1: Conceptual Framework for the study**

### Research design, sampling and procedure

This study was a quantitative approach towards descriptive and casual research design. The descriptive research design was used for answering the present situation of POS, PJS and PJP in Nepalese

Hotel Industry. Similarly, the need of explanatory casual research design needed and reflects to test the relationship and impact of independent variables over the dependent variable in the study. A sample of 200 Employees was approached for the study. For the reliability of perception of the employee towards their respective organizations, employee having at least six months of working experience considered as valid sample. The employees samples comprises of star category hotels in Kathmandu Valley. The data was collected from these hotels with convenience sampling, in which 200 questionnaires for Employees were distributed out of which 158 nos. of employees 'response were in the position of utilization. The response rate was 79%. The detail list of sample collection can be seen at table no. 1.

**Table 1: List of Sample from the Hotel Industry**

<i>Employees</i>		
<i>Hotel</i>	<i>n</i>	<i>%</i>
Airport Hotel	8	5.06
Ambassadors	9	5.70
Everest Hotel	10	6.33
Hotel Annapurna	11	6.96
Hotel Manang Thamel	7	4.43
Hotel Shanker	8	5.06
Hotel Vaishali	9	5.70
Hyatt Regency	14	8.86
Hotel Malla	15	9.49
Marcopolo Business	12	7.59
Radission	11	6.96
Shangri-la Hotel	17	10.76
Soaltee	13	8.23
Yak and Yeti	14	8.86
<b>N</b>	<b>158</b>	<b>100</b>

### Conceptual Model and Instrumentation

The conceptual framework for this study constitute of three construct- Perceived Organization Support (POS), Perceived Job Satisfaction (PJS) and Perceived Job Performance (PJP). Measures designed with Perceived Organizational Support (POS)scale Rhoades et al., (2001) with eight items of the POS scale in 5 point likert scale. Perceived Job Performance (PJS) scale is adopted from Bowra et al., (2011) with three items in 5 point likert scale. Perceived Job Satisfaction scale was self-developed with three items scale in 5 point likert scale.

### Analytical Strategy

First of all, the variables are put into the exploratory factor analysis (EFA) to ensure the factor loading of the items, whether the items are loaded within their particular latent variables. Secondly, to illustrate that all items evaluating the research variables, confirmatory factor Analysis (CFA) was performed. It is for examining the unidimensionality of the construct of the latent variables. Next, the construct validity and reliability was examined. Finally, the path analysis was examined to test the hypothesis to identify significant direct and indirect effect of variables. The CFA and Path analysis was performed using AMOS v23., and other descriptive analysis was performed with SPSS v23.

## Results

### Demographic Profile of Respondents

Analyses of demographic variables of employees, the results indicate that the majority of employee respondents were male 58.9%. (n=93), female employees

constituted of 41.1% (n=65). The employees' sample constituted of 58.2% (n=92) in age group of 21 to 30 years. Maximum of the employees were single with 58.9% (n=93). The results in detail is placed in table no. 2.

**Table 2: Profile of the Respondents**

Employees			Employees		
<i>Gender</i>	<i>n</i>	<i>%</i>	<i>Income</i>	<i>n</i>	<i>%</i>
Female	65	41.1	Below 20000	26	17.1
Male	93	58.9	20000-30000	68	44.7
Total	158	100	30000-40000	39	25.7
<i>Marital Status</i>	<i>n</i>	<i>%</i>	40000 and above	19	12.5
Single	93	58.9	Total	152	100
Married	62	39.2	Employees: N=158		
Divorced/widowed	3	1.9			
Total	158	100			
<i>Age group in yrs.</i>	<i>n</i>	<i>%</i>			
Below 20	23	14.6			
21 -30	92	58.2			
31-40	38	24.1			
40 and above	5	3.2			

**Exploratory Factor Analysis**

Before analyzing the model with Confirmatory Factor Analysis and Path analysis, the factor loading of latent variables was confirmed by exploratory factor analysis (EFA) with Principal Component Analysis, component rotated with Varimax with Kaiser Normalization. The respective latent variables and items were confirmed in the same factors in measurement. Table 3, output presents figures relating to the test for sampling adequacy (KMO) and the Bartlett's test of sphericity. KMO statistics was 0.869, which was above the lower threshold of 0.5. Likewise, the Bartlett's test of sphericity suggests that, with the overall statistical significance of the correlations among the observed variables, can perform factor analysis. The Chi-square value (1493.247)

is statistically significant at (p=0.001), place in table 3. The factors are extracted with 1 or higher eigenvalues, as suggested by Guttman, considers factors with an eigenvalue greater than one as common factors (Nunnally, 1978). In the event of that, total variance as explained by the three factors was 71.52% cumulative variance. The factor loading of the four factors is placed in Annexure-1.

**Table 3: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin		.869
Bartlett's Test of Sphericity	Approx. Chi-Square	1493.247
	df	91
	Sig.	.001

### Confirmatory Factor Analysis

Erstwhile to examining the relations among the variables, the subscale or the construct of latent variables was analyzed with confirmatory factor analysis to establish its unidimensionality of the whole construct (questionnaire items). Forthwith, a certain degree of model fit is necessary before the testing of the general model is done (Mulaik & James, 1995). Henceforth, CFA model fit test was done. The results of the CFA is placed in table no .4 and the structural model with factor loading can be seen at figure 2. At first, the filtration of the model fit items was done with the factor loading. There should be at least 3 items with significant loadings (>0.30) (Suhr, undated). Under the circumstance, to be more precise all the items had factor loading higher than 0.5 are kept. Congruently, on the basis of the modifications indices, the model fit has been achieved. Modification indices suggested remedies to discrepancies between the proposed and estimated model. Standard residual covariance was tested for significantly decreasing the model fit. Fixing the model fit, few items in latent variables were covariate. Items like POS3, POS5 and POS8 in POS latent variable were covariate, like wise POS4 was also deleted due to higher Standardized Residual Covariance in the latent variable-POS. Model fit indices appears quite good. Results from the estimation from the model yielded overall fit indices for the CFA model, which were acceptable, with  $\chi^2/df = 102.347$ ,  $CMIN/Df=1.706$ ,  $p=0.001$ . The measurement model has a good fit with the data based on assessment criteria such as GFI, CFI, TLI, RMSEA (Nejatian,

et, all., 2011; Bagozzi & Yi, 1988). Therefore, RMSEA = 0.068 (<0.08, Browne & Cudeck, 1993; <0.05, Stieger, 1990; < 0.05 Hu and Bentler, 1999). In like manner, GFI=0.91, CFI=0.969 indicating model Good Fit, which is also within the upper threshold of >.95 (Hu and Bentler (1999). PCLOSE= 0.093 (>.05 Hu and Bentler, 1999). AGFI=.863 (>.80 Hu and Bentler, 1999). PCFI=0.746 (> 0.50 James, Mulaik & Brett 1982). IFI = 0.97, TLI = 0.96 which is also within the threshold (> 0.90 Tucker & Lewis 1973), PGFI = 0.863 (>0.50)James, Mulaik & Brett 1982).At least three indices must be fitted well to determine the model fit (Hair et al., 2010). The summary of model fit indices are placed in Table no. 4. It can be concluded with the help of indices that the four designed scales had good unidimensionality. After obtaining evidence of the unidimensionality of the designed scales, reliability and validity was ascertained.

**Table 4: Summary of Model Fit Indices for Structural Model**

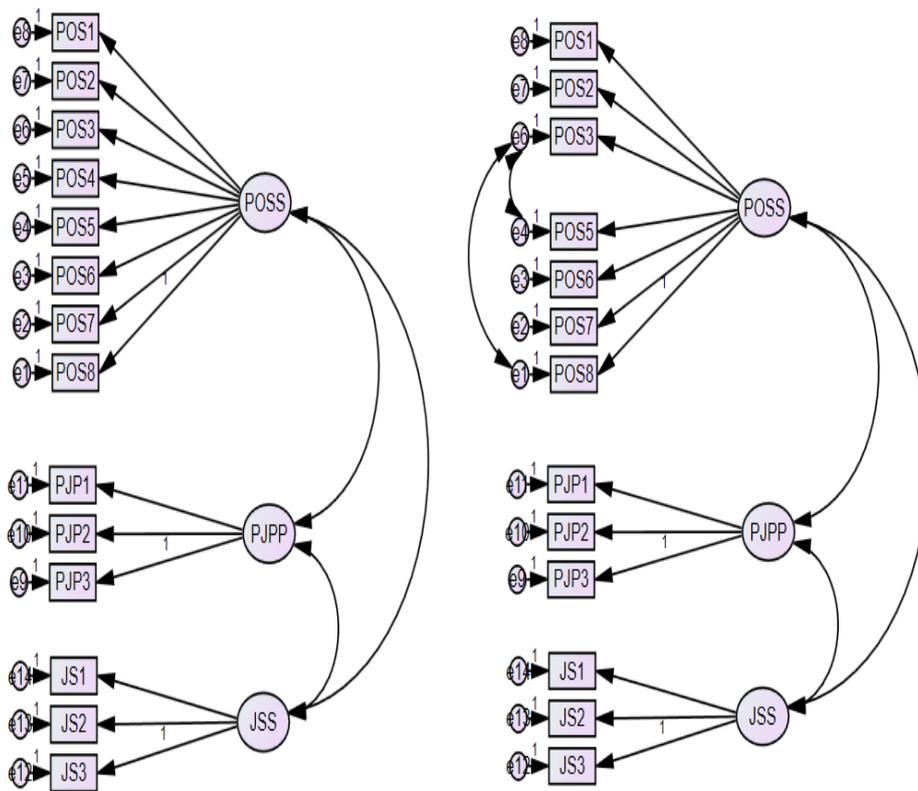
Measures	Observed value of the model
$\chi^2$	102.347
p	0.001
df	60
CMIN/df	1.706
RMSEA	0.068
PCLOSE	0.093
GFI	0.91
CFI	0.969
AGFI	0.863
PCFI	0.746
IFI	0.97
TLI	0.96
PGFI	0.863

$\chi^2$ = Chi-Square; p - value for the model, Df= Degree of freedom; RMSEA= Root mean square error of approximation fit index; PCLOSE=p of Close Fit, GFI= goodness of fit index; CFI= Comparative fit index; AGFI= Absolute goodness of fit index; PCFI= Parsimony goodness of fit index; IFI= Incremental fit index; TLI= Tucker-Lewis index; PGFI= Parsimony goodness of fit index.

**Figure2: CFA of latent variable construct (Proposed and Final Model of Construction)**

**Reliability, Convergent Validity and Discriminant Validity**

The result of the reliability and validity is presented in table no. 5. Reliability was analyzed with CA. FL, CR and AVE were used to test convergent validity. Likewise, MSV and ASV were used to test the discriminant validity of the measurement model. Reliability with the indices of CR > 0.7, Convergent Validity with the indices of CR > AVE, AVE > .5, Discriminant Validity with the indices of MSV < AVE, ASV < AVE (threshold Hair et al., 2010). This is a satisfactory level of internal consistency of the measures and there exist some common points of convergence (Hair et al., 2010). This indicates measurement model is according to the assumptions which were originally made.



**Figure 2: Proposed and final model of construct**

**Table 5: Reliability, Convergent Validity and Discriminate**

Constructs	Items	Factor Loadings	Cronbach's Alpha	CR	AVE	MSV	ASV
POS	POS1	0.88	.929	.928	.62	.4	.18
	POS2	0.74					
	POS3	0.70					
	POS4	0.58					
	POS5	0.91					
	POS6	0.67					
	POS7	0.97					
	POS8	0.78					
PJP	PJP1	0.81	.752	.760	.52	.2	.32
	PJP2	0.74					
	PJP3	0.59					
PJS	JS1	0.78	.852	.854	.66	.4	.20
	JS2	0.83					
	JS3	0.83					

Composite Reliability (CR), Average Variance Extracted (AVE), Maximum Shared Squared Variance (MSV), and Average Shared Squared Variance (ASV).

POS: Perceived Organization Support; PJP: Perceived Job Perception; JS: Job Satisfaction; CS: Customer Satisfaction

### **Status of POS, PJS, and PJP in Nepalese Hotel Industry**

The present level of perception on Organizational Support, Job Satisfaction, and Job Performance of employees can be measured with the results which is placed in table6. There is a moderate level of POS, PJS and PJP in hotel industries employees, it can be interpreted with mean value of 3.59 (SD=0.56), 3.5 (SD=.801) and 3.72 (SD=.63698). The sampled organization strongly considers the goals and values of the employees 3.63 (SD=.61) along with forgiveness towards an honest mistake on employee part 3.63 (SD=.69). Employees perceived that their performance is better than that of my colleagues with mean value of 3.82 (SD=.88), and satisfied with their performance with a mean value of 3.67 (SD=.795). Employees are satisfied with working conditions in the sampled organization 3.6 (SD=.954) and overall they are satisfied with the kind of work they do 3.42 SD=0.83.

**Table 6: Status of POS, PJS, and PJP - Descriptive Statistics**

Variables	Mean	Std. Deviation
POS	3.59	0.56
PJS	3.51	0.801
PJP	3.72	0.636
CS	3.61	0.78

N=158

**Path analysis – correlation and impact analysis**

Following the first step of measurement model testing, the second step of analyzing the structural models was performed to test the research hypotheses which is presented in model Figure 3. Path analysis was performed by using AMOS 23v. The results showed that, the research model has near good fit to the data according to indices which were recommended by SEM literature (Hair et al., 1998; Bollen, 1989): with  $\chi^2/df = 193.242/0.001$ , CMIN/Df=2.11,  $p=0.001$ . RMSEA = 0.011. In like manner, GFI=0.956, CFI=0.905, PCLOSE=0.053, AGFI=.889, PCFI=0.719, IFI = 0.906, TLI = 0.980, PGFI = 0.583.

**Correlation analysis**

Correlation between all the measures are presented in table 7. The results shows that there is a comparatively moderate correlation between POS and PJS;PJS and PJP. Similarly, comparatively moderate to strong correlation between POS and PJP. As expected a positive moderate to strong relationship between the variables.

**Table 7: Correlations Matrix of POS, PJS and PJP**

Variables		POS	PJS	PJP
POS	<i>r</i>	1	.303*	.568**
PJS	<i>r</i>	.303*	1	.331**
PJP	<i>r</i>	.568**	.331**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed). \* . Correlation is significant at the 0.05 level (2-tailed).

**Impact Analysis**

The path analysis of the model results under the Regression Weights heading the standardized loadings along with standard errors and p-values are presented in table 8. All of the unconstrained estimates are significant expect the POS ->PJP. The Standardized Regression Weights can be interpreted as the correlation and influence between the observed variable and the corresponding common factor. Three construct factors (POS->PJP, and PJS ->PJP) are significant at the 0.01 level and one construct factors (POS -> PJS)

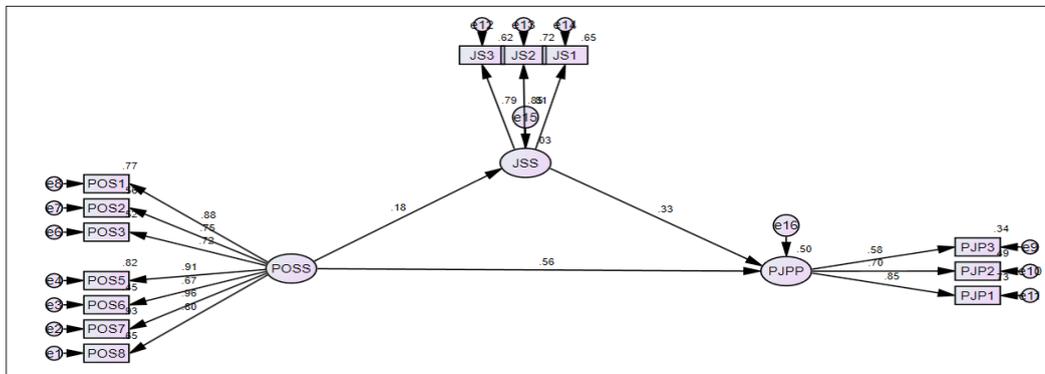
at the 0.05 level. The Standardized Regression Weights is comparatively high in factor construct of POS->PJP than other constructs.

As above, the regression weight had made it clear understanding of impact of POS on PJP & PJS and PJS and PJP. The results shows POS positively affects the PJP ( $\beta = 0.564$ ,  $p < 0.001$ ), would cause the PJP to increase by 56.4%. Similarly, POS positively affects the PJS ( $\beta = 0.178$ ,  $p < 0.05$ ), would cause the PJS to increase by 17.8%. PJS positively affects the PJP ( $\beta = 0.333$ ,  $p < 0.01$ ), would cause the PJP to increase by 33.3%.

Hence, path analysis determined the theoretically based hypothesis. The hypotheses, H1, H2, and H3, were verified using the values (shown in the path diagram in figure 3 and table 8) and accepted.

**Table 8: Standardized Regression Weights (SME Model)**

Hypothesis	Exogenous		Endogenous	Estimate (Standardized)	S.E.	P
H1	POS	→	PJP	0.564	5.236	***
H2	POS	→	PJS	0.178	1.989	0.047
H3	PJS	→	PJP	0.333	3.633	***
						R <sup>2</sup> =0.5



**Figure 3: SEM- Path Analysis**

**Table 9: Summary of Hypothesis test**

Hypotheses	Result
H1: POS has significant positive direct effect on PJP	Accepted
H2: POS has significant positive direct effect on PJS	Accepted
H3: PJS has significant positive direct effect on PJP	Accepted

**Mediating Role Analysis**

The present model also analyzed the mediating role of PJS toward POS to PJP. The direct effect by the construct model was performed first and later the mediation effects were analyzed based on the respective hypothesis. The construct was mediation of PJS between POS and PJP. The mediation test was performed through SEM (path analysis) with bootstrapping. The bootstrap estimates presented were based on 2000 sample and Bias-corrected CI at 95%. The result of mediation test is placed in table 10. The result indicates that PJS partially mediate effect of POS on PJP. Therefore, it is indicated that effect of POS on PJP is mediated by PJS of employees. The standardized indirect (mediated) effect of POSS on PJPP is .059. That is, due to the indirect (mediated) effect of

POSS on PJPP, when POSS goes up by 1 standard deviation, PJPP goes up by 0.059 standard deviations. This is in addition to any direct (unmediated) effect that POSS may have on PJPP. It signifies not only the importance of the employees' perception on organizational support towards their job performance, it too indicates the importance of job satisfaction towards employees' perception on organizational support and their job performance. The result of mediation test significantly test the hypothesis. The hypotheses, H4, was verified using the values of direct beta without mediation, direct beta with mediation and indirect beta as shown in table. Hence, H4 is accepted, as there is a mediation relationship in between the variables under observation.

**Table 10: Summary of Hypothesis Testing to Identify Mediation**

Hypothesis No.	Hypothesis	Direct Beta w/o Med	Direct Beta w/Med	Indirect Beta	Mediation type observed
H7	POS-PJS-PJP	0.645***	0.564**	0.059**	Partial
H11	Note: bootstrap sample=2000; ***p<.01, **p<0.05, BC Confidence Interval = 95%				

**Table 11: Summary of Hypothesis Testing to Identify Mediation**

Hypotheses	Result
<i>H4: PJS will mediate the influence of POS on PJP</i>	Accepted

## Discussion and Conclusion

This research paper contributed in understating of relationship between POS, PJS, and PJP in Nepalese hotel industry. Diverse samples of employees from the hotel industry in Kathmandu, Nepal are used for the study. The study results indicates that POS is directly related to PJS and PJP. In this study, it is found that POS has significant positive direct effect on PJP, the finding is consistent with past empirical findings of Eisenberger, Huntington, & Hutchison, (1986), Wickramasinghe & Wickramasinghe, (2012), Hakkak, Gashti, & Nawaser, (2014), Armeli, Eisenberger, Fasolo, & Lynch, (1998), Guan, Sun, Hou, Zhao, & Luan, (2014). However, it fails to support the study which advocate that there is no relationship between POS and PJP e.g., Bennett, & Liden, (1996) and Wayne, Shore, & Liden, (1997). Similarly, it is found that POS has significant positive direct effect on PJS, this finding supports studies like Eisenberger, Huntington, & Hutchison (1986), Ahmad & Yekta (2010), Burke & Greenglass (2001), Hassan, Hassan, & Shoaib (2014) and Guan, Sun, Hou, Zhao, & Luan, (2014). In like manner, it is found that PJS has significant positive direct effect on PJP, this empirically supports Vroom (1964), Davar & Bala (2012), Argyris (1964), Gross & Etzioni (1985), Platisa, Reklitish, & Zimerasc (2015), Judge et al. (2001), Hanan (2009), Kahya (2008), Pugno & Depedri (2009), Nabirye, Brown, Pryor & Marles (2011), and Platisa, Reklitish, & Zimerasc (2015). However, it contradicts the findings of Keaveney and Nelson (1993) and Ravindran (2007). Therefore,

it has been established that employee job satisfaction exerts an important influence on job performance. PJS has significantly mediates the effect of POS on PJP, this is aligned with the study of Guan, Sun, Hou, Zhao, & Luan, (2014) and Miao, (2010). This can be interpreted with the organizational support with mediation of job satisfaction can strongly relate with achieving higher level of job performance in hotel industry. That means PJP can be achieved at higher level with creating POS by improving PJS. It supports the findings of Guan, Sun, Hou, Zhao, & Luan, (2014) that signifies that POS influenced job performance indirectly via job satisfaction. Thus it may be concluded that the present study provides evidence that POS is correlated with PJS and PJP, with mediating effects of PJS towards the effect of POS on PJP. Therefore, hotel industry in Nepal, should initiate proper initiatives towards creating an organizational employee supportive environment to increase the job satisfaction and employee job performance, so that, the ultimate goal of organisation can be achieved. This will unquestionably help the organization to achieve its goals. On the other hand, it would draw practitioners' attention to the effects of organizational support as sources of motivation on job satisfaction and consequently the necessity to combat these effects in order to improve job satisfaction and various facets of workplace behaviors.

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## Annexure -1

Table : Rotated Component Matrix <sup>a</sup>					
Variables items	Opinion Statements	Component			
		CS	POS	JS	PJP
POS1	My organization really cares about my well-being		.849		
POS2	My organization strongly considers my goals and values		.782		
POS3	My organization shows little concern for me (do not concern)		.805		
POS4	My organization cares about my opinions		.518		
POS5	My organization is willing to help me if I need a special favor		.873		
POS6	Help is available from my organization when I have a problem		.673		
POS7	My organization would forgive an honest mistake on my part		.891		
POS8	If given the opportunity, my organization would take advantage of me.		.857		
PJP1	My performance is better than that of my colleagues with similar qualifications				.681
PJP2	I am satisfied with my performance because it is mostly good				.722
PJP3	My performance is better than that of employees with similar qualifications in other organizations				.828
JS1	I am satisfied with my working conditions in this organization			.857	
JS2	I am satisfied with the kind of work I do on this job in this organization			.921	
JS3	When considering all aspects of my work, I am satisfied with this job			.816	
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 6 iterations.					

# Corporate Social Responsibility: Contrasting Views and the Road Ahead

Bal Ram Chapagain\*

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## Abstract

*Despite the growing interest in corporate social responsibility (CSR) across the globe, literature in this area in the Nepalese context is very scant. Thus, first, this article attempts to uncover the contrasting views on CSR emerged over the last one century in the global context and then traces out the Nepalese context. Finally, the road ahead is discussed. It finds that the views on CSR are quite convergent yet stakeholder approach to CSR is probably the most widely held. But, in the Nepalese context there are lots of confusions, misconceptions, narrow interpretations and also some attitude-behavior gap. Therefore, it is high time for all to embrace CSR strategically so that a win-win situation between business and society is created.*

**Keywords:** *Corporate social responsibility, stakeholders, Nepalese context*

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## Background

It is well acknowledged that business and society are interdependent and as such corporate social responsibility (CSR) has become an important issue among business community and academics in recent years. Despite the growing interest in CSR across the globe, research and discussions in this area is very scant in Nepalese context. Consequently, we can see lots of confusions, narrow interpretations and even misconceptions about CSR in Nepal. Against this backdrop, this article aims at contributing the much-needed insight into CSR in Nepal by discussing the contrasting views on CSR and the road ahead.

## Contrasting Views on CSR

The idea of CSR is hardly new. The core principle that the business has responsibilities to society beyond profit maximization objective has long historical roots. However, we see quite contrasting (and sometimes even opposite) views on CSR if we trace the history of the last one century.

In 1917, Henry Ford stood in a Michigan court defending his decision to reinvest the surplus on expanding the business, creating employment opportunities and sending more cars in the market so that more people can use it – so as to promote social goal – rather than simply making

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short-term profits and distributing surplus among shareholders (Lewis, 1976). Thirty six years later, in 1953, Howard Bowen for the first time proposed a structured, comprehensive and insightful definition of CSR (referred to as 'social responsibilities of businessman' at that time – as there was almost no separation between ownership and management at that time) as:

“Social responsibility refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our societies (Bowen, 1953: 6).

In 1962, Milton Friedman in a way opposed the idea of CSR on the grounds that it imposes an unfair and costly burden on shareholders (Friedman, 1962). He further added: “There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud” (Friedman, 1970: 126).

But, today most of the scholars and business people have come to realize that business is a social entity and thus it has to go beyond economic, legal and even ethical responsibilities. To Hopkins (2007), “CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. ‘Ethically or responsible’ means treating stakeholders in a manner deemed acceptable in civilized societies....The wider aim of social responsibility is to

create higher and higher standards of living, while preserving the profitability of corporation, for peoples both within and outside the corporation” (p. 15). Many scholars and practitioners have now tried to reframe the debate by putting forward the idea that business concerns towards different stakeholders (both internal and external) including social and environmental issues should be taken as an opportunity to create shared value for both business & society as opposed to the traditional belief of financial burden to business or even simply a moral duty.

### **The Nepalese Context**

In the Nepalese context, interest in CSR is increasing tremendously particularly during the recent years. Despite the growing interest in CSR there are still lots of confusions, narrow interpretations and even misconceptions. There is lack of holistic understanding of CSR among entrepreneurs, managers, practitioners, academicians and the general public. Some people believe that contributing to social causes or charity is synonymous to CSR. Some other people think that maximizing profit without deception or fraud; creating employment opportunities; and paying taxes to the government honestly are the main responsibilities of business. They argue that fulfilling the varied needs of society is the duty of government; not of private businesses. Some people disagree with both the above stated notions of CSR and assert that following the governance guidelines should be the focus of CSR particularly the country context like Nepal. Some consider it as an integral aspect of business strategy and operations (such as making responsible business philosophy

& doing everything accordingly) while others regard it as the activities isolated from core business operations (such as philanthropic activities). Some people are even confused whether CSR is relevant before or after profit.

Moreover, we see some 'attitude-behavior gap' in the Nepalese context. The actual business practices are not as greener as the views of managers or entrepreneurs in one hand and consumers' actual purchase decisions are also rarely affected by ethical concerns on the other. Government and policy makers are also not serious enough to promote CSR in Nepal. Then *Secretary* of Ministry of Industry, in a TV show, clearly admits that there is no specific law governing CSR in Nepal and even if there are some provisions, they are scattered across different policies, laws and acts (Sajha Sawal, 2011).

### The Road Ahead

With increasing influence of industrialization and globalization, the business world is becoming more visible as well as relevant in society (Chatterji, 2011). Thus, CSR agenda would become an integral aspect of corporate strategy. The environmental sustainability, community development, social entrepreneurship, social inclusion, public-private partnership, poverty alleviation, governance, ethics, transparency and accountability are expected to be the dominant CSR agenda in future (Strandberg, 2002; Blowfield & Murray, 2008).

However, priority issues and specific CSR activities across companies will vary significantly because of the differences in

firm sizes, politico-government systems in which companies operate, economic development stage of the particular country or community, geo-political events & transitions, societal value systems and environmental & natural forces (Frederick, 2008).

Reliance on CSR codes, standards and guidelines will be seen necessary but insufficient way to practice CSR. Instead, companies will be judged on how innovative they are to tackle social and environmental problems (Visser, 2012). Nevertheless, there would be one thing in common, that is, the guiding principles would be devised aimed at creating a win-win situation between business and society.

### Conclusion

Despite the debates and disagreements about the meaning and essence of CSR, there are certain elements which are relatively widely accepted. CSR is mainly concerned with doing business in responsible manner...whatever it takes. More specifically, it is the obligation of business to protect and promote the prudent interests of different stakeholders including the business itself, take care of the environment, and uplift the society at large. Some aspects of CSR are mandatory such as economic, legal and ethical responsibilities. Some aspects of CSR are voluntary in nature such as philanthropic activities. But, if some business contributes to philanthropic activities in the expense of the legitimate expectations of other stakeholders, such as employees and customers, it cannot be regarded as true or honest CSR.

Likewise, CSR can be aligned with core business strategy or can be kept isolated from core business strategy and operations. But, it is always better to align CSR activities with business strategy & operations in order to create shared value to business & society and ensure sustainability. CSR is relevant for businesses from the time of its inception. It is relevant for all businesses regardless of their types, sizes, financial performance and so forth. However, the nature of and approach to CSR may vary across country contexts, business types, sizes, financial performance and so on. Therefore, the road ahead is to embrace CSR but only by knowing their implications to business and society. Otherwise, such efforts may not be sustainable, may fail to create shared value to business & society, and may lead to the misalignment of valuable corporate resources. Thus, all stakeholders particularly the business itself, should focus on inventing options for mutual gain rather on sharing a fixed pie. All concerned – business, society and the government in particular – must internalize the fact that “there can be no successful business without successful society and there can be no successful society without successful business” (NBI Brochure, p. 2).

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# Remittances and Their Uses: A Study of Nawalparasi District of Nepal

Phul Prasad Subedi\*

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## Abstract

*Remittances occupy a significant chunk of Nepalese economy. This paper endeavors to analyze remittances in Nepalese context, especially using the survey of 300 households from Ramnagar Village Development Committee of Nawalparasi district. The study considers the trend, means of sending remittances along with their use in aggregate form and country region-wise. The empirical result reveals that remittances are mainly used for domestic purposes.*

**Key Words:** *Remittances, Emigrant, Workers, Households*

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## Background

Remittance defined by International Monetary Fund (IMF, 2009) as cash or kind received in the name of compensation transferred by migrants to resident households in the country of origin. The concept covers the flow of remittance from international migrants who work in different countries beyond their country of origin. It is the portion of international migrant workers' earning sent back from the country of employment to the country of origin (Puri & Ritzema, 1999). Though, IMF (2009) classifies remittance into three types of remittance, compensation of employees, and migrants' transfer of capital, this study which is based on IMF (2010) follows the concept of labors' remittance as transfers from migrant

workers who are considered labor of the host country to recipients in the workers' country of origin.

Remittance has become a crucial element in socio-economic life of the Nepalese society. According to living standard survey (2010/11), about 56 percent of all the households receiving remittances in Nepal and the average income transferred in the form of remittances is Rs 80,436 (in nominal terms) per recipient household. Per capita nominal remittance, when the whole population is considered, stands at NRs. 9,245. About two in three households in the Terai receive remittances, while the proportion for both the hills and the mountains is roughly one in two households. The annual remittance

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contribution to GDP has been increasing since 2011. It represents a 25.7 per cent share in 2012/013 and a 29.1 per cent share during the first eight months of 2013/014 (Ministry of Finance, 2014).

Due to the decade long political insurgency and instability prevailing in the county, many Nepalese regard foreign employment as their only feasible option. Further, scarcity of economic opportunities at home and rising employment prospects abroad have also attracted Nepalese to seek employment abroad (Seddon, 2005). As a result, there has been a dramatic growth in international and internal migration, especially from rural areas to urban centers and foreign countries such as Gulf, Asia, Europe, USA, and other countries including India (Gautam, 2008). Moreover, it has brought forward the issue of labor permits for foreign employment. A total of 2,226,152 labor permits were issued over the six-year period, representing a staggering 137 per cent increase between 2008/09 and 2013/14, which represents about 8 percent of Nepal's total population. Of the more than 2.2 million labor permits issued over the past six years, 1,729,252 of them were arranged through a recruitment agency. The receivers represented all 75 districts of Nepal, with Dhanusa, Mahottari, Jhapa, Morang, Siraha, Nawalparasi, Saptari, Sunsari, Sarlahi, and Rupandehi being the top-ten districts (Labor Migration Report, 2013/14).

In the past decade (2001-2009), Nepal experienced a mass inflow of remittance, but the Nepalese export declined whereas the import increased (Ministry of Finance, 2010). What this indicates is that remittances have not been utilized in productive sectors to achieve international competitiveness (Thangunna and Acharya, 2013). Instead, the money coming in from work being done outside the country has led to an explosion in consumer demand and is being spent on products that were manufactured outside the country a trend that does not really contribute to the country's economy. As a result, the so-called phenomenon of "Dutch Diseases" might be in play as the influx of foreign currency in the form of remittance leads to the appreciation of the local currency. In recent debates, policy makers and researchers have argued that the long term impact of migration remittances on economic development will depend on the end use of remittances in the country of origin (Osili, 2007). So, this paper endeavors to analyze the remittances in the Nepalese context, using the household survey of 300 households from Ramnagar Village Development Committee of Nawalparasi District.

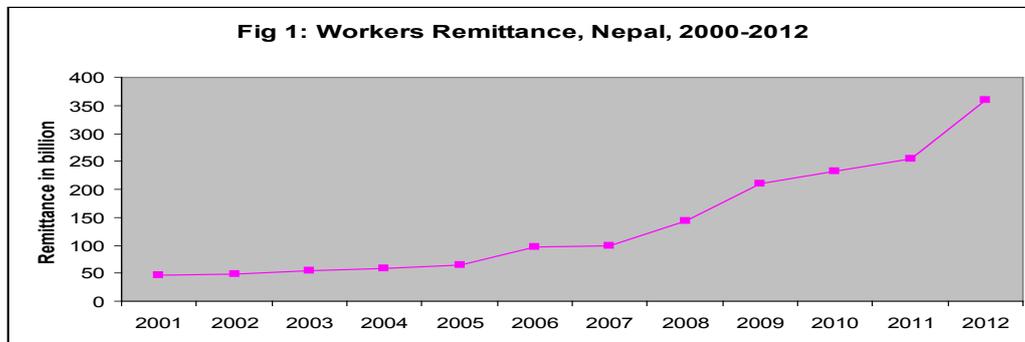
### **Remittance and National Economy**

Flow of international migration and remittances stimulate economic growth of the country, improve well-being of the citizen, and reduce poverty directly and indirectly (de Haas, 2007). Inflows of international remittances have direct,

immediate and far reaching benefit to the migrants and their countries of origin. They are greater sources of income to the least developed country like Nepal than official development assistance, foreign direct investment and other private flows. Remittance can generate a positive effect on the economy through various channels such as savings, investment, growth, consumption and income distribution. At the national level, remittances contribute significantly to GDP. Remittances can also contribute to stability by lowering the probability of current account reversals. As they are a cheap and stable source of foreign currencies, remittances are likely to stem investor panic when international reserves are taking a downward trend or external debt is rising. It also creates multiplier effects in the domestic economy, producing employment opportunities and spurring new economic and social infrastructure and services. However, the contradictory ideas that remittances are initially spent on consumption, housing and land, and are not used for direct productive investment and often taken as a loss of resources for promoting long-term growth and development are also true. Some studies have illustrated that remittances can have a deleterious impact on national economic growth in the medium and long term. Remittances can fuel inflation, disadvantage the tradable sector by appreciating the real exchange rate, and reduce labor market participation rates as receiving households opt to live off of migrants' transfers rather

than by working. Moreover, remittances' contribution to growth and poverty might reduce the incentives for implementing sound macroeconomic policy or to institute any needed structural reforms. Remittance also encourages dependency and accelerates the pace of spending on non-productive assets.

Nepalese economy is often characterized as remittance economy which is ranked as top five remittance receiving countries. The share of the remittance to GDP is 22.9% (World Bank, 2011) and has been recorded as RS. 359.5 billion For the fiscal year 2011/12 with annual growth rate of 41.8% during 2010/11. The estimated volume of inflow of remittance is different by sources because of the channels used for remittances formal or informal. Using the NLSS data Garner and Seddon claim that the official banking system only record about 55 percent of all remittances sent to Nepal (Garner & Seddon, 2004), which indicates that other informal channels are used by the migrant laborers. Though a large magnitude of remittance flows from informal channels like *hundi*, the inflow of remittance is increasing by formal channels day by day. The time series data of workers remittance in Nepal during 2000 to 2012 (see the figure 1) have increased by manifold. Generally, the volume of remittances from overseas employment depends on the volume of overseas employee and, till 2012; Nepalese government has issued 2,465,000 labor permits.



A household survey conducted by Nepal Rastra Bank (2008) reveals that remittances were used largely to buy land and a house (49 per cent of respondents), followed by repayment of the debt (25 per cent), savings in a bank (11 per cent), education, health and others (9 per cent), social work (3 per cent) and other investment (2 per cent). The survey further discloses that medium of transfer of remittances that 43.8 per cent of remittances were sent through money transfer, followed by *hundi* (28.9 per cent), bank (21.7 per cent) and other (5.6 per cent). The survey's findings also indicate that the inflow of remittances through official channels is smaller than through informal channels. Similarly, another study in Nepalese context by Thangunna and Acharya (2013) shows that remittances have more causality on the consumption pattern as well as the import pattern and less on investment. Likewise, in South Asian context, remittance does lead to economic growth, for example, in Bangladesh. In India, there seems to be no casual relationship between growth in remittances and economic growth but in Sri Lanka a two-way directional causality is found, namely economic growth influence growth in remittances and vice-versa (Siddique, Selvanathan and Selvanathan, 2010).

Migrant remittance is now recognized as an important source of development. There are increasing evidences that international remittances have considerable impact on development (Tevera and Chikanda, 2009). Moreover, the contribution of remittances to the GDP of many developing countries is significant and has shown a steady increase over the past decade. Further, many studies have empathized that migrants' remittances can function as investment capital in the country of origin (Woodruff and Zentino, 2002; Dustmann and Kirchcamp, 2002; Mesnard, 2004; Glinskaya, *et al.*; 2005). Using two rounds of nationally representative household survey data in this study, the authors measure the impact of local and international migration for work on poverty in Nepal. They apply instrumental variable approach to deal with non-random selection of migrants and stimulate various scenarios for the different levels of work-related migration of migrants and simulate various scenarios for the different levels of work-related migration. They also compare observed and counterfactual household expenditure distribution. The results indicate that one-fifth of the poverty reduction in Nepal occurring between 1995 and 2005 can be attributed to the increased levels of work-related migration and remittances sent

home. The authors also show that while the increase in work migration abroad was the leading cause of this poverty reduction, internal migration also played an important role. The findings show that strategies for economic growth and poverty reduction in Nepal should consider aspects of the dynamics of domestic and international migration.

The share of remittance on GDP, which was around 10.7 % in 2001, has almost doubled within ten years. It reached 21.2 % in 2011, a figure which ranks among top five countries receiving remittance as share to GDP (World Bank, 2011). A study of Nepal Rastra Bank of Nepal reports that only 44 % of the total remittance is transferred through formal money transfer agents. Even though informal money transfer is illegal, it accounts for 29% of total transfer basically from *Hundi* (NRB, 2008). When the Central Bank of Nepal issued money transfer license to private sector from 2002, the use of informal channel for money transfer is gradually declining. The impact of remittances has been widely documented (Puri, 1999; Piesse & Caroline; 2003, Garner & Seddon, 2004). While the impact of remittance at the individual and household level has been established, its impact at the national level remains inconclusive. Nepal Leaving Standard Survey 2010/11 (CBS, 2011) has come up with very interesting result which is that the share of remittance in the household income remains at 31 percent. The survey results further reveals that the percentage of household receiving remittances has increased from 33 percent in 2003/04 to 56 percent 2010/11. The average income transfer in the form of remittance in nominal terms is estimated at Rs 80,436 per recipient household. The

per capita nominal remittance of the whole population has reached to Rs 9245 in 2011 from merely Rs 625 some 15 years back. According to the survey, the total amount of remittance in the country is estimated at Rs 259 billion. The decline in the absolute poverty figure from 31.5 in 2003/04 to 25 in 2010/11 is also attributed to the remittance income.

### Objective and Rationale

The literature on remittances brings to the fore two main motives for migrants' act of sending remittances to their families. The first motive is to maintain a good connection and standing with their household members (Stack, 1991). The second motive is to make productive capital investments, especially as an insurance measure to prepare for migrants' return in the future (Ahlburg and Brown, 1998; Amuedo-Dorantes and Pozo, 2006). It is likely that the spending behavior of remittances-receiving households depends largely on the motives of remitting and the economic standing of the families. Therefore, the primary objective of this study is to answer, focusing on education, health, food and other household expenditures and productive sector such as doing business, the question how remittances receipts are used in Nepal. Further, this paper also analyzes the demographic situation of household and the remitter's trend of remitting money and goods as a means of sending remittances. Finally, the paper includes country and region-wise analysis of remittances.

### Methodology

The mobilization of remittances in the Nepalese context, with the spotlight on education, health, food and other

household expenditures by the household survey of 300 household from Ramnagar Village Development Committee of Nawalparasi District, covers the scope of the study. Although this survey is too small to draw statistically valid conclusions, the characteristics of remittance-senders to Nepal and their level of remittances are instructive. The 300 households surveyed were selected from personal networks, including neighbors, friends and associates, by utilizing the snowball sampling methodology. As this study revolves around the receipt and mobilization of remittance, its crucial aspect is how the remittances transfer is defined and measured. Each household that is recorded as receiving remittances is assumed exactly the amount of remittances measured by the survey in each year. Since no data are available on remittances, each household that is recorded as being remittance receipt household is assumed to be receiving from one remitter (Simiyu, 2013). Due to the limitation of the data, the focus throughout this study is on remittance recipient households rather than the type of sending remittances. Additionally, all remittances in this study include both cash and kind.

The study is based on the collection of the primary data. Questionnaire method has been adopted to explore the mobilization of remittances in the Nepalese context. Respondents have been requested to

respond to a total 57 statements comprising of 20 tick mark questions with multiple choice options designed to know about the overall periphery of respondent, remitter, availability of remittance (cash and non-cash), 29 open-ended questions developed to identify the mobilization of remittance in the business sector, 10 personal questions to know the demographic characters of the respondent, and the rest being multiple choices questions. The content of variables in the questionnaires has been identified through review of literature and consultation with academicians and experts. Valid questionnaires have been developed keeping in mind the objectives of the study. Moreover, the required secondary data have been collected from the publication and web pages of Central Bureau of Statistics, Ministry of Finance, Ministry of Labor and Employment and Nepal Rastra Bank, etc. Mean, standard deviation, frequencies of each general (common) variables have been used as statistical tools. For statistical analysis, SPSS version 19 and Microsoft Excel have been used. The population for the study comprises of a total number of the households of Ramnagar Village Development Committee (VDC) of Nawalparasi District. Questionnaires, distributed to 300 households, have attracted 260 usable responses (105 male and 155 female), which is an overall response rate of 86.87 percent summarized in the following table.

**Table 1: Response rate of questionnaire survey**

*This table contains information on the response rate of the respondents.*

Type of respondents	Distributed	Returned	Response rate
Male	120	105	87.50%
Female	180	155	86.11%
<b>Total</b>	<b>300</b>	<b>260</b>	<b>86.87%</b>

## Data analysis

Collected data are presented in tabular form in order to keep the study concise, to make it easy to understand, and to simplify the comparison and analysis processes. For the logical analysis of the data, this section uses various statistical tools as mentioned in the earlier section.

### Descriptive statistics

The descriptive statistics include demographic information of the respondent such as gender, age, caste, ethnicity, family composition, and the main occupation of family, etc. Demographic characteristics of the respondents are presented in the following table.

**Table 2: Profile of Individual Respondent Based on Personal Characteristics**

*This table provides information on the number and percentage of individual respondent across different personal characteristics such as gender, age group, caste, ethnicity, and the main occupation of the family of the respondent.*

Respondents' Characteristics	Number	Percentage
<b>Gender of respondents:</b>		
Male	105	40.38
Female	155	59.62
<b>Total</b>	<b>260</b>	<b>100.0</b>
<b>Age group of the respondent (in completed years):</b>		
Below 20	13	5
20 to 40	68	26
41 to 59	169	65
60 and above	10	4
<b>Total</b>	<b>260</b>	<b>100.0</b>
<b>Caste and ethnicity:</b>		
Brahmin/ Chhetri	135	52
Ethnic Group	109	42
<i>Dalit</i>	16	6
<b>Total</b>	<b>260</b>	<b>100.0</b>
<b>Main occupation of the family:</b>		
Traditional Agriculture	195	75
Government Job	17	6.50
Private Job	35	13.50
Own Business	8	3
Others	5	2
<b>Total</b>	<b>260</b>	<b>100.0</b>

Table 2 shows the disaggregated nature of the respondents based on gender, age group, caste, ethnicity, and the main occupation of the family. The table reflects the composition of the personal characteristics of individual respondents. Of the total respondents from individual category, 40.38 percent are male while 59.62 percent are female. Similarly, the age group of the respondent has been classified into four categories. Total 5 percent of households are below the age of 20 years, 26 percent are under the age group of 20-40, the age group of 41-59 contain 65 percent of the respondent and 4 % have age group of 60 and above. The majority of the respondents fall under the age group of 41-59, which indicates that the parents heading towards old age, is in charge of the family and their young ones are in foreign employment. Furthermore, respondents have been classified on the basis of their caste and ethnicity which consist of three groups namely Brahmin, Ethnic group and *Dalit* and they have 52%, 42% and 6% participation in foreign employment respectively. The result, in

addition, suggests that traditionally the so-called lower caste *Dalit* are still out of main stream of economic activities. Finally, respondents have been classified on the basis of the main occupation of the family. Under this category, the respondents have been segmented in four groups: traditional agriculture, government job, Private Job, own business and others. Most of the respondents are from the traditional agriculture (75%) while 13.50 %, 6.50%, 3% and 2% are from private job, government job, own business and others respectively. This classification indicates that the most unskilled manpower is in foreign employment as they are from traditional agriculture.

#### **Status of Remitters**

The status of remitters not only affects the amount they send to their home county but it also has significant impact on their safety. So, from this perspective, it would be reasonable to have a glance on the status of the remitters. The following table summarizes some of the personal aspects of the remitters.

Table 3: Status of Remitters

Particular	Number	Percentage
<b>Gender of remitters:</b>		
Male	213	82
Female	47	18
<b>Total</b>	<b>260</b>	<b>100.0</b>
<b>Formal educational level:</b>		
Read and write (Primary)	78	30
Secondary	52	20
Higher secondary	104	40
Bachelor	16	6
Masters and above	10	4
<b>Total</b>	<b>260</b>	<b>100.0</b>
<b>Primary job in foreign</b>		
Unskilled	135	52
Semi skilled	104	40
Skilled	16	6
White-collor job	5	2
<b>Total</b>	<b>260</b>	<b>100.0</b>
<b>Sources of jobs (referrers):</b>		
Relatives	18	7
Self search	26	10
Friends and neighbors	31	12
Employment agency	177	68
Others	8	3
<b>Total</b>	<b>260</b>	<b>100.0</b>

The above table divulges the information about the remitter relating to aspects such as gender, formal educational level, primary job in foreign country, and sources of the job. As per the response of the respondents, 82 percent male and 18 percent female are engaged in foreign employment. Empirical evidences reveal a wide variation in the male and female workers. For example, so far as the formal educational levels of the employees are concerned, the majority (40%) of the remitters have higher secondary level of education while a few of them (4%) hold Master's degrees or above. The remaining ones have educational level of primary, secondary and bachelor with respective percentage of 30, 20 and 6. Moreover, the survey reveals that most of the respondents (52%) are involved in unskilled job while only a little minority, i.e., 2 percent are involved in the white-collar job. The semi-skilled and skilled workers occupy the second and third positions with a respective percentage of 40 and 6. Similarly, employment agency seems to be the most promising (68%) source of the job in the foreign land for the Nepalese people. The field survey further shows that friends and neighbor, self search, relatives and others are respectively second, third, fourth and fifth sources of job with a corresponding percentage of 12, 10, 7 and 3.

### The trend of receiving remittances

In the present scenario remittance is not only a major part of Nepalese households' income but it also occupies a chunk of national income for Nepal. Statistically, it covers twenty nine percent of national income. So, this section analyzes trend of receiving remittances.

**Table 4: Trend of receiving remittances**

No. of time/s remittances received in the last 12 months.							
No. of time/s	One	Two	Three	Four	5 and more	Total	
No. of remitters	102	86	58	9	6	260	
Percentage	39.23	33	22.31	3.46	2.31	100	
The amount received in the last 12 months.							
Amount (Rs.)	Below 50,000	50,000 to 100,000	100,001-150,000	150,001 to 250,000	250,001-300,000	300,001 and above	Total
No. of remitters	60	102	45	29	15	9	260
Percentage	23.08	39.23	17.31	11.15	5.78	3.46	100
The value of goods received in last 12 months.							
Amount (Rs.)	Below 10,000	10,000 to 20,000	20,001-30,000	30,0001 to 40,000	40,001-50,000	50,001 and above	Total
No. of remitters	65	82	45	36	20	12	260
Percentage	25	31.54	17.31	13.85	7.69	4.62	100

Table 4 displays information on sending frequency and volume of remittances in the last 12 months period. The survey result reveals that most of the remitters (39.23) send money once a year whereas minority (2.31%) sends five times and more. The second, third and fourth largest group like to send money two, three and four times with respective percentage of 33, 22.31 and 3.46. The table further represents the amount received in the last twelve months. Most of the respondents (39.23%) receive remittances between Rs. 50,000 to Rs. 100,000. Similarly, regarding the goods received during the last twelve months the most preferred range of goods is between Rs. 10,000 to 20,000.

### The means of receiving money

There are various channels of receiving remittances, particularly the formal one such as the electric wire and the informal one such as cash or commodity carried across borders. This section summarizes the means of sending money by the immigrant workers.

**Table 5: The means of receiving remittances**

Particulars	Rank							Total responses	Standard Deviation	Mean weight	Overall Rank
	1	2	3	4	5	6	7				
Cash with friends and family	68	60	55	37	10	21	9	260	24.4365	2.8462	3
Remittances service Institutions	80	70	65	25	8	7	5	260	33.2437	2.40	1
Own account in bank	73	68	60	29	20	8	2	260	29.4530	2.5654	2
Someone's bank account	57	45	38	45	20	25	30	260	12.9798	3.4654	4
<i>Hundi</i> (Informal channel)	40	30	20	60	20	40	50	260	14.9603	4.1923	6
Self	52	41	23	45	65	24	10	260	19.0738	3.5462	5

Table 5 describes the means of sending money by the Nepalese migrant workers. Empirical evidences indicate that remittances-service-providing institutions are the most popular among the Nepalese with the highest variation in its use. The second most important consideration is for the use of own bank account with the second highest variation in the frequency of use. Cash with friends and family is in the third position. In the same way, someone's bank account and self are considered as the fourth and fifth popular means of sending remittances. Further table also depicts the other means of sending remittances.

### Remittances investment

Efficient mobilization of available resources is the key to success of any organization and country, even though Nepal is receiving remittances from the different corners of the world but real economic condition is not satisfactory.

**Table 6: Use of remittances**

Particulars	Rank						Total responses	Standard Deviation	Mean weight	Overall Rank
	1	2	3	4	5	6				
Household expenses	80	75	55	36	10	4	260	32.2346	2.3577	1
Land or house purchase	53	72	52	68	8	7	260	28.8698	2.7192	4
Pay off loan	67	85	40	38	16	14	260	28.0832	2.5885	2
Donation and social work	42	50	60	70	10	28	260	21.8235	3.1538	5
Doing business	30	20	60	70	32	48	260	19.2942	3.7615	6
Others	58	76	65	21	28	12	260	26.3337	2.6952	3

Table 6 reflects the uses of remittances by Nepalese households. The survey result shows that household expenses get the priority. Similarly, the second most preferred area of

expenditure is paying off loan. Other areas, which include entertainment activities like partying and touring occupies the third position in respect of the use of remittances. Further, land or house purchase gets the position followed by donation and social, which are in the fifth position. Finally, doing business stands at the last ladder of the use of the remittances. Empirical results suggest that remittances occupy a significant position in the Nepalese GDP but fail to get mobilized in the productive sector like starting business.

**Region-/Country-wise Analysis**

This section includes the analysis of respondents’ response on the basis of country or region of migration. The migration area has been divided into four categories namely Gulf Countries, other Asian Countries, European Countries, and others. The category “other Asian countries” represents countries of Asia other than Gulf countries like South Korea, Macau, Taiwan, Hong Kong, Thailand, and the others. The following

table summarizes country- region-wise migration of the Nepalese workers.

**Table 7: Region-/Country-wise migration**

Region/ country	No. of workers	Percentage (%)
Gulf Countries	182	70
Other Asian Countries	31	12
European Countries	10	4
Others	37	14

Table 7 contains information on regions/ countries of migration. Empirical evidences reveals that Gulf countries are the most popular destinations of migration for Nepalese workers at the second rung of popularity is Asian countries. The third position is occupied by “others group”, which includes the countries like Brazil, Mexico, USA and the result further indicates that European countries are less favored destinations.

**Table 8: Region-/Country -trend of receiving remittances in the last 12 months**

Region/Country	Times					Total
	1	2	3	4	5 and more	
Gulf Countries	69	61	48	5	4	187
Other Asian Countries	24	15	8	3	1	51
Others	11	8	1	1	1	22
Total	104	84	57	9	6	260

Table 8 gives us an idea about the information on the frequency of sending remittances from various destinations of migration—hotspots, in the order of preference like Gulf countries, Asian countries, USA, Europe, and others regions.

**Table 9: Region/Country-wise amount received in the last 12 months**

Region/Country	Amount (Rs.)						Total
	Below 50,000	50,000-1,00,000	1,00,001-1,50,000	1,50,001-2,50,000	2,50,001-3,00,000	3,00,001 and above	
Gulf Countries	37	61	46	28	9	6	187
Other Asian Countries	8	12	16	7	5	3	51
Others	3	7	11	-	1	-	22
Total	48	80	73	35	15	9	260

Table nine represents the view on receiving remittances region-/country-wise in last twelve months. The common range of money sent home by a majority of them migrant workers is in between Rs. 50,000 to Rs. 100,000.

**Table 10: Region/Country-wise goods received in the last 12 months**

Region/Country	Amount (Rs.)						Total
	Below 10,000	10,000-20,000	20,001-30,000	30,001-40,000	40,001-50,000	50,001 and above	
Gulf Countries	45	62	25	32	16	7	187
Other Asian Countries	14	19	8	5	4	1	51
Others	3	6	12	-	1	-	22
Total	62	87	45	37	21	8	260

Table 10 displays information on goods received during the last twelve months by the immigrant workers. Evidences suggest that workers from Asian countries send goods priced below Rs. 10,000 to 20,000 in a year whereas workers from other countries send goods between the range of 20,001 to 30,000.

**Table 11: Region/Country-wise means of receiving remittances**

Region/Country	Means of sending money						Total
	Cash with Friends and Family	Remittances service Institutions	Own account in bank	Someone's bank account	Hundi (Informal Channel)	Self	
Gulf Countries	31	94	18	5	28	11	187
Other Asian Countries	7	19	7	4	12	2	51
Others	2	13	3	-	2	2	22
Total	40	126	28	9	42	15	260

Table 11 represents the respondents view on means of sending remittances. The analysis of the responses reveals that most of the immigrant workers from all the countries/regions send money through a formal channel like remittance-service-providing institutions. An informal channel such as *Hundi* is used by the workers of Gulf, Asian and other countries.

**Table 12: Region/Country wise use of remittances**

Region/Country	Use of remittances						Total
	Household Expenses	Land or House Purchase	Pay off Loan	Donation and Social-Work	Doing Business	Others	
Gulf Countries	108	17	44	2	5	11	187
Asian Countries	26	4	12	1	3	5	51
Others	7	4	7	-	2	2	22
Total	141	25	63	3	10	18	260

Table 12 shows the view of respondents on the use of remittances by the households. The survey results indicate that most of the respondents from all most all the countries/regions except from European countries use remittances for household expenses. The study further shows that there is less preference for the mobilization of remittances in the productive sector such as doing business.

Moreover, the analysis of responses on open-ended section of the questionnaire reveals that a few households have started small scale business in their own localities and nearby cities. Although, most of them have a little bit of experiences of the venture but the most of them do not have a business plan. Most of the respondents feel the difficulty arising from the lack of a business-oriented training and capacity enhancement session to properly launch and boost up their venture. Further, their opinion is that government policy on

collateral free small loans at minimum cost of capital can give a fillip to the promotion and development of other small scale enterprises in their community.

### Conclusion

The empirical study attempted to analyze remittances in Nepalese context, especially in the case of 300 households of Ramnagar in VDC of Nawalparasi District, reveals through the descriptive statistics, that nearly sixty percent households are female with average age of 20-40. Although Brahmin/Chhetri and other ethnic group have significant participation in income generating foreign employment but still *Dalits* (the so-called lower caste) have the least participation, which indicate that they are very from being in the mainstream. The traditional agriculture remains the main occupation of the households. The demographic features of the remitters show that there is less participation of female in foreign job. This may be due to

the traditional male dominated societal beliefs. Most of the remitters having a primary level of education are employed in unskilled job. For them, employment agencies seem to be the most preferred source offer getting foreign employment.

The survey further shows that most of Nepalese remitters send money once a year with average an amount of Rs. 50,000 to 100,000 and goods in the range of Rs. 10,000 to 20,000. Empirical evidences indicate that formal channel (such as remittances-service-institutions) is popular among Nepalese immigrants for sending money to the country of origin, which is at odds with the earlier findings of Nepal Rastra Bank (2010) regarding the use of channel of sending money. Empirical evidences of country-/region-wise indicate that Nepalese workers are concentrated mostly in Gulf countries followed by Asian countries. Similarly regarding the frequency of sending money, workers from Gulf countries, Asian countries, USA and other regions prefer to send money once in a year. The common range of money sent home by a majority of them migrant workers is in between Rs. 50,000 to Rs. 100,000, but there is no established range for sending goods. The workers from Asian countries send goods priced below Rs. 10,000 in a year. Similarly, migrant workers in Gulf and European countries send remittances between the ranges of Rs. 10,000 to 20,000 whereas immigrants in the USA generally send goods in three different, particularly Rs. 10,000 to 20,000, 20,001 to 30,000 and 50,000 and above. Nepali migrant workers in other countries send goods between the ranges of 20,001 to 30,000. Empirical

result further indicates that the majority of the emigrant workers from all regions/countries use the channel to send money. Finally, most of the households manage their household activities with the remittance money.

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# Impact of Merger on Employee's Satisfaction: A Case Study of Prabhu Bank

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## Abstract

*Employees' are the most important part in any organization. An organization's success depends on Employees performance and performance depends on their satisfaction level. This study aims at examine the effect of merger on employee's commitment, involvement, salary and job satisfaction in Prabhubank. Prabhu Bank Ltd, the selected bank for this study has been successful mergers which incorporate all of its employees even after merger. A 50 employees of the bank has been taken as sample. The result shows that merger has been a powerful strategy for the banking industry in Nepal and also has been fruitful for most of the banks including Prabhu Bank Ltd. The employee commitment, involvement, salary and job satisfaction is moderate. The relationship between these variables are also moderate to strong positive in the studies bank.*

**Key words:** Prabhu bank, commitment, involvement, salary, job satisfaction, employee

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## Introduction

A merger occurs when two or more companies combine to form one where, the buying firm absorbs all the asset and liabilities of the selling firm(s). In the context of banking, Stone (1930) states that two banks merged and operated as a single bank or operated by single bank is called merger. The merger of the banks initiated for varied reason such as for cost cutting through economies of scale, gaining access to a new market, strengthening a company's marketing position, global expansion, gaining a talented work force, acquiring new knowledge and expertise, gaining a new computer base and pursuing

new technologies. However merger might not be beneficial the history of Merger and Acquisitions began long before early 1900s. This period of time covers six main waves of M&A for the past 100 years and these are those of the early 1900's, 1920's, 1960's, 1980's, 1990's, and 2000's (Chand, 2009).

According to Shrestha (2012), the concept of M&A was an entirely new thing to the Banking and Financial Institutions (BANKs) of Nepal when the Nepal Rastra Bank, supervisory and regulatory body of all the BANKs has issued merger by-laws in May 2011. The objective of the merger

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by-laws is to strengthen the BANKs position and performance by reducing the number of institutions. Mergers and acquisitions (M&A's) have become a key part of many corporate growth strategies (Cocheo, 2008 and Rosta, 2008). Mergers and acquisition necessarily involve organizational change, integrating some or all parts of the previous organization functions and or activities (Ashkensas, DE Monaco & Francis, 1998), which may greatly hamper employee's satisfaction. Merger activity may also be a mechanism to replace inefficient management. Merger and Acquisition often prove to be 3 traumatic for the employees of acquired firms; the impact can range from anger to depression (Ashkensas et al, 1998). This may result in high turnover, decrease involvement, motivation, and lack of commitment and consequently, merger failure. Each organization has a different set of believe and value system, which may clash owing to merger activity. The exposure to a new culture during merger leads to a psychological state called culture shock (Pande et al, 1998). According to Pande et al, (1998), the employees of the merged organization not only need to abandon their own culture, values and belief but also have to accept an entirely different culture. M&A, employees of the affected banks are facing a lot of challenges. Therefore, the main thrust of this study is to assess the effect of merger and acquisition on the employee's satisfaction Prabhu Bank Ltd.

### Statement of Problem

Employees of BANKs are recently facing frequent M&A .Two or more financial institutions with different culture merge

together to form one. Employees have to work in entirely new environment hence becomes difficult to adjust. The fear of downsizing, role conflict and insecurity increase the stress level in employees which cause dissatisfaction, lack of involvement and commitment and poor performance. Hence, this study will make the effort to contribute in the study of merger and acquisition and its impact on the employee's satisfaction. Therefore, the problem statement of this research can be stated as: identifying the impact of merger and acquisition on employee's satisfaction of Prabhu bank Ltd.

### Objective of the Study

- 1 To examine the effect of merger on employee's commitment and satisfaction in Prabhubank.
- 2 To examine the effect of merger on employee's involvement and satisfaction of Prabhubank.
- 3 To examine the impact of salary on employees satisfaction of Prabhubank after merger

### Literature Review

Merger and acquisition have been essential tools of corporate growth. Berger et al. (1999) identified five changes in these environments that are partly responsible for M&A activities in the financial sector. They are: (a) technological progress (e.g., the introduction of ATM machines and on-line banking); (b) improvement in financial conditions (e.g., low interest rates); (c) accumulation of excess capacity (e.g., efficiency problems) or financial distress (e.g., under-performing investments);

(d) competition, both domestically and internationally, due to globalization of markets; and (e) deregulation in the markets or products (e.g., financial reforms). Furthermore, there is empirical evidence that suggests merged banks reduce their expenses (Chehab, 2002) and improve their ability to attract customers (Chehab, 2002; Cornett&Tehrani, 1992). The synopsis of the literature is that M&As lead to increased efficiency and increased profitability for financial institutions (Chehab 2002). Mergers and acquisitions fall into four main types: (a) vertical, (b) conglomerate, (c) concentric, and (d) horizontal. The vertical type is the combination of two or more organizations from successive processes within the same industry, for example, a manufacturer merging with or acquiring a series of retail outlets. The conglomerate type refers to the combination of two or more completely unrelated fields of business activity. An example of this was the merger between Philips Morris, a tobacco company, and General Foods in 1985. The concentric M&As are organizations in unfamiliar but related business fields into which the acquirer wishes to expand.

### **Bank Merger and Employees Satisfaction**

Employee's satisfaction is another concept that seems easy to understand, but difficult to explain. French (1992) states that —one of the key factors in employees satisfaction is self-utilization which is the opportunity to fully utilize your abilities on the job, to be challenged, to develop yourself. He also argues that the debilitating effect of underutilization causes anxiety and job dissatisfaction.

According to O'Hare &Vilardi (1994), employees satisfaction has been positively correlated with organizational commitment and involvement. Gregson (1987) defines employees satisfaction as the positive emotional state resulting from the individual appraisal of one's job or experience. According to Jepsen et al (2003), if a person becomes engaged in work that matches his occupational choices, he is likely to experience job satisfaction. Due to the heavy demands placed on employee's involvement in M&A integration, job satisfaction may be helpful in sustaining positive employee performance during a period at which the organization could be vulnerable. At the organization level, low job satisfaction has been linked to decrease in commitment, job turnover, decreased task performance and declining employee involvement (Mathieu & Hamel, 1989; Petty, McGee &Cavender, 1984). Bluedorn (1982), among other researchers, found that job satisfaction leads to greater organizational commitment. According to Leigh there are some reasons for employee dissatisfaction which include, first the difference between workplace reality and expectations that employee had towards it. Managers are rarely able to show realistic job preview to candidate, sometime they even fail to create a realistic job description. It drives to the fact that workplace often does not live up to expectations and employees stay demotivated. Source of dissatisfaction may come from senior workers as well as loss of trust and confidence in senior leaders is another factor. Too few growth and advancement opportunities are an obvious determinant influencing employee job satisfaction which was topic of numerous

researches. Employee attitudes toward a merger cannot be explained without understanding attitudes in general. Much power has been ascribed to attitudes because it accomplishes a great deal for an individual. It guides perception, information processing, and behavior (Pratkanis, 1989). Eagly and Chaiken (1993) defined attitude as “a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor”. Furthermore, Armenakis and Bedeian (1999) argued that employee attitudes could also indicate or serve as “markers” for tracking the likelihood of employees enacting behaviors necessary for achieving desired changes. Extending this logic to the present study, it is likely that employees with positive attitudes would tend to be more supportive of their newly merged organization, while those with less positive attitudes would be more likely to be dissatisfied with the merger. The assumptions have been proposed in contemporary research and discussions on attitudes (e.g., Breckler, 1984; Greenwald, 1968; Insko&Schopler, 1967, cited in Eagly&Chaiken, 1993). This study assesses the emotional dimension of attitudes after the merger has occurred, also known as employee satisfaction with a merger. Buono, Bowditch, and Lewis (1985;1988), from an organizational culture perspective, studied employee perceptions about various facets of organizational life such as organizational commitment, job satisfaction, interpersonal relationships, and job security, and the effect it had on the processes and outcomes of a merger between two equal-sized banks from the period of 1979 to 1985. The Buono et al. (1985) study explained the human factors

involved in a merger from an organizational culture perspective, or a macro level. This current study adds to the literature by explaining the impact of mergers on employees from an individual perspective. Also, Buono et al. (1988) focused on mergers that occurred from 1979 to 1985. This period marked the commencement of horizontal mergers (Cartwright & Cooper, 1992). Organizations were amalgamating in the same area of business activity, in contrast to the conglomerate era, where organizations in completely unrelated fields of businesses were coming together (Cartwright & Cooper, 1992). This current study, therefore, builds on the work of Buono et al. (1988) by extending research related to the impact of horizontal mergers on employees. Covin et al. (1996) examined employee satisfaction with an acquisition or post-acquisition attitudes of target and acquiring company employees and the potential impact of these attitudes on several facets of individual and organizational effectiveness, such as job satisfaction, commitment, involvement etc. Their findings revealed that target-firm employees reported significantly higher levels of dissatisfaction with the merger than the acquiring employees. This study complements Covin et al. (1996) as it adds empirical information on employee satisfaction with a merger as opposed to an acquisition.

## Hypotheses

The following hypotheses has been formulated for the study:

*Hypothesis 1: There is significance relationship between involvement and employees satisfaction.*

*Hypothesis 2: There is significance relationship between commitment and employee's satisfactions.*

*Hypothesis 3: There is significance relationship between salary and employee's satisfactions.*

## Research Methodology

### Research design

The research study has been attempted to analyze the relationship between dependent and independent variables. The project investigation will be using explanatory and descriptive research design to get in depth knowledge about the relationship between variables.

### Sample

50 employees of Prabhu bank were taken as sample on the basis of convenient sampling.

### Data Collection Instrument

Data has been collect from respondents through the questionnaire. The reliability of the instrument was Cronbach's Alpha 0.844 for items. In simple words the research is 84.4% reliable. The instrument consist of seventeen numbers of opinion statements on job satisfaction, commitment, salary and involvement.

### Data analysis

Data has been analyzed by using relevant charts, table and graphs with the help of the SPSS software.

## Results

### Demographic Profile of the Respondents

#### Gender of the Respondents

This study has covered response of both male and female employees of Prabhu bank. Out of the 50 respondents selected 46% are male and 54% are female. Likewise, 48% are of age group between 18-29, 42% are of age group between 30-35 and 10% are of age group between 35-40. Twenty four percentage (24%) of them are master graduates, 50% bachelor graduates and 26% high school graduates. Thirty six percentage (36%) of them are working as assistant, 48% of them are working as officer and 16% of them are working as manager. It is 38% of them has work experience of 0 to 12 months, 24% of them has work experience of 1 to 2 years, 26% of them has work experience of 2 to 3 years and 12% of them has work experience of 3 years and above. Forty four percentage (44%) of them has salary between less than Rs.10000, 40% of them has salary between Rs.10000–Rs.20000, 16% of them has salary Rs.20000 and above.

#### Status of employees in involvement, commitment, salary and job satisfaction

The result of the study indicates the involvement factor for the satisfaction of employees in Prabhu bank shows a majority of the employee agree about involvement that affect the satisfaction level of employees (mean = 3.96, SD=0.548). That shows that most employee strongly agreed about the involvement in an organization.

Similarly, commitment factor for the satisfaction of employees in Prabhu bank is that the majority of the employee agree about commitment that affect their satisfaction level. The mean level is 3.97, SD= 0.568, gives the idea that most employee agreed about the interest inclination in the organization.

In the component of salarysatisfaction of employees in Prabhu bank, shows that majority of the employee agree to the satisfaction to the salary. The mean value is 3.25, SD = .625 shows a moderate level of satisfaction with salary components.

Furthermore, results indicates that the satisfaction factor for the employees in Prabhu bank shows that majority of the employee agree about the satisfaction level. The mean level is 3.91, SD= 0.542, that presents the idea that most of the employee agreed to the employees'satisfaction with moderate level.

**Table 1 Descriptive Statistics of variables**

Variables	Mean	SD	Remarks
Involvement	3.96	.548	Agree
Commitment	3.97	.568	Agree
Salary	3.35	.625	Agree
Job Satisfaction	3.91	.542	Agree

**Correlation of Job Satisfaction with employee Involvement, Commitment and Salary in Prabhu bank**

The correlation coefficient between employee's satisfaction and involvement has been found to be  $r=0.560$ ,  $p=0.10$  which shows a strong positively correlation. The correlation coefficient between employees' satisfaction and commitment has been found to be  $r=0.496$ ,  $p=0.001$  which is moderate to strong positively correlation. The correlation coefficient between employee's satisfaction and salary has been found to be  $r= 0.534$ ,  $p=0.002$  which is strong positively correlated.

**Table 2: Correlation of Satisfaction with Involvement, Commitment and Salary.**

Particular		Satisfaction
Employee Involvement	r	.560*
	Sig. (2-tailed)	.010
Employee Commitment	r	.496**
	Sig. (2-tailed)	.001
Salary	r	.534
	Sig. (2-tailed)	.002

**Hypothesis testing – results**

**Hypothesis 1:** There is significance relationship between involvement and employees satisfaction.

The correlation analysis shows 5% level of significance between involvement and employees satisfaction. Therefore, there exists significant relationship between involvement and employee's satisfaction. Hence, H1 is accepted.

**Hypothesis 2:** There is significance relationship between commitment and employee's satisfactions.

The correlation analysis shows 1% level of significance between commitment and employee's satisfactions. Therefore, there exists significant relationship commitment and employee's satisfactions.. Hence, H2 is accepted.

**Hypothesis3:** There is significance relationship between salary and employee's satisfactions.

The correlation analysis shows 1% level of significance between salary and employee's satisfactions. Therefore, there exists significant relationship between salary and employee's satisfaction. Hence, H3 is accepted.

**Conclusion**

Employees' are the most important part in any organization. An organization's success depends on Employees performance and performance depends on their satisfaction level. Merger has been a powerful strategy for the banking industry in Nepal and also

has been fruitful for most of the banks including Prabhu Bank Ltd. Although the merging banks are financially becoming strong, they are ignoring human factors. Therefore, relationship between salary, involvement and commitment has been the subject of research. Prabhu Bank Ltd, the selected bank for this study has been successful mergers which incorporate all of its employees even after merger. But it may not be same in case of all the merged banks so there is always fear of downsizing in the employees which lowers their organizational commitments and involvement towards the bank. It may decrease the performance level of employees resulting the merger unsuccessful. Hence the employee's satisfaction should be considered before adopting merger.

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# Measuring Impression Management in Organization: A scale Development Based on the Impression Management Taxonomy

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## Abstract

**Purpose:** This article provides an overview of impression management strategies that used in an organization. Specifically, this paper aims to captures taxonomy of impression management as domains of Impression management.

**Design/methodology/analysis:** In the study, based on survey conduct in the year 2012 in the Kathmandu valley, 350 structured questionnaires were distributed to concern employee of PSO for retaining of the information from respondent through Likert scale concept.

**Findings:** The result indicates that impression management covers wide range of social phenomena and concepts as corporate and organizational behavior. This research presented that only four factors are retained from among five impression management taxonomies. It has found that impression management strategies impact on employee commitment with positively and negatively as well.

**Research limitation:** Further testing of the instruments is required in order to replicate the result and to establish norms for the newly developed measures. Research bias may have occurred because a single point response.

**Practical implication and value:** The study makes a modest attempt to add information on literature to vary little empirical knowledge available referring to the link between impression management and employee commitment on service sector. Hence, the study adds as a foundation where intrinsic motivation takes vital role to create commitment and competency.

**Key words:** Impression management, Employee commitment, Domain of impression management.

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## I: Introduction

Respecting changing structure of work environment in recent years, the alteration of employees and executives focusing values has been also observed. Nowadays, among the indicators of organizational success, employee commitment that may develop inter workforce is remarked as well as performance outcomes. In particular, coming up a consideration in such public enterprises that service professional's organizational commitment impacts on service quality, there is an evaluation area for management in terms of shaping employee behaviors and attitudes, efforts for appropriation of organizational objectives and values. Furthermore, possible results of impression management expressed as the investigation of an employee about self-appraisal by others can influence the quality of human resource in the organization.

Every organization survives in the age of information and complex pattern of communication, so it is not surprising that the use and control of information plays a central role in each of our lives. Impression management is the goal-directed activity of controlling or regulating information in order to influence the impressions formed by an audience. Through impression management, people try to shape an audience's impression of a person, object, event, or idea. When people are trying to control impressions of themselves, as opposed to other people or entities, the activity is called self-presentation. It involves more than gamesmanship including fundamental feature or characteristic of interpersonal experience.

It is inconceivable to discuss human social behavior without employing the concept. Impression management is like presenting an edited work designed to convey key information effectively to others. We must edit the information to make it germane to the occasion. It may take just as much social skill to create an accurate impression as to create a misleading one. In fact, research has shown that people who have better acting skills also are more successful at presenting themselves accurately to others.

Impression management also can be used for beneficial ends. Although people act in ways that advance their own self-interests, they also seem to regulate information in order to support and protect the identities of others, to make others feel good, to help others cope, and to inspire them to seek new challenges. Impression management activities can involve altruistic goals and pro social conduct. "When an individual appears in the presence of others, there will usually be some reason for him to mobilize his activity so that it will convey an impression to others which it is in his interests to convey." Erving Goffman (1959).

### Statement of the Problem

In the area of management, impression Management (IM) has taken a significant role as influencing in psychological behavior of employee within an organization. As increasing role of information and communication in an organization, basically in terms of employee commitment, IM plays a vital role in order to influence, gets job done through people and control them in positive manner. Often

in impression management literature, a longitudinal study is mentioned as a measure of interesting future research (Turnley & Bolino, 2001, Wayne & Ferris, 1990). Some of study is carried out in order to make relation between IM strategies and organizational group, organization citizenship behavior, project team, performance of employee (Merel M.C. Schokker, 2007; Nhung T. Nguyen, Anson Seers, Nathan S. Hartman, 2008).

In summary, although the approaches that have been used in previous studies examining impression management do have considerable strengths, there is limitation. Mindful of existing limitations, a new measure of impression management should have. It should be constructed such that it captures the domain of impression management behavior. Such type of research has certain gap, thus, this in turn leads to my central problem statement:

1. Do the impression management strategies influence the employee commitment?
2. How many dimensions of impression management strategies are captured as domains of impression management?

#### **Objectives of the Study**

The main aim of the study is to capture new domain of impression management in service sector. Following major purpose is established to conduct the research paper.

- To find out the dimensions of impression management strategies as factors of impression management.

- To investigate the relationship between impression management strategies and employee commitment.

#### **Rationale**

Most research has focused on upward influence attempts. The reason is that impression management is used more frequently in situations where the target is of higher status and has more power, and where the individual is dependent upon that target (Jones, 1964). And also Performance has been researched before by Wayne & Liden (1995) and a relationship was found with impression management strategies on behavior. Previous research indicates that there is somehow relation between IM strategies and employee behavior, but most of the research is related to team and group efficiencies. This study researched whether the use of the same impression management strategies would have a different effect on individual performance regarding to employee commitment which may fill gap of the research in sensitive area of an organization.

Nepalese public enterprises, basically in public service sector have been suffering with human management related problems. Employee commitment, satisfaction and engagement fact remains very debatable issue in those sectors. In case of intrinsic reward system and employee behavior matter, it seems very unsatisfactory. Employee tries to obtain their individual goal rather than makes effort toward achievement of organizational goal. Thus, internalization of corporate goal is lacking in this sector. In this regard, the major focus of study is

to figure out the dimensions of impression management and its relation on employee commitment.

## II: Literature Review

Respecting changing structure of work environment in recent years, the alteration of employees and executives focusing values has been also observed. Nowadays, among the indicators of organizational success performance that may develop inter workforce is remarked as well as performance outcomes. In particular, coming up consideration in public enterprises that professional's organizational commitment impacts on service quality, there is an evaluation area for management in terms of shaping employee behaviors and attitudes, efforts for appropriation of organizational objectives and values. Furthermore, possible results of impression management expressed as the investigation of an employee about self-appraisal by others can influence the quality of human resource in the organization.

Impression management is generally regarded to be a fundamental part of organizational life and vital to effective organizational communication; it has become clear that one needs to understand impression management to completely understand organizational life (Rosenfeld, Giacalone, & Riordan, 1995). Considerable theory (Bozeman & Kacmar, 1997; Ferris & Judge, 1991) and research suggest that impression management use and the effectiveness may vary across situations. According to Schneider (1981) there are a number of ways in which individuals may manage their impressions. Organizational

leaders and heads engage in impression management because they believe such behavior improve the organization's relation with employee. In the macro-organizational level, Impression Management (IM) is the study of how organizations attempt to manage or control the perceptions others form of them (Avery & McKay, 2006; Mohamed & Gardner, 2004).

Researcher have adapted impression management theory from social psychology and applied in to organizational setting and focus on individual behavior as interpersonal relationship (Bozeman & Kacmar, 1997; Rosenfeld, 1989, 1991; Wayan and Liden, 1995). The organization attempts to regulate and control information and influence constituents' impression to gain specific rewards. In the organizational level, Mohamed, Gardner, and Paolillo (1999) developed the taxonomy of organizational IM behaviors to guide future research. Impression management theory and research suggests that when employees have strong impression management motives, they are careful to avoid creating a negative image in the eyes of others (Jones & Pittman, 1982; Leary & Kowalski, 1990). Past researches are inconclusive regarding the moderating impact of impression management on OCBs. Only few researchers have examined the impact of the employee's motive of impression management on job performance behaviors (Grandey, Fisk, Mattila, Jansen, & Sideman, 2005). Most of the research which examines the association between impression management and organization citizenship behavior (Meyerf & Allen 1991, Organ and

Ryan 1995, Meyer et al 2002), impression management employee promotion is highly correlated (Schlenker, 1980 and Jones & Pitman, 1982). Employees use impression management behavior to increase their power over other employees (Jones & Pitman, 1982). Most of the research which examines the association between impression management and organization citizenship behavior (Meyerf & Allen 1991, Organ and Ryan 1995, Meyer et al 2002), impression management employee promotion is highly correlated (Schlenker, 1980 and Jones & Pitman, 1982). Employees in such organizations are either promoted based on education or tenure, but those who fail to do so go for impression management. Employees use impression management behavior to increase their power over other employees (Jones & Pitman, 1982).

Conducted studies in 1950s by Erving Goffman have comprised the basis of impression management. Goffman expressed that individual behaviors configured by external appearance. In ancient times, kingdom would leave positive impressions over people because of the owner of power. In social classes that crystallized with industrial revolution, heading for consumer goods became a way in order to have a place in the community. The concept of impression management consists of many tactics in the cause of arranging human relations and it is required that formed behaviors in this way should be examined (Peeters & Lievens, 2006). With respect to Demir (2002), impression management is designated as regulating individual behaviors and

controlling others' thoughts about the individual consciously or unconsciously as gaining power as socially (Riemer & Shavitt, 2011). Impression, "impact of any situation or event through senses on individual or obtained influence, influence or image by the individual" (Yucel, 2013).

Although several different taxonomies of impression-management tactics have been developed by different groups of researchers (Bozeman & Kacmar, 1997, Tedeschi & Melburg, 1984, & Wayne & Ferris, 1990), one of the most widely used is the taxonomy developed by Jones and Pittman (1982), who identified five impression-management strategies that individuals are likely to use:

1. Ingratiation, where individuals use flattery or favor-doing in an attempt to be seen as likeable.
2. Self-promotion, where individuals play up their abilities or accomplishments to be seen as competent.
3. Exemplification, where individuals go above and beyond the call of duty to appear dedicated.
4. Supplication, where individuals advertise their shortcomings in an attempt to be viewed as needy.
5. Intimidation, where individuals seek to appear intimidating or threatening to have others views them as dangerous.

Based on above analysis, it can be conceptual a framework including five impression management strategies as

explanatory variables and its impact on employee commitment as dependent variable and relation of these variables may moderate by work force diversity of an organization.

Since 1950s, there has been a considerable growth in academic interest and research in a range of Impression Management practice and implication. Much of the social psychology literature deals with strategic self-presentation designed to advance the self-interests of the actor. Depth look was taken at the historical background of impression management and it can be said that since the mid 80s the topic has increasingly received attention from social psychologists and the awareness of its importance is also dramatically increasing in organizational life in team and work place. But, it has been rarely found that researches of impression management in a hierarchical setting of an organization. Thus, it lacks researches in terms of impression management behavior of superior and its impacts on employees' attention. Bhandari (2012) stated on his research that there was lack of research on the impact of employee motivation and commitment in public sector. Although impression management tactics can be conceptualized as strategies of an organization in order to create competency and commitment of existing employee, it is not considered as strategic issues of an organization. That is why; the study is aimed to address such meaningful relation of impression management which is being ignored as part of organizational behavior.

### III: Research Methodology

The field survey is conducted to measure the perception of respondent in the study. Descriptive and analytical nature of this study depends on primary data that was collected from Public Service Organization (PSO). As sample for organizational work groups, it was chosen from the Tribhuvan University (TU) and Kathmandu Upatyaka Khanepani Limited (KUKL) of Nepal. Convenience surveys were designed to generate the data with administering structured questionnaire and to retain the information from respondent through Likert scale concept. In the study, 350 questionnaires were distributed to concern staff and out of them only 286 valid questionnaires were able to be collected.

This study examined whether the constructions developed by Jones and Pittman (1982), as broad taxonomy aimed at capturing the wide variety of impression management behavior and measured by Bolino and Turnley (1999) on their research. Employee commitment is used in this study that was initially propounded by Meyer and Allen in 1991 and in this study revised version of OCS in 1993.

Although this research provides evidence supporting the validity of the new instrument, there are some limitations. First, further testing of the instruments is required in order to replicate the result and to establish norms for the newly developed measures. Next, because scale items include motivational intent, further research should determine whether social desirability bias influence individuals' report of their impression management

behaviors. Finally, few numbers of respondents have been chosen from sample organization; hence study results may be less possibility to generalization so further work is needed with adequate sample size and number of respondent as supported to statistical evidence.

#### IV: Result and Discussion

##### Condition of Employee Commitment

In PSO, various work force groups have responded on statement of employee commitment differentially. Following figure is drawn to analysis average mean score of work force diversity on statement of employee commitment.

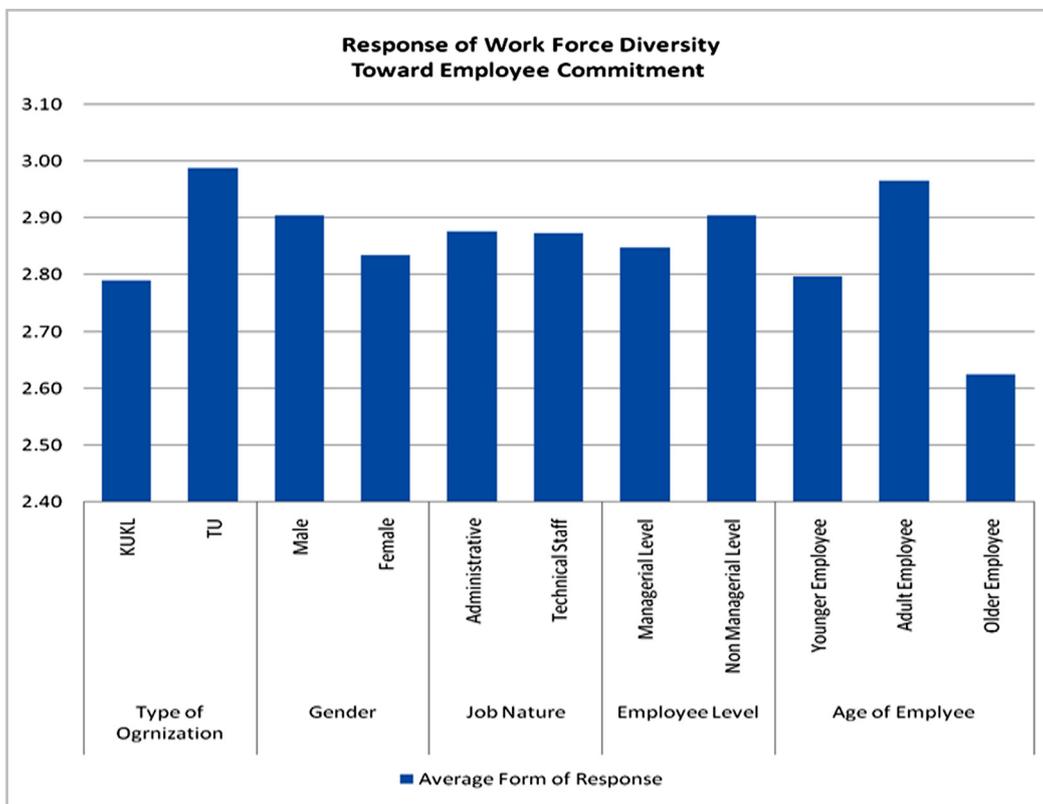


Figure 1: Work Force Diversities and Employee Commitment

Mentioned figure reveals that perceive employee commitment by type of organization, gender, job nature, employee level and age of employee of PSO. On the side of type of organization, TU has high employee commitment level than others. While commitment

level is compared regarding to age diversity, adult age group has more average mean score meaning that adult employees of PSO are more committed to the organization than younger and older employee. Administrative and technical both type of employee feel same level of employee commitment in PSO since mean score is not so vary.

Out of 286 respondents, male is higher than female and higher respondent age group is age between 30 years to 50 years. This adult age group is major determinant age group of an organization. Non-officer group are considered in this study are main assistant or subordinate of the officer level they also may response as their experience. Like this, only few percentages technical staff has responded compare with administrative staffs. Administrative staffs are more influenced and motivated group of an organization and they are mostly influenced by boss's behavior and his activities. Compare with KUKL, TU has more powerful age group in the study. And compare with TU, KUKL has played dominating role with having 71 officer level employees. In case of gender pattern of the study, the dominant respondents belong to male employee.

#### **Condition of Impression Management**

It is confirmed before reliability test that all the items were scored in the same direction i.e. mean value is greater than 2 scores. It ensures that respondent really read and understands the item before they respond. Internal reliability of a 20 item scale is assessed using Cronbachs' alpha technique. The scale produced an alpha of 0.843, which is acceptable for an attitude

scale. As literature of Cronbachs' alpha, alpha >0.7 may be considered as data consistency and reliability. Now it can be proceeding for factor analysis to confirm whether these dimensions of IM are fixed in Nepalese context as per literature in western countries.

#### **Factor Analysis of Impression Management Statements**

Factor analysis is mostly used statistical tools for psychological and social science areas. It is known as data reduction or variable reduction technique in where reliable variables are retained. Factor analysis, we attempt to group the Data file contains interesting set of variables on Likert scale. Before carry out factor analysis, correlation matrix identifying unique variables. Also identify unique variables observing MSA of each variable.

The study, data is related to views of employee of PSO, regarding to level of agreement and disagreement toward items of impression management. The data file contains set of 20 variables IM X4.1 to IM X4.20 with measuring 1 to 4 scores. These data is used to analysis the homogeneity feature in variables and to make a separate group as its similarities with accomplishing the factor analysis. These 20 variables measure the perception of employee measured in 1 to 4 rating scale (1= strongly disagree and 4=higher level of agreement). Basic three steps are proceeded to conduct the factor analysis. In this study, it does not need to eliminate any variables for further processing because there is no any insignificant correlation among the variables, thus, variables of this study may not be affected by the problem

of multi co-linearity, however problem of high correlation or unique variable we may precede next process.

**Kaiser-Meyar- Olkin MSA: KMO and Bartlett Test**

In the 20 X 20 correlation matrix, all variables are found to be correlated with all other variables in satisfactory level. A set of standard should pass the submitted data before qualifying for conducting factor analysis. Kaiser-Meyar-Olkin MSA: KMO and Bartlett test is standard statistical test to qualifying data for processing the factor analysis. These tools ensure Kaiser- Mayer-Olkin measure of sample adequacy is acceptable level and Bartlett’s test is significant.

**Table 1: KMO and Bartlett's Test**

	KMO and Bartlett's Test	
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.742
Bartlett's Test of Sphericity	Approx. Chi-Square	1792.906
	df	105
	Sig.	0.000

The overall MSA as indicated by KMO MSA turned out to be 0.742, which is the acceptance level (KMO>0.50). The p\_value of the Bartlett’s test of sphericity turned out to be 0.000. That means the correlation matrix is significant deferent from the identity matrix, a desired criterion for factor analysis. These two results suggest going ahead for factor analysis. The measures of sampling adequacy (MSA) is satisfactory result of retain variables with having KMO value>0.5 that is greater than 0.5. So, again next process can be done to check unique variable using anti image correlation matrix.

The anti image correlation matrix contains the negative of the partial correlation coefficient. It explains how suitable the data is for factor analysis by examining diagonal value of anti image matrix.

**Table 2: Diagonal Elements of Anti-image Correlation Matrix**

IM X4.1	IM X4.2	IM X4.4	IM X4.5	IM X4.6	IM X4.7	IM X4.8	IM X4.11	IM X4.12	IM X4.15	IM X4.16	IM X4.17	IM X4.18	IM X4.19	IM X4.20
.787a	.814a	.795a	.832a	.782a	.743a	.782a	.662a	.542a	.594a	.580a	.792a	.732a	.799a	.821a

a. Measures of sampling adequacy (MSA)

Anti image correlation matrix illustrates all retain variables have acceptable diagonal value >0.50 therefore it allows to proceed further process of factor analysis.

### Total Variance Explained

In the 15 X15 anti – image and all criterions are satisfactory for factor analysis this is why factor analysis on these 15 variables is carried out. The number of factor turned out to be four. The 15 eigenvalue of the 15 x 15 correlation matrix R, % of total variance and the cumulative % of the variance of each eigenvlaues are presented in following table. It is decided to extract four factors, since the number of eigenvalue greater than 1 is four, and the four factors correspondingly explained around 29.06, 20.20, 8.18, 6.82 percent of the total variance in the initial solution. Moreover, the four factors together explain around 64.26 percent of the variance.

### Factor Loading and Communalities

The communality measures the percent of variance in a given variable explained by all the factors jointly and may be interpreted as the reliability of the indicator.

**Table 3: Factors and Communalities**

IM Domains	Factor 1	Factor 2	Factor 3	Factor 4	Communalities	Cronbach's Alpha
S/he talks proudly about her/his experience or education so I get impressed.	0.78				0.61	0.837
S/he makes me aware of her/his talent or qualification.	0.74				0.59	
S/he makes me aware of her/his accomplishment.	0.73				0.63	
S/he Praises me for my accomplishment so I will consider her/him as a nice person.	0.71				0.60	
Job assigned allows me to use my best skills.	0.68				0.51	
S/he takes an interest on my personal lives to show me that S/he is friendly.	0.62				0.52	
My senior always treats me with respect.	0.58				0.56	
<b>Cronbach's Alpha</b>						

Senior acts (show) not to understand something to gain someone's help.		0.83			0.74	<b>0.826</b>
Senior acts like need assistant so people will help out.		0.81			0.71	
Senior tries to gain assistant or sympathy from people by appearing needy in some area.		0.70			0.60	
Senior shows less known than do so it can avoid an unpleasant argument.		0.70			0.69	
<b>Cronbach's Alpha</b>						
S/he deals forcefully with me when I hamper her/his ability to gets job done.			0.79		0.66	<b>0.801</b>
S/he deals aggressively with subordinates who interfere in her/his business.			0.73		0.69	
<b>Cronbach's Alpha</b>						
Come to the office on weekends to show that s/he is dedicated.				0.86	0.76	<b>0.731</b>
Arrive at work early to show dedicated.				0.81	0.78	
<b>Cronbach's Alpha</b>						
<i>Extracted variance</i>	<b>3.53</b>	<b>2.73</b>	<b>1.70</b>	<b>1.68</b>	<b>9.64</b>	
<b>% of total variance extracted</b>	<b>23.52</b>	<b>18.21</b>	<b>11.32</b>	<b>11.21</b>	<b>64.26</b>	

Note that small factor loading (<0.3/) are not shown in the table 3.

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Above table explains the factors distribution and their explaining power. Four factors are extracted from fifteen variables classifying seven variables in factor 1, 4 variables factor 2, 2 variables in factor 3 and 4 each factor with having homogeneous characteristics by which they explain 64.26% of total variance. All retained variables of both factors meet acceptable level of explanation i.e. communalities less than 0.5 as not having sufficient explanation. Inter items' reliability test result of factors 1, 2, 3 and 4 Cronbach Alpha values 0.837, 0.826, 0.801 and 0.731 respectively are higher than considerable level 0.70. Hence it provides the evidence that items of factors regarding core features are sufficiently reliable. This factor report is also supported by following correlation matrix of factors.

**Table 4: Correlation Matrix for Domains of Impression Management**

	X4.1	X4.2	X4.4	X4.7	X4.8	X4.6	X4.5	X4.18	X4.19	X4.17	X4.20	X4.15	X4.16	X4.12	X4.11
X4.1	1														
X4.2	.468**	1													
X4.4	.448**	.491**	1												
X4.7	.425**	.277**	.306**	1											
X4.8	.365**	.452**	.427**	.390**	1										
X4.6	.504**	.394**	.360**	.558**	.557**	1									
X4.5	.498**	.398**	.492**	.364**	.331**	.420**	1								
X4.18	-0.08	0.077	0.032	-0.039	.165**	-0.04	.131*	1							
X4.19	.202**	.127*	0.058	.275**	.262**	.279**	.376**	.522**	1						
X4.17	.212**	.237**	.216**	0.074	.200**	0.069	.238**	.594**	.496**	1					
X4.20	0.01	.244**	0.078	-0.054	.205**	0.116	.124*	.639**	.483**	.520**	1				
X4.15	-.143*	-0.021	-0.014	-.207**	-0.03	-.170**	-0.01	.278**	.193**	.118*	.358**	1			
X4.16	-0.11	-0.034	-.123*	-.180**	-.213**	-0.09	-.132*	.349**	.258**	.319**	.422**	.530**	1		
X4.12	0.062	0.099	.246**	0.063	.173**	.186**	.223**	0.098	.195**	.292**	.291**	.151*	.196**	1	
X4.11	.206**	.262**	.220**	.139*	.319**	.124*	.237**	.289**	.285**	.386**	.402**	.193**	0.034	.578**	1

\*\* .Correlation is significant at the 0.01 level (2-tailed)

\* .Correlation is significant at the 0.05 level (2-tailed)

Above correlation matrix presents that the variables within the factor groups are strongly correlated and between the groups are weakly correlated. According to the mentioned results and findings, it can be concluded that the perceptions regarding to impression management strategy toward employee commitment can be grouped into four forms.

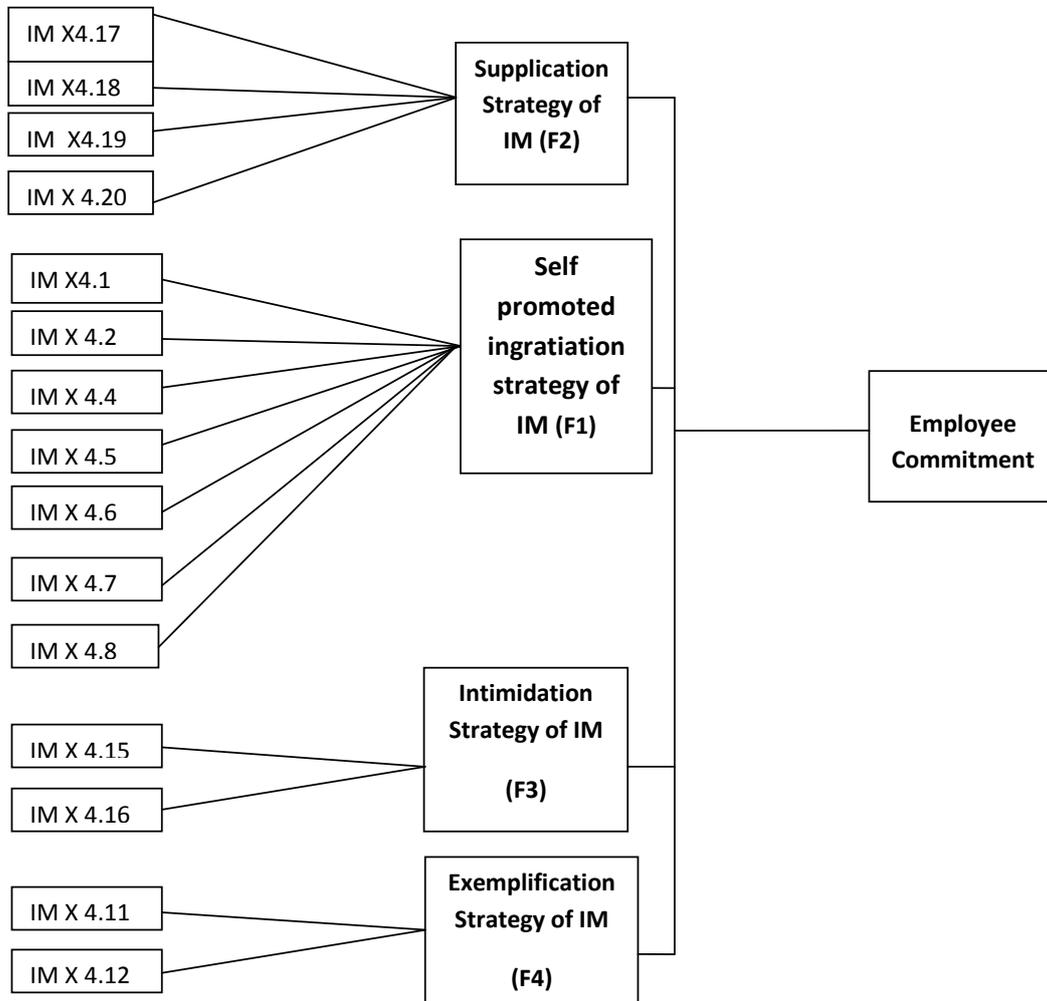
**Table 5: Factors Correlation**

	Factor_1	Factor_2	Factor_3	Factor_4	Employee Commitment
Factor_1	1				
Factor_2	.226**	1			
Factor_3	-.174**	.413**	1		
Factor_4	.291**	.392**	.179**	1	
Employee Commitment	.763**	.291**	-.170**	.293**	1

\*\* .Correlation is significant at the 0.01 level (2-tailed)

According to the mentioned table, correlation among factors is low, which means factor 1 is weakly correlated with factor 2, factor 3, factor 4 at a 0.01 level of significance. This is a desired structure of factor correlation matrix. Since the four factors are under the different criterion of factor analysis, it can be concluded that four factors are sufficient for analysis of the impression management and its relation with employee commitment in the context of PSO. This retained factor can be explained as follows in the following graph.

Figure 2: Retained Factors of Impression Management



Factor 1 characterized by **self promoted ingratiation IM strategy**, factor 2 characterized by **supplication strategy of IM**, factor 3 can be conceptualized as **Intimidation strategy of IM** and factor 4 is characterized by **exemplification strategy of IM**.

### Relationship of Impression Management and Employee Commitment

Correlation matrix table no.5 explores the relationship among dependent variables impression management strategies and independent variables employee commitment. Factor 1, factor 2, Factor 3 and Factor 4 are group of IM strategy and sum of scale of employee commitment is dependent variables. It shows that independent variables factor 1 "self promoted ingratiation IM strategy" factor 2 "supplication strategy of IM" and factor 4 "exemplification strategy of IM" are positively correlated with each other and with

employee commitment where as factor 3 "Intimidation strategy of IM" negatively correlated with employee commitment and factor 1 "self promoted ingratiation IM strategy" but it positively correlate with factor 2 and factor 4 insignificantly. Factor 1 "self promoted ingratiation IM strategy" of IM domain highly correlate with employee commitment 0.763 positively. All independent factors are insignificantly correlated with each order, thus, it minimizes the problem of multicollinearity while they together enter into a model.

## V: Findings and Conclusion

The current study sought to examine the effect of the use of impression management tactics in work group on perceived employee commitment. For the research the five impression management tactics described by Bolino and Turnley (1999) were chosen. There is four factors are extracted from five dimensions of impression management including factor 1 "self promoted ingratiation IM strategy" factor 2 "supplication IM strategy ", factor 3 "Intimidation IM strategy IM" and factor 4 "exemplification IM strategy " are retained as predictors of employee commitment. Employee of PSO feels that self promotion and ingratiation dimensions of impression management is same behavior of superior since both dimensions were retained in a factor. The four factors correspond to four dimensions of impression management strategy that encompasses a wide range of attributes of employee perception towards IM techniques of seniors. These behaviors are intangible nature that impact employee commitment.

Self promoted ingratiation strategy, supplication strategy and exemplification strategy are positively correlated with each order and with employee commitment whereas intimidation strategy of IM negatively correlated with employee commitment and self promoted ingratiation IM strategy but it positively correlate with supplication strategy and exemplification strategy insignificantly. Self promoted ingratiation strategy of IM domain highly correlate with employee commitment 0.763 positively. The study results four domains of impression management strategy as behavior of superiors in organization may somehow relates with employee behavior. Encourage and inspiration to the employee remains highly applicable objects within work group in order to influence and enhance committed scenario. Such result is quite similar to study of Derrick & Ligon (2014). He found that impression management tactics, which are accepted as a part of organizational life, would be assessed the interaction and perception in the organization effectively. Lewin & Reeves (2011) has concluded healthcare employees have observed others by the interaction established with team work and consequently developed impression management tactics. Thus, the study can conclude that employee of service sector of Nepal has been influenced by impressive behavior of superior. Polite, flattery, appreciated, motivated and ideal impressive behavior of leader positively correlates with employee commitment. In the other hand, coercion (intimidation) behavior of superior reduces the level of commitment of employee of PSO.

The result of the study complies with the findings of Jones & Pittman (1982) that stated that intimidation is the opposite of ingratiation. Intimidation drives people apart and often makes the actor less attractive while the ingratiator brings people together and is often seen as more likeable (Jones & Pittman, 1982). Prior theory supports the result that intimidation IM strategy is strongly make a negative relation with employee commitment meaning that if superior use aggressive and dominating role in work place it reversely impacts on employee commitment and reduces commitment level of juniors. Employee of PSO also perceives intimidation behavior from their superiors as unfavorable leadership style.

From this study, it can be concluded that impression management tactics may be used rather differently in lateral relationships and that some different skills may be needed to do so efficiently. Impression Management tactics today are significantly recognized as a strategies to influence and motivate the employee in order to create commitment towards the organization and job as well by which organizational effectiveness, innovativeness and competency can be enhanced to get sustainable competitive advantage. Line and staff manager need to understand the role of impression management in an organization in terms of relationship of manager and employee. Manager should behave in such way that can stimulate employees' intrinsic motive and positive attitude to expose dedication towards the organization.

The contribution of impression management into the workplace should be taken account into consideration from the point of view of PSO managers since it fosters the exhibition of employee commitment which is more important for organizational effectiveness and its goal achievement. However, impression management is an intangible motivation tool that directly does not lead employee commitment but it influence internally and indirectly escorts employees' psychological attachment to make loyal to the organization.

#### **Implication of the Study**

This study intended to test impression managements' dimensions and its impact on employee commitment. It contributed to the literature in terms of the relationship between IM and EC. Additional contribution of this report is to analysis 'top to down' affecting situation using these IM strategies on employee commitment. Hence the study adds as a foundation for investing the relationship among IM and EC in service sector where intrinsic motivation takes vital role to create commitment. The retained factors of IM may use in further study on OCB and EC. or further study should be carried out including more respondent from various sample organization that supports to generalize the study result and retained all dimensions of IM which covers wide range of IM strategies. These could imply that in a group composition it may require more skills to be able to use one of these tactics efficiently rather than in a dyadic relationship. In the future more research should be devoted to the comparison of skills needed to use

impression management tactics efficiently in group compositions compared to dyadic situations.

The future researcher can have an attempt to test relationship between impression management and employee commitment in manufacturing, banking and other large organization where more units are operated. Similarly, future researcher may attempt to make a comparative study of impression management practices of private organization and public organization.

The result provides evidence that impression management strategies and employee commitment significantly related with each other. Management and human resource professionals need to comprehend the importance of impression management for the effective functioning of the organization and find way of enhancing employee commitment. Future studies that encompass other antecedent of impression management should be carried out within different work setting in order to enrich literature on impression management and employee commitment as well. This research stimulates researchers to begin to think about how dimensions of IM relate to HR outcome and contribute to the enhancement of leadership style, organizational behavior and organizational culture.

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