

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal, situated in between the two rising tigers of the world economy is one of the smallest economies of the world. The whole of the south economy accounts for about 2% of the world's economy. In this share, India alone represents for 80%, which is 1.6% of the world's economy, and on the other hand, Nepal alone accounts for less than 0.1% of the world's economy. This figure shows our status in the world's economy. Being one of the smallest land locked economy in the world, Nepal faces many problems as regards to its trade and transit aspects. The zigzag mountain range that runs through out the country is always a good reason for the transportation problem. Besides all these geographical conditions and the diplomatic behavior of the neighboring country, Nepal is currently in its political transit point and is continuously facing the problem of self-political instability since a decade.

The rising tigers are aiming for the double-digit growth in the economy meanwhile their little neighbor is facing the problem of negative growth in the economy in the year 2001/02 by -0.6%. It progressed to 3.1% in the year 2002/03 and a slight growth of 3.7% in the year 2003/04 and again decreased to 2% in the year 2004/05.

The term banking is used to denote a certain kind of trading in money. It consists of principally the exchanging of money; the lending of money; the depositing of money; and the transmitting of money. According to some authorities, the word bank itself is derived from the word bancus or banque, meaning a bench. The early bakers, the Jews in Lombardy, transacted their business in benches in the market place. The other, who are of opinion that the word bank originally derived from the German word back meaning a joint stock fund which was Italianized into banko when the Germans were masters of the great part of Italy.

The word bank was first time used in the twelfth century, though the business had been in existence in one form or other even in hoary antiquities. The first meaning assigned to it was creation of a joint stuck fund. The gold, later on, smiths of London developed receiving of deposit and lending of money that constitute one of the basic functions of modern banker. But they did not act only as intermediaries between the depositors and the borrowers, as they granted credit of much larger amount than what they actually received in cash.

The seed of modern banking was sowed in 1157 in Italy by the establishment of bank of Venice. Then after, gradually, other modern banking institution were established through out the world. In India, the Bank of Hindustan was established in 1770 as the first modern bank.

In Nepal, Nepal Bank Limited was established as the first modern bank in 1994BS. Prior to that Tejarath Adda established in 1933 worked as bank for the government and government employees only. Its function was limited to providing loans to employees against the bullion. After the establishment of NBL, it had the responsibility of accelerating the interest of the public towards banking practice. It operated as the central bank of Nepal until the establishment of Nepal Rastra Bank in 2013. Since the establishment of Nepal Rastra Bank, it has been functioning as the central bank of Nepal. It has the right to formulate the monitory policy in favor of the government of Nepal. It acts as the guardian bank of all the financial institutions within Nepal. For the fulfillment of the necessity of commercial bank in Nepal Rastriya Banijaya Bank was established with total government ownership in the year 2022.10.10 as the first commercial bank of Nepal.

The establishment of commercial banks in Nepal accelerated only after the introduction of the commercial bank act. The first joint venture commercial bank of Nepal is Nepal Arab Bank Limited. Now it is renamed as Nabil bank limited. Nabil started the entry of foreign investment in the Nepalese banking industry. Then after came Nepal Indosuez bank limited later renamed as Nepal Investment Bank limited in 30th May 2002. There are all together 26 commercial banks in the country until date. Some are established by

joint venture with foreign financial institution while others are established with total Nepalese ownership.

1.2 Introduction to Nepal Investment Bank Limited

Nepal Investment bank limited was established in 1986 as Nepal Indosuez Bank Ltd. in joint venture with French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one of the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

-) A group of companies holding 50% of the capital
-) Analysis Rashtriya Baniyaya Bank holding 15% of the Capital
-) Rashtriya Beema Sansthan holding 15 percentage
-) The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange)

Nepal Investment Bank limited has been awarded the award of the Banker of the year for two times in the year 2003 and 2005 by the 'Financial Times' that made it the first Nepali bank to get this award two times.

Table 1.1 Summarized Financial Position of NIBL

NIBL in Figures			
Details	2004\05	2005\06	2006\07
Assets	160635	213301	275908
Deposit	142545	189273	244889
Loans	104531	131782	177691
Total investment	39341	56029	65057
Operating profit	4769	6481	8572
Net profit	2321	3505	5014
NPA	2.69%	2.07%	2.37%
Return on paid up capital	39.50%	59.40%	72.04%
Return on shareholders fund	19.67%	27.01%	30.45%
Total number of customers	41015	59033	91502
Portion of deposit as compared to market	6.30%	7.30%	8.30%
Portion of loan as compared to market	6.80%	7.90%	9.10%
Capital adequacy	11.58%	11.97%	12.17%

1.3 Statement of Problem

The balanced scorecard is a management system that enables organization to clarify their vision and strategy and translate them into action. To translate any strategy into action requires its accountability. Without accountability, any strategy cannot be translated into action. Such accountability is regarded as the responsibility accounting. Therefore, for purpose of analysis this study follows the approach of responsibility accounting while preparing information for the balanced scorecard. This research work attempts to answer the following questions:

-) Is balanced scorecard an appropriate tool in improving the management performance in Nepalese organization?
-) Which of the balanced scorecard approach is being implemented in the organization at present?
-) How should the organization appear to its shareholders for financial success?
-) How should the organization appear to its customers?

-) How should the organization sustain its ability to change and improve to gain its vision?
-) What should the organizations business process be to satisfy its stakeholders?

1.4 Objective of the Study

The primary objective of the study is to assess the Balanced Scorecard (BSC) in improving the management performance to attain the strategic vision of the organization. The other objectives of the study are as stated below:

-) To study financially how the organization is able to satisfy its shareholders
-) To study the organizations performance in satisfying the customers expectations
-) To study the organizations adaptability in the changing environment
-) To study the organizations internal business process capacity to satisfy its stakeholders

1.5 Significance of the Study

The study will be the research work on the balanced scorecard approach of performance evaluation, which will be analyzed and presented being based on the responsibility accounting aspect of management accounting. The research work will be significant in the following ways:

-) It will examine the applicability of balanced scorecard in Nepalese organizations.
-) It will explore the problems and potentials of the organization's performance.
-) It will be important to accountants' managers' policy makers and planners.
-) It will provide a detailed study of the organizations performance in terms of customers, shareholders and employee satisfaction.

-) The study will also provide some necessary recommendations to the concerned authority.
-) Finally, it will provide literature to the researchers who want to carry on their future research in this field.

1.6 Organization of the Study

Since, the main purpose of the study is to view the implement ability of balanced scorecard in improving the management performance to attain the strategic vision of the organization; the study will conduct the function of presentation analysis and interpretation of data. The study will be in a fixed format as prescribed by the Tribhuvan University. The format of the study will be as presented bellow:

Chapter I Introduction

The main aim of this chapter is to introduce the topic of the research work along with all the related aspects of the research work. It covers the introduction of the research work along with the introduction of banking industry in Nepal and general introduction of Nepal Investment Bank Ltd., statement of the problem, objective of the study, limitation of the study and organization of the study.

Chapter II Review of Literature

The second chapter deals with the review of literature. This chapter introduces the subject matter of the study as a part of management accounting tool. Further this chapter provides the study of the past literature in the field of the balanced scorecard, the historical development of BSC, it's introduction as strategic management accounting technique, brief introduction of its four aspects and the concluding remarks of the previous studies.

Chapter III Research Methodology

This chapter covers the description of all the research tools and techniques used during the period of the research.

Chapter IV Data Presentation and Analysis

This chapter is the main body of the research work. It presents the gathered information in a systemic way and analyzes them to make them useful for decision-making. The analysis is done from three perspectives of BSC only. The financial analysis covers the analysis of the banks assets position, position of the banks deposits loan and advances, profit position of the bank (the profit position is analyzed in terms of ration analysis), analysis of the banks financial indicators, comparison of the banks financial position with the whole banking industry. The learning and growth perspective shows the banks learning and growth aspects in terms of human resources as the training detail of the banks employees, increment of the banks employee no's, growth of the bank in terms of financial indicators and growth of the bank in terms of its equity. The third perspective the internal business process perspective shows the banks organizational structure and the structure of its authority and responsibility in the form of its organizational chart.

Chapter V Summary, Conclusion and Recommendation

This chapter will present the major findings of the research and suggested recommendations to the concerned authority.

CHAPTER II

REVIEW OF LITERATURE

This chapter deals with conceptual review and review of related studies in the area of balanced scorecard of strategic management accounting. At end of the chapter, discussion and research gap has been explained.

2.1 Conceptual Review

2.1.1 Concept of Management Accounting

There are many definitions of accounting, but the one that is more suitable for the context of this research work is the one given by the American accounting association as the process of identifying, measuring and communicating economic information to permit informed judgment and decisions by users of the information.

In other words, accounting is concerned with providing both financial and non-financial information that will help decision makers to make decisions. An understanding of accounting therefore requires an understanding of the decision-making process and awareness of the users of accounting information.

Accounting is a language that communicates economic information to people, who have an interest in an organization manager, shareholders and potential investors, employees, creditors and the government. Managers require information that will assist them in their decision-making and control activities; for example, information is needed on the estimated selling prices, costs, demand, competitive position and profitability of various products that are made by the organization. Shareholders require information on the value of their investment and the income that is derived from their share holding. Employees require information on the ability of the firm to meet wage demands and avoid redundancies. Creditors and the providers of loan capital require information on a firm's ability to meet its financial obligations. Government agencies like the central bureau of statistics collect accounting information and require such information as the details of

sales activity, profits, investment, stocks, dividends paid, the proportion of profits absorbed by taxation and so on. In addition the Inland Revenue Department needs information on the amount of profits that are subject to taxation.

Management accounting aims to provide information required to all such concerned parties of the economic activities. As defined by Batty (1982) management accounting is used to describe the accounting methods, systems and techniques that coupled with special knowledge and ability, assists management in minimizing losses. It is essentially the application of managerial principals and know how to planning, develop, execution and control of corporate plans. Paul (1994) described management accounting as the presentation of accounting information to formulate the policies to be adopted by the management and assists its day-to-day activities.

The role of management accounting is very different from that of a decade ago. In past it operated in a strictly staff capacity but now it serves as internal source of business consultants. In many organizations, managerial accounting takes on leadership role in their teams and is sought out for the valuable information they provide.

By all the above studies management accounting can be defined as the process of identifying, measuring and communicating economic information for all those who require it and help the managers to take the appropriate decisions in the time needed.

2.1.2 Strategic Management Accounting

Before entering the core aspect of the research work, I would like to present a brief introduction to the linking aspects of the core subject. Balanced scorecard is one of the aspects or more strictly new concept strategic management accounting. Therefore, it would be relevant to describe strategic management accounting before describing balanced scorecard.

Coad (1996) described strategic management accounting as an emerging field whose boundaries are loose and as yet, there is no unified view of what it is, or how it might develop? The existing literature in the field is both desperate and disjointed.

In a study conducted by UK Chartered Institute of Management Accountants; in the late 1980's led by Bromwich and Bhimani and a follow up report; Management accounting: Pathways and Progress, 1994 concluded strategic management accounting as an area for future development. Despite the publicity, that strategic management accounting has received there is still no comprehensive conceptual framework of what strategic management accounting is.

Innes (1998) defines strategic management accounting as the provision of information to support the strategic decisions in organizations. Strategic decisions usually involve the longer term, have a significant effect on the organization and, although they may have an internal element, they also have an external element. Adopting these definition suggests that the provision of information that supports an organization's major long term decisions, such as the use of activity based costing information for providing information relating to product mix, introduction and abandonment decisions falls within the domain of strategic management accounting. This view is supported by Cooper and Kaplan (1988) who state that strategic accounting techniques are designed to support the overall competitive strategy of the organization principally by the power of using information technology to develop more refined product and service costs. Various writers have suggested that other management accounting techniques that fall within the domain of strategic management accounting and target costing, life cycle costing and activity based management.

Simmonds (1982), who first coined Strategic Management Accounting, views it as the provision and analysis of management accounting data about a business and its competitors, which are of the use in the development, and monitoring of the strategy of that business. He views profit as emerging not from internal efficiencies but from the firm's competitive position in its market. More recently, Bromwich (1990) has defined strategic management accounting as the provision and analysis of financial information on the firms product markets and competitors cost and cost structures and the monitoring of the enterprises strategies and those of its competitors in these markets over a number of periods.

For more official definition, until 2000 we can consider this one given by CIMA in the UK as, a form of Management Accounting in which emphasis is placed on information, which relates to factors external to the firm as well as non-financial information and internally generated information.

Since, there is found not any fixed and to the point definition to Strategic Management Accounting. Lord (1996) reviewed the literature and identified several stands that has been used to characterize Strategic Management Accounting. They are stated below:

-) The extension of traditional management accounting's internal focus to include external information about competitors.
-) The relationship between the strategic position chosen by a firm and the expected emphasis on management accounting. (i.e. accounting in relation to strategic positioning.)
-) Gaining competitive advantages by analyzing ways to decrease cost and/or enhance differentiation of a firm's products through exploiting linkage in the value chain and optimizing cost drivers.

2.1.2.1 External Information about Competitors

Simmonds argued that Management accounting should be more outward looking and should help the firm evaluate its competitive position relative to the rest of the industry by collecting data on cost and prices sales volume and market shares, cash flows and resources availability for its main competitors. To protect the organizations strategic position and determine the strategies to improve in future competitiveness managers require information that indicate by whom, by how much, and why they are gaining or being beaten in the market. Such information provides advance warning of the need for a change in competitive strategy.

Simmonds (1982) describes it as, clearly, competitors' reactions can substantially influence the outcome of a price move. Moreover, likely reactions may not be self-

evident when each competitor faces a different Cost Volume Profit situation. Competitors may not follow a price lead or even march in perfect step as they each act; they defend or built their own positions. For an adequate assessment of the likely hood of the competitor price reactions, then some calculations is needed of the impact of the possible price move on the performance of individual competitor. Such an assessment in turn requires an accounting approach that can defect both competitors Cost Volume Profit situation and their financial resources.

Besides dealing with cost and prices Simmonds focuses on volume and market share, by monitoring movements in market share for its major products, an organization can see whether it is gaining or loosing position. An examination of relative market share for its major products, an organization will indicate the strength of different competitors. Such detail about the market share in the management accounting report will help to take strategic action to deal with such market condition. Reporting of competitive information will help in better formulation and implementation of strategies in the organization to tackle in a better way with the competitive environment.

2.1.2.2 Accounting in relation to strategic positioning

Porter (1985) suggests that a firm has a choice of three generic strategies in order to achieve sustainable competitive advantage. They are:

- Cost leadership: - Here the enterprise tends to be the lowest cost producer within the industry thus enabling it to compete on the basis of lower selling prices rather than providing unique products or services. The source of this competitive advantage may arrive from factors such as economies of scale, access to favourable raw materials prices and superior technology. (Smith, 1997)
- Differentiation: - here the enterprise seeks to offer products or services that are considered superior and unique relative to its competitors.
- Focus: - Which involves seeking advantages by focusing on a narrow segment of the market that have special need that is poorly served by other competitors in the

industry. Competitive advantage is based on either cost leadership or product differentiation. It is also

The accounting literature suggests that firms will place more emphasis on particular accounting techniques depending on which strategic position they adopt. For e.g. Porter 1980, suggests that tight cost controls are more appropriate when a cost leadership strategy is followed. Simmons (1987) found that business units that follow a defender strategy tend to place a great emphasis on the use of financial measures for compensating financial managers. Prospector firms place a greater emphasis on forecasted data and reduce importance on cost controls. Itiner-et-al (1997) also found that the use of non-financial measures for determining executives' bonuses increases with the extent to which firms follow an innovation-oriented prospector strategy. Shank (1989) stressed the need for management accounting to support a firms competitive strategies and stressed how two different competitive strategies cost leadership and product differentiation – demand different cost analysis perspectives. For e.g. for carefully engineered products cost standards are likely to be very important management control tool for a firm that pursue cost leadership strategy in a mature commodity market. In contrast, carefully engineered products manufacturing cost standards are likely to be less important for a firm following a product differentiation strategy in a market driven rapidly changing and fast growing business. A firm pursuing a product differentiation strategy is likely to require more information than a cost leader about new product innovation, design cycle times, R&D expenses and marketing cost analysis.

2.1.2.3. Gaining competitive advantages

Porter (1985) advocated using value chain analysis to gain competitive advantages. The aim of value chain analysis is to find linkage between value creating activities, which result in low cost and enhance differentiation. These linkages can be within the firm or between the firm and its suppliers and customers. The value chain comprises five primary activities and a number of support activities. The five primary activities are in-bound logistic operations, out bound logistic, marketing and sales and services. The secondary activities exist to support the primary activities. They are the firms infra structure, human

resource management, technology and procurement. Cost and assets are structured in such a way that the strategic cost analysis also involves identifying the value chain and operation of cost drivers of the competitors in order to understand relative competitiveness. By such information, organization can reduce the cost in an effective way and gain competitive advantages. Strategic management accounting tends to provide information on making decisions on those areas of value chain where the organization has a competitive advantage. It is important that the cost reduction performance of both the organization and its principal competitors be continuously monitored if competitive advantages are to be sustainable.

2.2 Introduction of Balanced Scorecard

Brief introduction of balanced scorecard as given by Colin Drury: Management and Cost Accounting 6th edition 2007 is; recent developments in performance evaluations have sought to integrate financial and non financial measures and assists in clarifying, communicating and managing strategy. The balanced scorecard attempts to meet these requirements. It requires managers view the business from the following four different perspectives: (a) customer perspectives (b) internal business perspectives (c) learning and growth perspectives (d) financial perspectives. Organizations should articulate the major goals for each of the four perspectives and then translate these goals into specific performance measures. The choice will vary over time and should be linked to the strategy that the organization is following. The more recent contributions to strategic management accounting have emphasized the role of management accounting in formulating and supporting the overall competitive strategy of an organization. To encourage behavior that is consistent with an organizations strategy attention is now being given to developing an integrated framework of performance measurement that can be used to clarify, communicate and manage strategy implementation. In this approach, we attempt to integrate both financial and non-financial measures and incorporate performance measurement within the strategic management process.

2.2.1 Historical Development of Balanced Scorecard

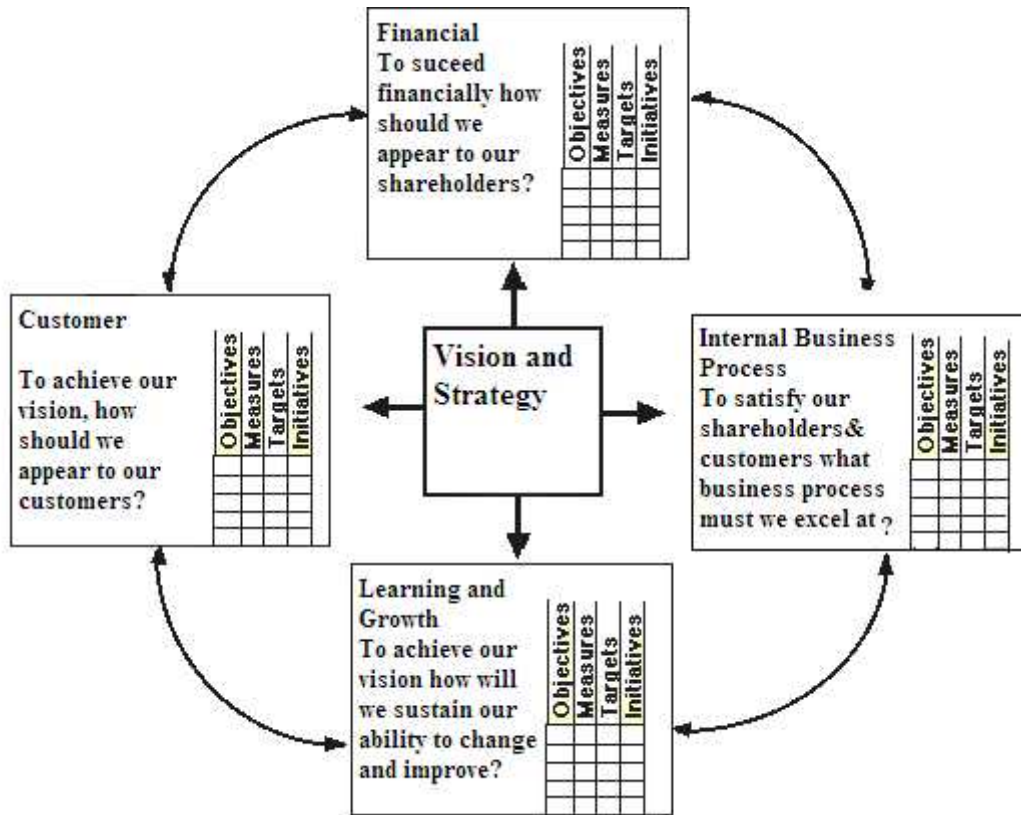
Prior to 1980's, management accounting control system tended to focus mainly on financial measures of performance. The inclusion of only those items that can be expressed in monetary terms motivated managers to focus excessively in cost reductions and ignore other important variables, which were necessary to compete in the global competitive environment that emerged in the 1980's. Product quality, delivery, reliability, after sales service and customers' satisfaction become key competitive factors but none of these was given importance by traditional management accounting performance measurement system.

During the 1980's greater importance were given to incorporating into the management reporting system those non-financial performance measures that provided feedback on the key variables that are required to compete successfully in the global competitive environment. However, a proliferation of performance measures emerged. This resulted in confusion when some of the measures conflicted with each other and it was possible to enhance one measure at the expense of other. It was also not clear to managers how the non-financial measures they evaluated on contributed to the whole picture of achieving success in financial terms. According to Kaplan and Norton (2001) previous systems that incorporated non financial measures used ad-hoc collections of such measures, more like checklists of measures for managers to keep track of and improve than a competitive system of linked measurements.

2.3 Balance Scorecard as a Strategic Management Accounting Technique

Balanced scorecard is a new approach of strategic management developed in the 1990's by Dr. Robert Kaplan (Harvard Business School) and David Norton. Recognizing some of the weakness and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what the companies should measure in order to balance the financial perspectives.

Figure: 2.1 Balanced Scorecard



The balanced scorecard is a management system that enables the organization to clarify their vision and strategy and translate them into action. It provides feedback about both the internal business process and external outcomes in order to continuously improve the strategic performances and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise. From the next viewpoint a balanced scorecard is a performance measurement and reporting system that strikes a balance between financial and operating measures, links performance to regards and gives explicit reorganization to the diversity of the organizational goals. It is recently highlighted popular approach to performance reporting. The core advantages of the balanced scorecard approach is to set the relationship between non financial measures, which sometimes can relate more easily to their own actions and the financial measures that relate to the organizational goals. A balanced scorecard has the following four basic aspects:

-) **Financial:** To succeed financially how should we appear to our shareholders?
-) **Learning and Growth:** To achieve our vision how will we sustain our ability to change and improve?
-) **Customers:** To achieve our vision how should we appear to our customers?
-) **Internal business process:** To satisfy our shareholders and customers what business process must we excel at?

Vision and strategy of the organization centers the four aspects and the focus is on the objectives, measures, targets and incentives of the organization.

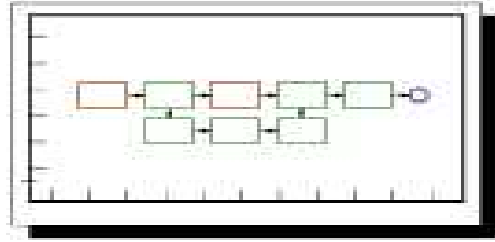
In other word, we can say that the balanced scorecard suggests that we view the organization from four perspectives as stated below:

2.3.1 The Learning and Growth Perspectives



This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people the only repository of knowledge are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Government agencies often find themselves unable to hire new technical workers, and at the same time there is a decline in training of existing employees. This is a leading indicator of 'brain drain' that must be reversed. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization.

2.3.2 The Business Process Perspective



This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with our unique missions these are not something that can be developed by outside consultants.

In addition to the strategic management process, two kinds of business processes may be identified: a) mission-oriented processes, and b) support processes. Mission-oriented processes are the special functions of government offices, and many unique problems are encountered in these processes. The support processes are more repetitive in nature and hence easier to measure and benchmark using generic metrics.

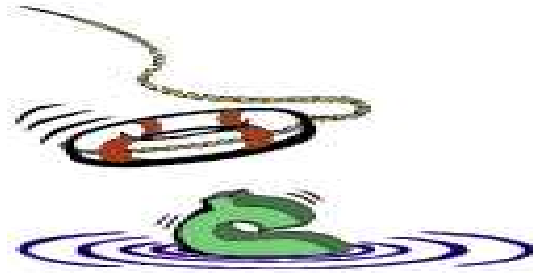
2.3.3. The Customer Perspectives



Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good.

In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

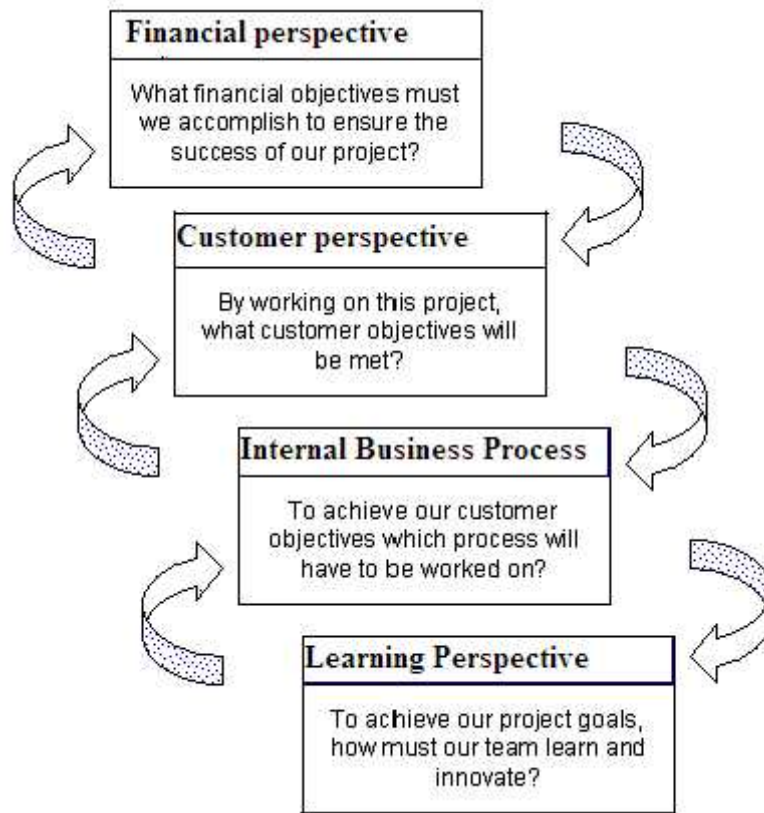
2.3.4. The Financial Perspective



Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives.

There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category. We can understand interlink between these four aspects in more clear and detailed way from the figure given below. (In next page)

Figure 2.2: Interlink Between Aspects of BSC



2.4: Balanced Scorecard and Measurement Based Management

It builds on some key concepts of previous management ideas such as T.Q.M, including customer-defined quality, continuous improvement, employee empowerment and primarily measurement based management and feedback.

Double loop feedback

The balance scorecard incorporates feedback around the internal business process, outputs as in TQM and adds a feedback loop around the outcomes of business strategies. This creates a double loop feed back process in the balanced scorecard.

Outcome matrix

Matrix must be developed based on the properties of the strategic plan, which provides the key business drives, and criteria for matrix that managers must desire to watch. Processes are then designed to collect information relevant to those matrixes and reduce it to numerical form for storage display and analysis. Value of matrix is in their ability to provide a factual basis for defining:

- Strategic feedback to show the present status of the organization from any perspectives for decision makers.
- Diagnostic feedback into various processes to guide improvements on a continuous basis.
- Trends in performance over time as the matrix are tracked.
- Feedback around the measurement methods themselves, and which matrix should be tracked.
- Quantitative inputs to forecasting methods and models for decision support system.

Management by fact

A major consideration in performance improvement involves the creation and use of performance measures or indicators. Performance measures or indicators are measurable characteristics of products, services processes, and operations the company uses to track and improve performances. The measures or indicators should be selected to best represent the factors that lead to improve costumer's operational and financial performance. A comprehensive set of measures or indicators tied to customer's and/ or company performance requirements represents a clear basis for aligning all activities with the company's goal. Through the analysis of data from the tracking process, the measures or indicators themselves may be evaluated and changed to better support such goals.

2.5: Review of Previous Studies

The balanced scorecard is a performance measurement tool developed in 1992 Harvard Business School Prof. Robert S. Kaplan and management consultant David P Norton. In their own words, "The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."

Kaplan and Norton's research led them to believe that traditional financial measures like return on investment could not provide actual picture of a company's performance in the innovative business environment of the 1990's. Rather than forcing the managers to choose between the hard financial measures and soft operational measures such as customer relation, product development cycle time or employee satisfaction. They developed a method that would help the managers to consider both types of measures in a balanced way. Kaplan and Norton explained in the seminal 1992 Harvard business review article that lunched the balanced scorecard methodology as such methodology that includes financial measures that tells the result of actions already taken and it complements the financial measures with operational measures on customer satisfaction, internal business process and the organizational innovation and improvement activities; the operational measures that are the drivers of future financial performance.

Much of the literatures relating to this topic are not found so much easily in Nepal. This study is mostly based on internet for access in the related literature. So much of the literature presented here are from foreign writers. Let's begin from the historical development of the balanced scorecard.

Arthur M. Schneiderman describes the history of first balanced scorecard as created in 1987 at Analog Devices, a mid-sized semiconductor company. This e-book chronicles its development over the period of 1986-1992. Much of what has been previously written

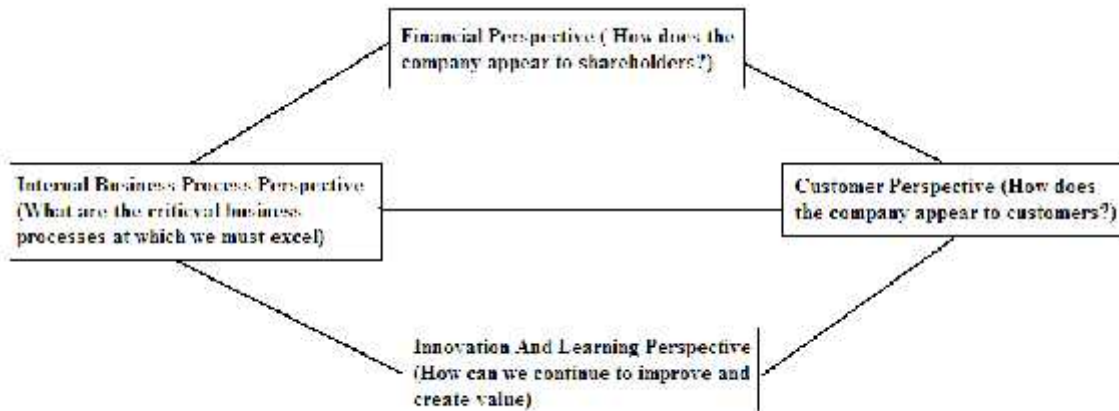
about this period at ADI is through the eyes of outside observers: Kaplan, Shank, and Hendrickson, for example, whose work was based on extensive interviews at Analog Devices. In reading their writings, it has become clear that even scholars have difficulty in capturing in words the fullness of what really happened in the analog devices.

The balanced scorecard provides a framework for managers to use in linking the different types of measurements together. Kaplan and Norton recommend looking at the business from four perspectives: the customer's perspective, an internal business perspective, an innovation and learning perspective, and the financial (or shareholder's) perspective. Using the overall corporate strategy as a guide, managers derive three to five goals related to each perspective, and then develop specific measures to support each goal. Ideally, the scorecard helps managers to clarify their vision for the organization and translate that vision into measurable actions that employees can understand. It also enables managers to balance the concerns of various stakeholders in order to improve the company's overall performance. Paul McCunn described in *Management Accounting* the balanced score-card as a powerful concept based on a simple principle: managers need a balanced set of performance indicators to run an organization well. The indicators should measure performance against the critical success factors of the business, and the 'balance' is the balancing tension between the traditional financial and non-financial operational, leading and lagging, and action-oriented and monitoring measures.

The balanced scorecard concept has enjoyed significant success since its introduction. According to the *Financial Times*, it was adopted by 80 percent of large U.S. companies as of 2004, making it the nation's most popular management tool for increasing performance. In addition, it has increasingly been applied in the public sector since the National Partnership promoted it, for *Reinventing Government*. Part of the balanced scorecard's popularity can be attributed to the fact that it is consistent with many common performance improvement initiatives undertaken by companies, such as continuous improvement, cross-functional teamwork, or customer-supplier partnering. It complements these initiatives by helping managers to understand the complex interrelationships among different business areas. By linking the elements of a company's

competitive strategy in one report, the balanced scorecard points out situations where improvement in one area comes at the expense of another.

Figure: 2.3 Balanced Scorecard



Adopted from www.bsc.com

In this way, the scorecard helps managers to make the decisions and tradeoffs necessary for success in today's fast-paced and competitive business environment.

In 1990 Robert S. Kaplan, a professor of accounting at the Harvard Business School, and David P. Norton, co-founder of a Massachusetts-based strategy consulting firm called Renaissance Worldwide Inc., conducted a year-long research project involving 12 large companies. The original idea behind the study, as Anita van de Vliet (1997) explained in *Management Today*, was that; relying primarily on financial accounting measures was leading to short-term decision-making, over-investment in easily valued assets (through mergers and acquisitions) with readily measurable returns, and under-investment in intangible assets, such as product and process innovation, employee skills, or customer satisfaction, whose short-term returns are more difficult to measure.

Kaplan and Norton looked at the way these companies used performance measurements to control the behavior of managers and employees. They used their findings to devise a new performance measurement system that would provide businesses with a balanced view of financial and operational measures. Kaplan and Norton laid out their balanced scorecard approach to performance measurement in three *Harvard Business Review*

articles beginning in 1992. Before long, the balanced scorecard had become one of the hottest topics at management conferences around the world. In fact, the Harvard Business Review called it one of the most important and influential management ideas of the past 75 years. In 1996 Kaplan and Norton expanded upon their original concept in a book titled *The Balanced Scorecard: Translating Strategy into Action*. They followed up with two other books that further developed the approach: *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment* (2001) and *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* (2004).

In an article titled selection of project metrics by Shree Phadnis (associated with six sigma LLC) balanced scorecard as an approach used by the experts in choosing a project to its success. He presents it as; many Six Sigma professionals advocate the use of a Balanced Scorecard type of approach for the selection of project metrics as a method for ensuring that the project meets both customer and business needs. The Balanced Scorecard approach includes both financial and non-financial metrics, as well as lagging and leading measures across the four areas or perspectives: Financial, Customer, Internal Processes, and Employee Learning and Growth. Lagging measures are those that are measured at the end of an event, while leading measures are measures that help as achieve the objectives and are measured upstream of the event.

Most Balanced Scorecard metrics are based on brainstorming; however the approach of brainstorming can have limited success in establishing sound metrics that have a good balance between lagging and leading measures.

Typical brainstormed Balanced Scorecard metrics utilized in Six Sigma projects can be summarized in the below. The primary issue in utilizing a scorecard is that it might not reflect the actual strategies applied by the team for achieving breakthrough in their project.

Figure: 2.4: Example Project Balanced Scorecard by Six Sigma

<p style="text-align: center;">Financial</p> <ul style="list-style-type: none">) Inventory Levels) Cost Per Unit) Hidden Factory) Activity Based Costing) Cost Of Poor Quality) Overall Project Savings 	<p style="text-align: center;">Customer</p> <ul style="list-style-type: none">) Customer Satisfaction) On Time Delivery) Final Product Quality) Safety Communications
<p style="text-align: center;">Internal Business Processes</p> <ul style="list-style-type: none">) Defects, Inspection Data, DPMO, Sigma Level) Rolled Throughput Yield) Supplier Quality) Cycle Time) Volume Shipped) Rework Hours 	<p style="text-align: center;">Employee Learning and Growth</p> <ul style="list-style-type: none">) Six Sigma Tool Utilization) Quality of Training) Meeting Effectiveness) Lessons Learned) Total Trained in Six Sigma) Project Schedule Versus Actual Date) Number of Projects Completed) Total Savings To Date

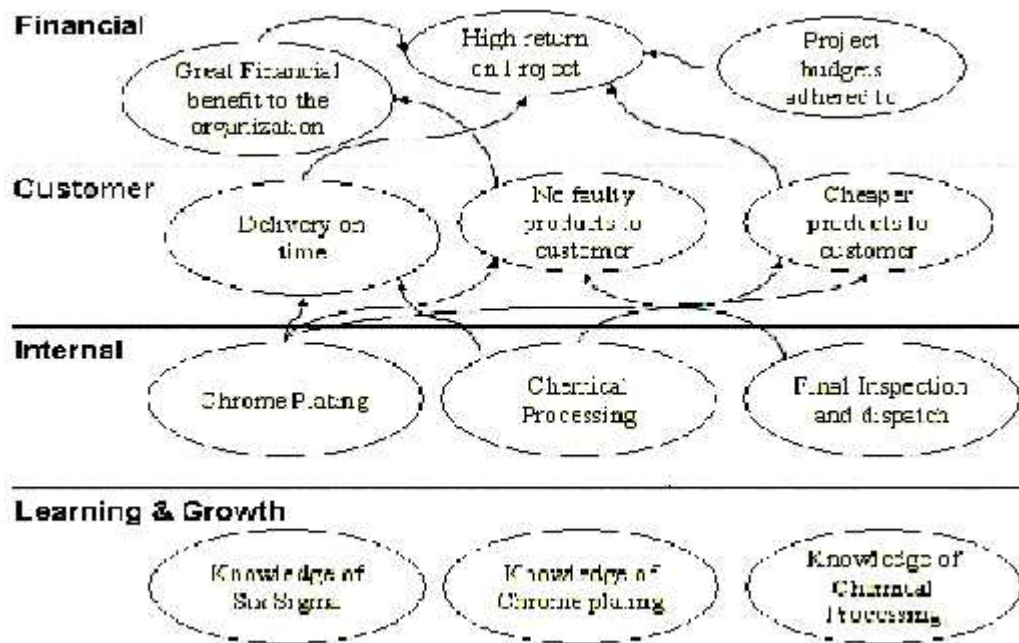
Adopted from www.sixsigma.com

Instead of utilizing the Balanced Scorecard approach described above, the teams can employ a more effective method by answering the questions in the figure given below. This approach helps team members understand the objectives of the project from each of the four perspectives.

Once the team has brainstormed for each of the four perspectives, the various objectives that must be met by the project will be clearer. These objectives can then be mapped in a strategy map cutting across all the perspectives and projects of the organization. The arrows help in understanding the cause and effect linkages in the strategy. He further states; once the strategy map for the project is determined, the team can begin brainstorming appropriate metrics for each of the objectives and, while doing so, maintain a balance in selection between leading and lagging measures. This kind of an

approach ensures that the team selects a set of metrics that are aligned with the strategy used by them on the Six Sigma Project. Metrics selected in this way not only ensure that appropriate metrics are developed but also help the team in the project planning and creates a purpose of direction for the team. He has presented the linkage of strategy as following figure:

Figure 2.5: Example of Strategy Linkage by Six Sigma



Adopted From www.sixsigma.com

Paul Arveson (Balanced scorecard institute, Washington DC) in his article what is balanced scorecard? Explains balanced scorecard as an aspect of performance evaluation, which retains all the traditional financial measures of performance evaluation and also relates it with the non-financial measures those play a key role in the organizations success. Paul Arveson describes balanced scorecard as a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise. Paul Arveson in his

article presents balanced scorecard as a tool that helps the management to implement the organization's strategy into action. He presents the balanced scorecard as a methodology builds on some key concepts of previous management ideas such as Total Quality Management (TQM), including customer-defined quality, continuous improvement, employee empowerment, and primarily; measurement-based management and feedback.

In traditional industrial activity, "quality control" and "zero defects" were the watchwords. In order to shield the customer from receiving poor quality products, aggressive efforts were focused on inspection and testing at the end of the production line. The problem with this approach as pointed out by Deming is that the true causes of defects could never be identified, and there would always be inefficiencies due to the rejection of defects. What Deming pointed was that variation is created at every step in a production process, and the causes of variation need to be identified and fixed. If this can be done, then there is a way to reduce the defects and improve product quality indefinitely. To establish such a process, Deming emphasized that all business processes should be part of a system with feedback loops. The feedback data should be examined by managers to determine the causes of variation, what are the processes with significant problems, and then they can focus attention on fixing that subset of processes.

The balanced scorecard incorporates feedback around internal business process outputs, as in TQM, but also adds a feedback loop around the outcomes of business strategies. This creates a "double-loop feedback" process in the balanced scorecard.

Paul Arveson argues that the main objective of any measurement system is to permit managers to see their more clearly from any perspectives and hence to make wiser long-term decisions. This concept of the fact based management can be understood more clearly by the reference of "The Baldrige Criteria" (1997) that describes the concept of the fact based management: "Modern businesses depend upon measurement and analysis of performance. Measurements must derive from the company's strategy and provide critical data and information about key processes, outputs and results. Data and information needed for performance measurement and improvement are of many types, including: customer, product and service performance, operations, market, competitive

comparisons, supplier, employee-related, and cost and financial. Analysis entails using data to determine trends, projections, and cause and effect that might not be evident without analysis. Data and analysis support a variety of company purposes, such as planning, reviewing company performance, improving operations, and comparing company performance with competitors' or with 'best practices' benchmarks.'

A major consideration in performance improvement involves the creation and use of performance measures or indicators. Performance measures or indicators are measurable characteristics of products, services, processes, and operations the company uses to track and improve performance. The measures or indicators should be selected to best represent the factors that lead to improved customer, operational, and financial performance. A comprehensive set of measures or indicators tied to customer and/or company performance requirements represents a clear basis for aligning all activities with the company's goals. Through the analysis of data from the tracking processes, the measures or indicators themselves may be evaluated and changed to better support such goals.

Paul R Niven conducted a research study in Nova Scotia Power Company. The major outlines of the case study are as stated below:

-) Initially Nova used BSC as a tool to judge the company effectiveness in fulfilling its new strategy, it later used BSC as a measurement system, strategic management system and communication tool.
-) Implementation of BSC through out the organization has ensured goal alignment through the organization from the board room to the back room and has given all employees the opportunities to display the day to day activities linked to the achievement of the companies long term strategy.

Two bold steps by the NSPI:

-) New strategic plan was developed. The new plan not only focused on financial performance goals but also on the needs of all key stakeholders of the organization including customers and employees. This presented a challenge of developing a

measurement system that would allow them to track the performance in achieving the new strategies. It was at this tie that they discovered the balanced scorecard system (1996), by integrating balance from fur balanced perspectives. The scorecard allowed NSPI to judge its success relative to its strategies.

-) The company aligned into SBUs. NSPI consists of three operational units Production, Transmission and distribution and Customer service and marketing. They have several corporate resources groups as finance human resources and public affairs. Given the deserved nature of SBUs, the company needed a tool that would unite everyone in one purpose and ensure that they were moving towards the same overall goal. The balanced scorecard proved to be appropriate with its ability to be cascaded through the organization.

2.6 Discussions/ Concluding Remarks

From all the above discussions of experts the following points are obtained: Ahead of the traditional financial measures it aims to provide information from various angles of the business.

-) Previous performance measurement techniques focused mainly on hard financial measures and were unable to tackle with the changing market condition as they ignored the soft non financial aspects, which play the most important role in the success of any organization.
-) The balanced scorecard is such performance measurement tool that views the performance of any organizations from four perspectives and tends to provide a full picture of the organizations performance for the decision makers.
-) The financial perspective shows any organizations strength to overcome its shareholders expectations in financial terms and its ability to fulfill its financial need to expand and develop in a sustainable way in the future.
-) The study of internal business process shows the organizations ability to cope with its customers expectations and fight with the changing environment. It studies the

processes by which the organization can satisfy its shareholders and customers in the same time. It aims to improve its internal business efficiencies so as to fulfill the expectations of its stakeholders.

) The learning and growth aspect of the balanced scorecard identifies the need of the organization to develop its employees to attain its desired position in the market and fulfill its stakeholder's expectations in future. Simply it aims to develop its employees to face the future uncertainties that may come with the changing business environment.

) The most important of all, the customer perspective deals with the organizations ability to cope with the customer's expectations. It studies the customer and market segment in which it the business is or is planning to compete.

CHAPTER III

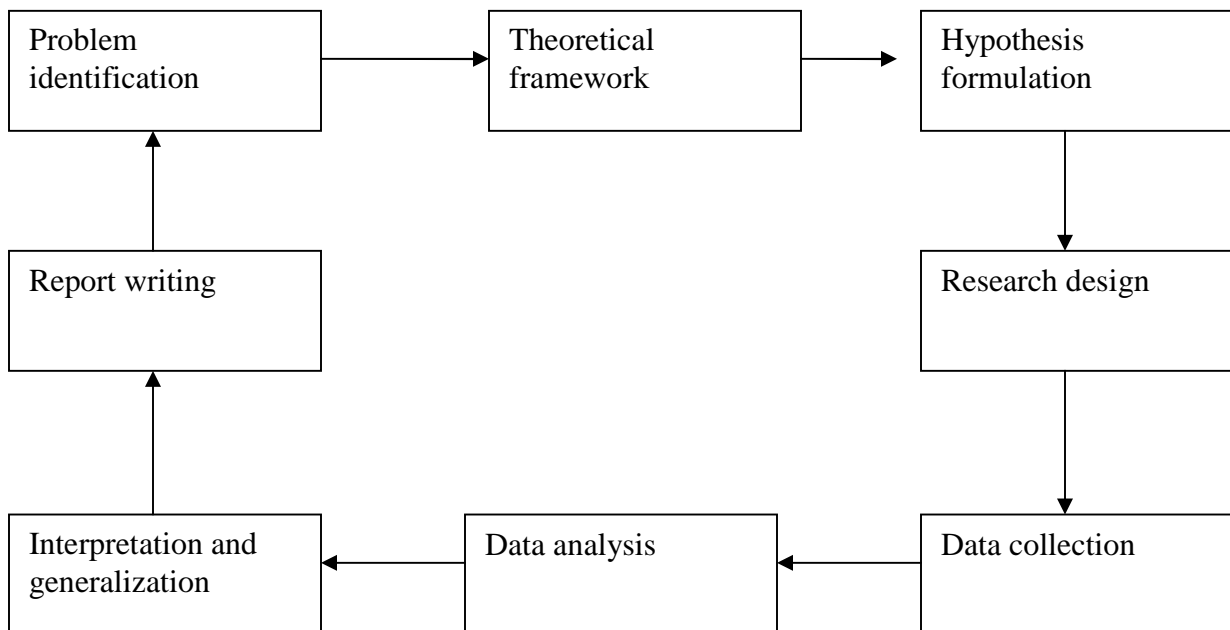
RESEARCH METHODOLOGY

3.1 Research Design

Research design is an overall plan or framework for the collection and analysis of data. Research design provides a framework for study, guidelines for the collection and analysis of data. Kerlinger defines research design as a plan, structure and strategy of investigation so as to obtain answer to research question and to control the variance. The basic elements of research design are:

-) Problem identification
-) Research methodology
-) Data collection
-) Report writing

Fig 3.1 Scientific Research Process and its Steps



In this research some statistical and accounting tools are being used for the purpose of data analysis and presentation. Descriptive techniques are adopted to evaluate the findings of the research in more précised way. Tools that are used are described more clearly in next section of this chapter.

3.2 Population and Sample Size

Out of total 23 commercial banks, Nepal Investment Bank limited has been selected as sample in this study. The main reason behind selecting the bank is the easy access to the required data. The next reason is the position of the bank that is one of the leading commercial bank in Nepal.

3.3 Nature and Sources of Data

In this study, only secondary data have been used. The basic source of the secondary data is the annual report published by the bank during the period of 2002 to 2007. Another source of data used in this study is the data obtained from the website of the bank. Some primary sources as the informal interview with the officials of the bank has been conducted to get clear concept of the confused topics in the data gained.

3.4 Data Collection Procedure

The main source of the data for this research is the secondary data. The main source of the secondary data is the annual financial report of the bank. In addition to that some relevant data are collected from other sources also; some to note are the internal record of the bank those are related to its performance in terms of customer retention rate and the rate of customer turnover.

3.5 Method of Data Analysis

The methods used for the analysis of the data in this research work are the ratio analysis. Other simple statistical tools as mean and percentage are used for the analysis. As this research is only the analytical research it does not deal with the prediction of the future trend or hypothesis of any assumptions. This research work only presents the analysis of

the past data of the bank from the four balanced perspective of the balanced scorecard. The general methods used for the analysis of the data in this research are:

3.5.1 Ratio analysis

Ratio analysis presents the relationship between two or more indicators. Ratios present the performance of the company by the comparison of two financial indicators. The ratios presented in the research analysis are as stated below:

) **Interest Earned to Total Assets Ratio**

This ratio shows the earning capacity of the bank on its total assets. This ratio exhibits the extent to which the bank is successful in mobilizing its working funds to generate income as much as possible. The higher the ratio will indicate the higher earning power of the bank on its total assets. The formula for the calculation of this ratio is:

$$\dots \text{interest earned to total assets} \times \frac{\text{total interest earned}}{\text{Total assets}}$$

) **Net Profit to Loan Ratio**

This ratio shows the position of net profit in total loan deployed. Higher the ratio higher will be the profitability in the banks investment.

$$\dots \text{net profit to total loan} \times \frac{\text{net profit}}{\text{Total loan}}$$

) **Earning Per Share**

Earning per share represents the companies capacity to pay back its investors. EPS also gives a clear picture of the company's financial condition. EPS is the net profit of the organization divided equally to its outstanding no of shares. Higher the EPS higher will be the financial strength of the company.

$$\dots \text{earnings per share} \times \frac{\text{earning available to equity}}{\text{no of shares outstanding}}$$

) **Net Profit to Total Income Ratio**

This ratio shows the portion of net profit in the total assets of the bank. It shows the expenses position of the bank also. Net profit is the difference between the total income and total expenses of the bank.

$$\dots \text{Net profit to total income} \times \frac{\text{Net Profit}}{\text{Total Income}}$$

) **Price Earning Ratio**

The PE ratio presents the earning capacity of the bank. It is the relation of the market price per share to the earning per share. This is presented in times. Higher the ratio higher will be the market performance of the company in terms of share prices.

$$\dots \text{PE} \times \frac{\text{Market price per share}}{\text{Earning per share}}$$

) **Capital Adequacy Ratio**

Capital adequacy ratio of the bank indicates the availability of the total capital fund of the bank to cover the risk bearing assets of the bank. This is the relation of the bank's total capital fund with the risk weighted assets available of the bank. The bank has to maintain this ratio in compliance of the directives of the NRB.

$$\dots \text{Capital adequacy} \times \frac{\text{Total risk weighted assets}}{\text{Total capital fund available}}$$

3.6 Limitations of Study

Due to resource and time constraints this research study is limited in the below mentioned aspects

-) This study deals with financial and customers' and internal business perspective only. Thus other aspects of balance score are ignored.
-) This study includes data from 2002 up to 2007 only
-) Generalization of this study is difficult.
-) Outstanding loan balances of Nepal Investment Bank limited of the last five year from 2002/03 to 2006/07.
-) Deposit balances of Nepal Investment Bank limited of the last five year from 2002/03 to 2006/07.
-) Interest and non-interest income of Nepal Investment Bank limited of the last five year from 2002/03 to 2006/07.
-) Interest and non-interest expenses of Nepal Investment Bank limited of the last five year from 2002/03 to 2006/07.
-) Return on investment of Nepal Investment Bank limited of the last five year from 2002/03 to 2006/07.
-) Return on equity of Nepal Investment Bank limited of the last five year from 2002/03 to 2006/07.
-) Earning per share of Nepal Investment Bank limited of the last five years from 2002/03 to 2006/07.
-) Growth of NIBL in terms of assets, deposits, loans, net profit and equity only.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter aims to be the basic chapter of the research work. This chapter presents the analysis of the related data of Nepal Investment Bank Limited.

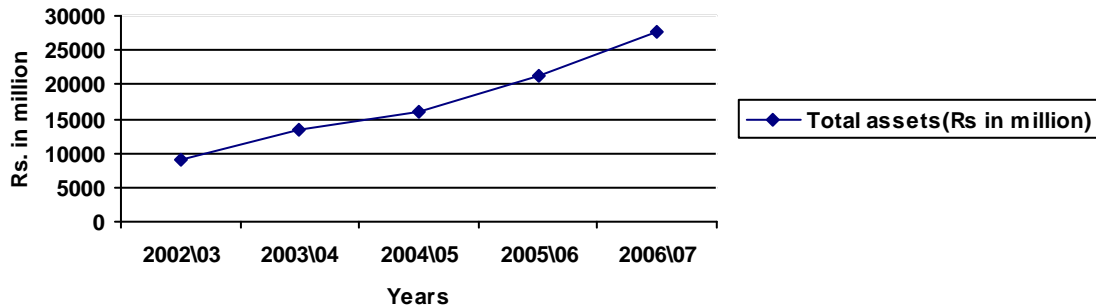
4.1 Analysis of Bank Performance in Financial Terms

For the analysis of the banks performance in financial terms, this research will analyze the deposit and loan aspect along with the non interest and interest income of the bank. This analysis discloses the financial objectives attained of the bank as revenue growth, cost reduction and assets utilization. To point out this research will analyze the following aspects of the financial analysis

4.1.1 Total Assets of NIBL

In the beginning of the fiscal year 2002\03 the total assets of the bank was Rs, 4.974 billion, which increased to Rs, 9.014 billion by the end of the same year with an increment of Rs, 4.04 billion. This increment shows the increment of 81.2% in that year. In the respective year it increased to Rs, 13.255 billion with an increment of 47% with an increment of Rs, 4.241 billion as that of the previous year. In the year 2004\05 the increment seems to be of Rs, 2.8085 billion i.e. of 21.19% to Rs, 16.0635 billion. In the fiscal year 2005\2006 the total assets of the bank become Rs, 21.3301 billion with an increment of Rs, 5.2666 billion that counts for 32.79% of increment as that of previous year. The total of its assets reached to 27.5908 billion by the end of the fiscal year 2006\07 with an increment of Rs, 6.2607 billion which counts for the increment of 29.35% Of the total assets of the year.

Figure: 4.1 Total assets and its growth pattern



4.1.2 Total Deposits, Loan and Advances and Investment of NIBL

Deposit is the main source of rising fund in the bank. They are received in different forms and accounts. The deposits those are received in form of cash or that of the right to receive cash are called direct deposits and they add in the working capital of the bank. Here only these types of deposits are said as deposits.

Loans and advances are the lending done by the bank in form of direct cash or any other credit facility. For the purpose of research only those lending are considered which are in the form of direct lending or any other credit facility to the customers.

Investment refers to such lending by the bank which does not directly collect interest as the return on the principal. For the purpose of research investment are all those funding done by the bank as investment in the shares of other financial and non financial institutions. NIBL has invested in organizations as stated below

-) Sudur Paschimanchal Rural Development Bank
-) Paschimanchal Rural Development Bank
-) Purbanchal Rural Development Bank
-) Rural Micro Finance Development Centre

) Swabalamban Development Bank

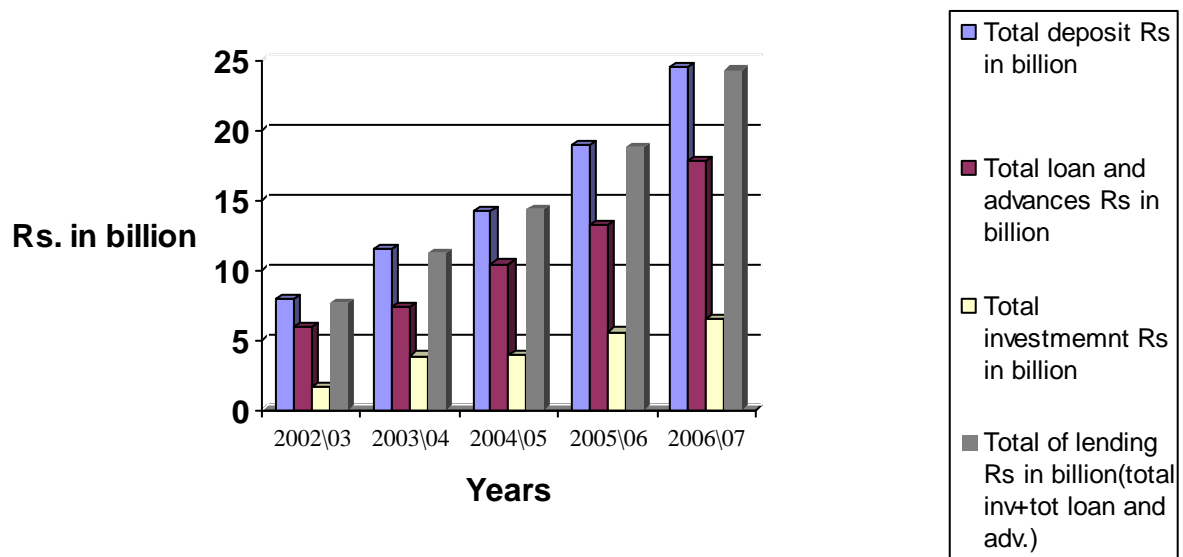
) Credit Information Centre Limited

The below table gives a quick view of Deposits Loan and advances and Investment of in NIBL of the last five years.

Table 4.1 Total Deposits, Loan and Advance and Investment of NIBL (Rs in billion)

Details	2002\03	2003\04	2004\05	2005\06	2006\07
1. Total deposit	7.923	11.525	14.2545	18.9273	24.4889
2. Total loan and advances	5.922	7.338	10.4531	13.1781	17.7691
3.Total investment	1.705	3.862	3.9341	5.6029	6.5057
4. Total of lending (2+3)	7.627	11.200	14.3872	18.781	24.2748

Figure: 4.2 Total Deposits, Loan and advance and Investment of NIBL:



From the above table and figure it is clear that the deposits and lending position of NIBL from last five years is good. The deposits increased 89.8% in the year 2002\03 where as the lending increased by 68.14% in the same year. As per the year 2003\04 the increment in deposits and lending are 45.46% and 46.85% respectively. For the year 2004\05 the increment of deposit is 23.68% where as that for lending is 28.46%. In the year 2005\06

the deposit increased by 32.78% and the lending increased by 30.54%. For the year 2006\07 the increment of deposit is 29.38% and that of lending is 29.25%. From the position of deposit and lending we can find a stable growth of the deposit followed by the same of the lending.

The percentage of lending in comparison to the deposits is also found to be stable in the last five years. In the year 2002\03 the lending seem to be 96.26% of the deposits where as in the year 2003\04 it is 97.18 for rest of the three years it was around 100% of the deposit. It means the bank is able to utilize all its deposits for the purpose of lending, there is no idle fund found in the bank.

4.1.3 Profit Position of Bank

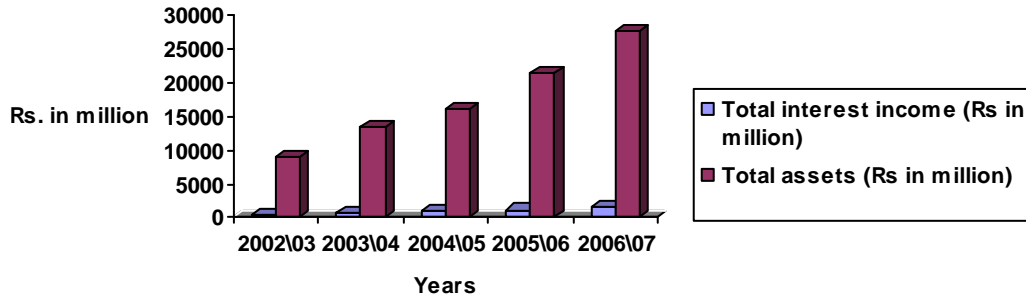
Profit is the crucial factor of any organizations success. Without profit the sustainability of any organization is not possible. To measure the profitability of any organization the tools like interest earned to total assets ratio, return on loans and advances ratio, return on total assets ratio, total interest paid to total assets ratio etc.

-) **Interest Earned to Total Assets Ratio:** This ratio shows the earning capacity of the bank on its total assets. This ratio exhibits the extent to which the bank is successful in mobilizing its working funds to generate income as much as possible. The higher the ratio will indicate the higher earning power of the bank on its total assets.

Table 4.2 Interest Earned to Total Assets Ratio

Details	2002\03	2003\04	2004\05	2005\06	2006\07
Total interest income	459.51	731.4	886.8	1172.74	1584.99
Total assets	9014.25	13255.5	16063.54	21330.38	27590.84
Ratio	0.051	0.055	0.055	0.055	0.0576

Figure: 4.3 Interests Earned to Total Assets



The above table shows the ratio of interest income with total assets and it is around 5.5% through the period of five years that shows the stable performance of the bank over the period.

) **Net Profit to Loan Ratio:** This ratio shows the position of net profit in total loan deployed. Higher the ratio higher will be the profitability in the banks investment. This ratio as presented by the books of the bank is 1.97% in the year 2002\03, in 2003\04 it is 2.08% in the year 2004\05 it is 2.2%, in the year 2005\06 it is 2.66% and in the year 2006\07 it is 2.82%. This data shows the increasing trend in the ratio which is the indication of the banks growth in terms of financial ability.

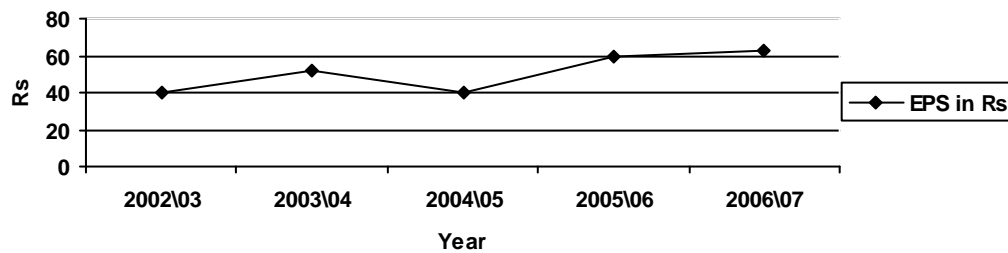
) **Earning Per Share:** Earning per share represents the companies capacity to pay back its investors. EPS also gives a clear picture of the company’s financial condition. EPS is the net profit of the organization divided equally to its outstanding no of shares. Higher the EPS higher will be the financial strength of the company. The EPS of Nepal Investment Bank limited for the last five years are as stated below:

Table 4.3: Earning Per Share of NIBL

Details	2002\03	2003\04	2004\05	2005\06	2006\07
EPS	Rs. 39.56	Rs. 51.70	Rs. 39.50	Rs. 59.35	Rs. 62.57

The above table shows the EPS of NIBL since the last five years. The bank had the highest EPS in the year 2006\07 i.e. Rs, 62.57 and the lowest in the year 2002\03 with Rs, 39.56 and in the year 2004\05 with Rs, 39.50. In other cases it is found to be higher than Rs, 50 which count for the 50% of the face value of the share.

Figure: 4.4 EPS of NIBL

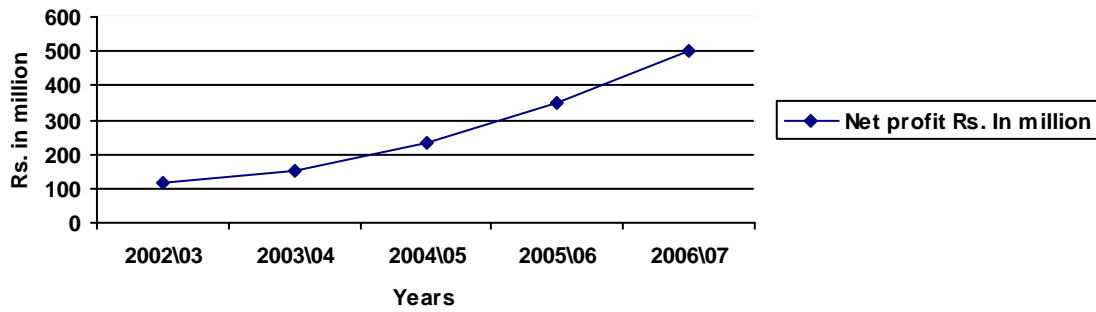


Profit after Tax of NIBL: The profit after tax shows the real profit condition of any organization the increasing profit rate indicates the good financial condition of the organization. The study of the profit after tax of NIBL tends to present the actual profit condition of the bank. For the last five years the bank has the trend of increasing profit. Such increasing profit indicates the good financial health of the organization. By the graph presented below clearer picture of the increasing profit of the bank can be obtained.

Table 4.4 Profit after Tax of NIBL

Details	2002\03	2003\04	2004\05	2005\06	2006\07
Net profit	116.82	152.67	232.15	350.54	501.4
% increase in respective year	51.113	30.69	52.06	51	43.04

Figure: 4.5 Net Profits after Tax of NIBL



The above table and figure show the position of net profit after tax of the bank for the last five years. This shows the profit of Rs 116.82 million in the year 2002\03, Rs 152.67 in the year 2003\04 which is 30.69% above the profit of the last fiscal year. For the year 2004\05 it is Rs 232.15 million which is 52.06% more than that of previous year, in the year 2005\06 the profit seems to be Rs 350.54 million which is 51% growth as compared with that of the last fiscal year. In the fiscal year 2006\07 it shows the growth of 43.04% which shows the profit to be Rs 501.4 million. This shows the bank has the good growth in the profit since the last five years.

4.1.4 Financial Indicators of Nepal Investment Bank Limited

Financial indicators are the indicators those are developed by the commercial banks to evaluate their performance in financial terms. These indicators show the performance of the bank in the selected aspects of financial performance. These help in the analysis of the banks data in relevance with the other banks data. The indicators presented here are from the annual report of NIBL of the fiscal year 2006\07.

Table 4.5 Financial Indicators of Nepal Investment Bank limited

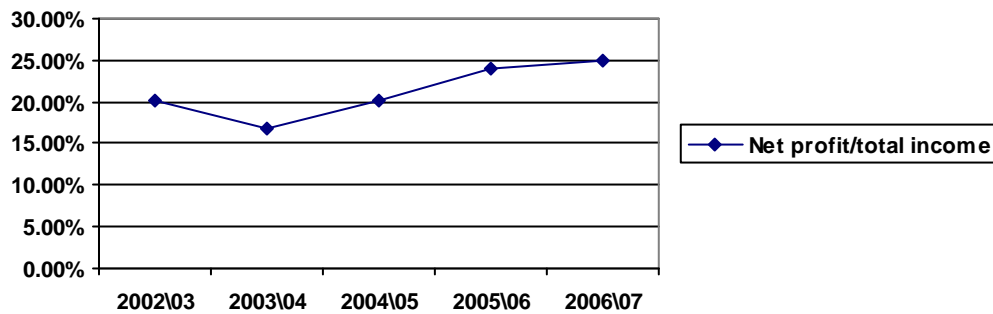
s/n	Details	2002\03	2003\04	2004\05	2005\06	2006\07	Unit
1	Net profit/total income	20.12	16.71	20.26	23.99	25.07	%
2	EPS	39.53	51.7	39.5	59.35	62.57	Rs
3	Market value per share	795	940	800	1260	1729	Rs
4	PE ratio	20.1	18.18	20.25	21.23	27.63	Ratio
5	Dividend with bonus	20	15	12.5	55.46	30	%
6	Cash dividend paid	20	15	12.5	20	5	%
7	Interest income/loan and advances	7.8	9.03	7.36	7.32	7.33	%
8	Staff expenses/total operating expenses	36.2	37.52	34.65	38.77	37.39	%
9	Interest on deposits and borrowings	3	2.74	2.43	2.52	2.71	%
10	Exchange income/total income	8.8	9.63	8.95	8.6	6.77	%
11	Staff bonus/total staff expenses	30.85	28.66	38.22	41.84	49.76	%
12	Total loan/total deposit	74.74	63.68	73.33	69.63	72.56	%
13	Total operating expenses/total assets	1.85	1.78	1.71	1.43	1.38	%
14	Capital adequacy in risk weighted assets	8.8	11.97	11.58	11.97	12.17	%
15	CRR	10.11	9.19	9.78	13.61	10.47	%
16	Non performing loan/Total loan	1.98	2.47	2.69	2.07	2.37	%
17	Waited average interest rate spread	4.8	5.98	4.3	3.9	3.99	%
18	Book net worth	638.542	729.048	1180.173	1415.44	1878.124	Rs in 000,000
19	Total no of share	2952930	2952930	5877385	5905860	8013526	In nos.

The above table shows the financial summary of Nepal Investment Bank limited for the last five years. The indication of the financial summary are as stated below:

-) **Net Profit to Total Income Ratio:** This ratio shows the portion of net profit I the total assets of the bank. It shows the expenses position of the bank also. Net profit is the difference between the total income and total expenses of the bank. The percentage of net profit to total income is around 20-25%, but in the year 2003\04

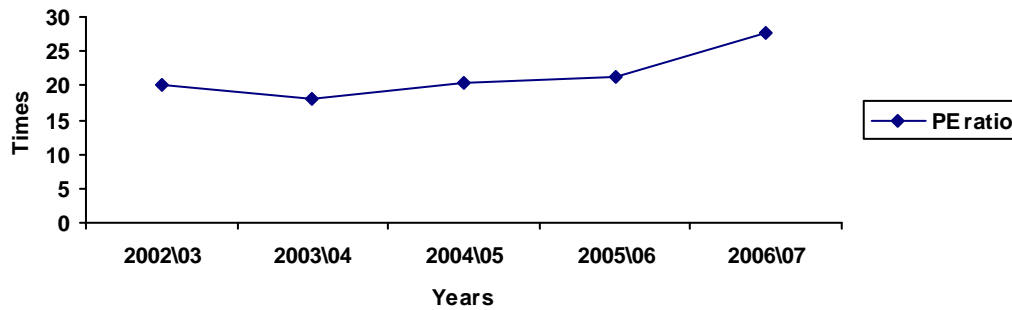
it is 16.71% only. The main cause of this ratio is due to the provision made for loan loss. This counts for three times as that of the previous year; the actual data being Rs, 30.34 million in the year 2002\03 but Rs, 91.09 million in the year 2003\04. In other cases the result seems to be constant in between 20% and 25%.

Figure: 4.6 Net Profits to Total Income



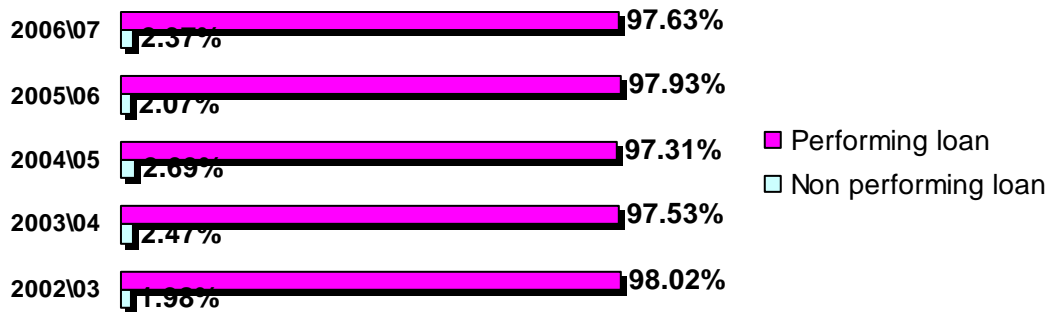
) **Price Earning Ratio:** The PE ratio presents the earning capacity of the bank. It is the relation of the market price per share to the earning per share. This is presented in times. Higher the ratio higher will be the market performance of the company in terms of share prices. The PE ratio of the bank is found to be around 20 but it increased to 27.63 in the year 2006\07. In the other years it was 20.10 in 2002\03, 18.18 in the year 2003\04, 20.25 in the year 2004\05 and 21.23 in the year 2005\06. This shows that the market share of the bank has been around 20 times the earning per share, which indicates the good performance of the shares in the market.

Figure: 4.7 PE ratios



) **Non Performing Loan to Total Loan:** Another most important indicator of the financial performance of the bank is the percentage of the portion of the non performing loan in the bank. This is the relation between the The non performing loan with the bank seems to hold around 2% in the banks total loan. The actual figure being 1.98% in the year 2002\03, 2.47% in the year 2003\04, 2.69% in the year 2004\05, 2.07% in the year 2005\06 and 2.37% in the year 2006\07.

Figure 4.8: Performing Loan and Non Performing Loan



) **Capital Adequacy Ratio:** Capital adequacy ratio of the bank indicates the availability of the total capital fund of the bank to cover the risk bearing assets of the bank. This is the relation of the banks total capital fund with the risk weighted assets available of the bank. The bank has to maintain this ratio in compliance of the directives of the NRB. It shows the ability of the bank to safe guard its depositors fund from the unexpected losses of those risky assets. This ratio in case of Nepal Investment Bank limited was 8.80% in the year 2002\03, 11.97% in the

year 2003\04, 11.58% in the year 2004\05, 11.97% in the year 2005\06 and 12.17% in the year 2006\07.

4.1.5 Position of NIBL with the Banking Industry

Besides above mentioned financial analysis the bank has increment of total deposits in the year 2006\07 by 29.39%; the deposit reached to Rs.24.49 billion from Rs.18.93 billion with an increment of Rs.6.26 billion; which is more than the overall increment in deposits of the commercial banks i.e. of 12.06% as that issued by the NRB. The total deposit of all commercial banks increased by Rs, 35.12 billion to Rs.326.36 billion as compared to Rs.291.24 billion of the year 2005\06. In the same year the total lending of all commercial banks totaled to Rs.230.49 billion with an increment of Rs.53.67 billion which was 30.35% of that of the previous year's sum of Rs.176.82 billion. In case of NIBL the total loan increased to Rs.17.77 billion with an increment of Rs.4.59 billion from the balance of Rs.13.18 billion of the previous year, that counts for 34.84% increment. The table shows the detailed analysis of the comparative position of the NIBL with whole commercial banking industry.

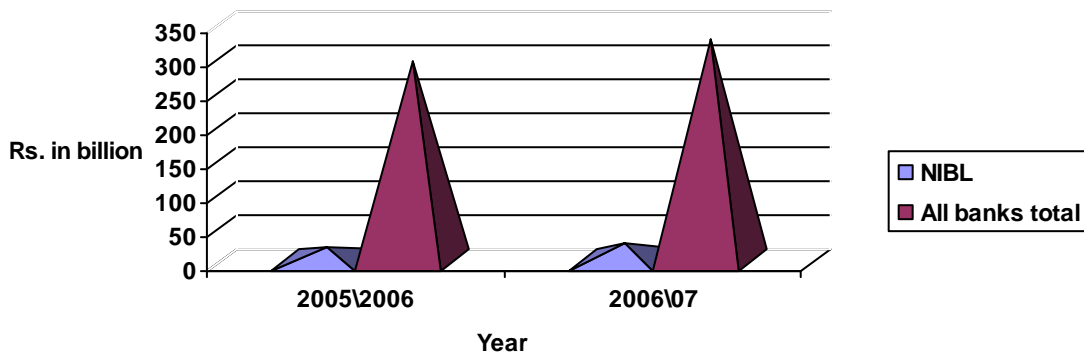
Table 4.6 Position of NIBL in the Banking Industry

Details	Total deposits		Total loan		% increase in deposit	% increase in loan
	2005\06	2006\07	2005\06	2006\07		
NIBL	18.93	24.49	13.18	17.77	29.39%	34.84%
All banks total	291.24	326.36	176.82	230.49	12.06%	30.35%
Portion of NIBL in the industry	6.50	7.50	7.45	7.71		

The table shows the condition of NIBL in the whole banking industry in the year 2006\07, which indicates the bank as one of the growing commercial bank of Nepal. The position of the bank; in deposit of the whole industry; increased by 1% as compared to that of the previous year. The position of the bank; in loan of the whole industry; increased by 0.26%. This proves NIBL as one of the most successful banks of Nepal. The

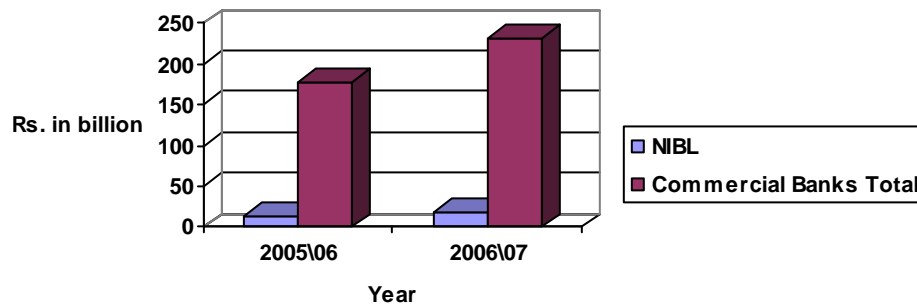
figure presented below presents the position of NIBL in the commercial banking industry as a whole.

Figure: 4.9 Position of NIBL in Terms of Loan With the Commercial Banking Industry



The above table shows that NIBL covers 7.45% of loan in the whole commercial banking industry in the year 2005\06 while it grew to 7.71% in the year 2006\07. This shows the increment of 0.26% of market coverage in terms of loan.

Figure: 4.10 Position of NIBL in the Commercial Banking Industry in Terms of Loans



In terms of deposits NIBL covers 6.50% of the whole market of the commercial banks in the year 2005\06 where as in the year 2006\07 it increased to 7.50% with an increase of 1% of the total market of the whole commercial banks.

4.2 Analysis of the Bank Performance in Learning and Growth Terms:

To ensure that an organization will continue to have satisfied and loyal customers in the future and continue to make excellent use of its resources, the organization and its employees must keep learning and developing. Hence, there is the need for the organization to keep on updating its employees in the context of the changing environment. If any organization is not able to maintain its human resources update with the changing environment then it cannot cope with the changing environment.

NIBL as a leading commercial bank of Nepal is found to be conscious about this aspect of its strategic performance. From the data published by the bank in its annual report analysis is done in the below part of the research work.

4.2.1 Learning and Growth in Terms of Human Resources

In the year 2002\03 the bank had provide training to 109 employees,10 among them were send to foreign country for the training and 99 were trained within the country. This shows that the bank management was willing to invite the foreign technology and banking practice in Nepal. The total numbers of employees in the same year were 254 among them 147 were additional in comparison to that of the previous year.

In the up coming years the management of the bank continued this pattern as a result of which it send 9 employees to foreign for training and 67 attained the training and seminars within the country. In this year the no of total employees reached to 325. In the year 2004\05 it also continued the same pattern of training its employees. In this year the total no of employees reached 353 as compared to 325 of the last year. In the year 2005\06 the no of employees working in this bank reached to 390. The bank has been training its employees in a continuous basis. 182 staff participated in all together 65 trainings and seminars in the training hall of the bank in the year 2005\06. The training

program focused mainly on the daily responsibility of the employees and they aimed to provide expertise in the employees' daily works. It also provided a good opportunity for the growth and development of the employees.

In the year 2006\07 the total no of employees reached to 514 with an increment of 124 employees. The total number of employees participating in the 63 training courses conducted in the year was 289. 18 among them were trained in the technical fields as information technology, treasury, marketing, card service and loan administration in the foreign which are the most important import of banking practice in the bank.

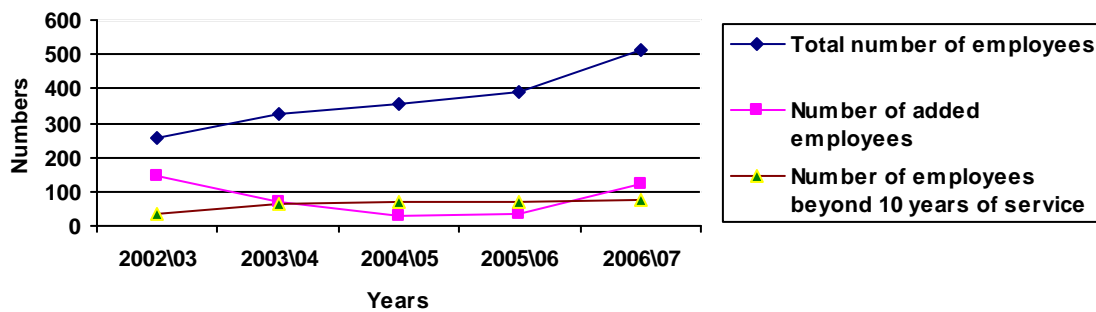
The learning and growth aspect in the bank for its employees is encouraging the below data gives a clear picture of the learning and growth pattern of the employees in the bank.

Table: 4.7 Details of Employees for five years in NIBL

Details	2001\02	2002\03	2003\04	2004\05	2005\06	2006\07
Total number of employees	107	254.00	325.00	353.00	390.00	514.00
Number of added employees	N\A	147.00	71.00	28.00	37.00	124.00
Number of employees participating in the training	N\A	109.00	78.00	350.00	182.00	307.00
Number of employees participating in training outside country	N\A	10.00	9.00	N\A	N\A	18.00
% of employees addition	N\A	137.38	27.95	8.62	10.48	31.79
% of employees trained in the year	N\A	42.91	24.00	99.15	46.67	59.73
Number of employees beyond 10 years of service	N\A	35.00	63.00	67.00	72.00	73.00

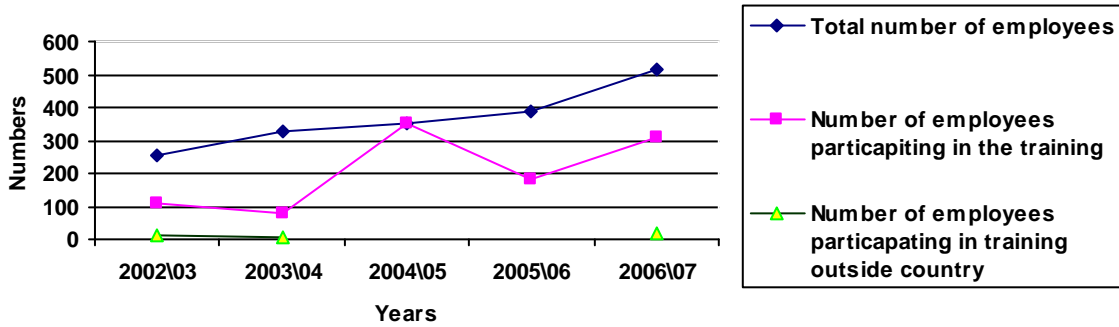
The above table shows the detailed information of the human resources of the bank. As on the year 2006\07 there were altogether 514 employees out of them 73 has completed their 10 years of service i.e. 14.2% of the total employees. In the year 2005\06 it was 18.46 i.e. 72 out of 390 staffs had completed their 10 years of service. The growth of the organization in terms of human resources can be presented as in the figure below.

Figure: 4.11 Comparative Presentation of Total Number of Employees with Added Number of Employees and Employees with more than 10 years of service.



The above figure presents the banks total number of employees with the number of employees added during each years and the comparative number of employees who have completed more than 10 years of service. The figure shows the increasing number of employees in each successive year. The numbers of employees with more than 10 years of service in the bank are seemed to be quite constant. As the number of employees in the year 2001\02 was only 107 which indicates the higher employee retention in the bank during the period of five years. This in more specific way presents the ability of the management to plan the need of its future requirement of human resources and prepare for the fulfillment of such requirement from within the organization. This policy of the organization motivates its employees to prepare for the changing competitive business environment. This in turn facilitates the organization to gain the advantages of able and devoted human resources to succeed in each type of changing business environment. For more clear view of the banks performance to gain its objective of preparing capable human resources to tackle with the changing business environment the pattern of the banks training is presented in the figure below.

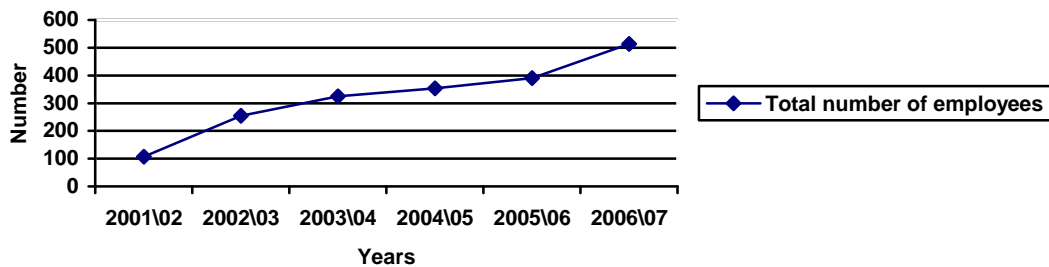
Fig 4.12 Comparison of Total Numbers of Employees Trained in Each Year with the Total Number of Employees and the Number of Employees Participating in the Training outside the Country



4.2.1.1 Growth of Total Number of Employees

The total no of employees in the beginning of the fiscal year 2002\03 was 107 which increased to 254 at the end of the fiscal year with an increment of 137.38%. In the year 2003\04 the number increased to 325 with an addition of 71 employees that counts for 27.95% of the staff number in the year 2002\03. In the year 2004\05 the number increased to 353 with an increment of 28 staff which counts for the increase of 8.62% of the total staff of the previous year. In the year 2005\06 the increment was of 10.48% with the number of staff increased being 37 and the count reached to 390. This show continues growth of the bank in terms of the staff. In the year 2006\07 the number reached to 514 with an increment of 31.79% with the addition of 124 new staff team. The graph below presents the growth rate of the human resources in the bank.

Figure: 4.13 Growth of Total no of Employees in NIBL



4.2.1.2 Number of Employees Participating in the Training

By the data above it is found that the bank is focusing in the training of the employees. In the year 2002\03 the number of employees participating in the training program was 109 that count for 42.91% of the total employees working. Further in the year 2003\04 it was 78 that were 24% of the total employees working. In the year 2004\05 the bank trained almost all employees in the bank i.e.99.15% of the employees, the count of the participating employees being 350 out of 353 employees. In the successive years the number was 182 and 307 which was 46.67% and 59.73% of the number of employees working in the bank during that year.

4.2.2 Growth of the Bank in Terms of Financial Indicators

The bank is found to have a continuous growth over the period of the five years in terms of the financial indicators. The major financial indicators of the growth of the bank are Deposits, Loans, Income , Net profit, Equity and Total assets.

The growth pattern of these factors of the financial aspects in Nepal Investment Bank limited are found to be as stated below

Table 4.8: Growth Pattern of the Financial Indicators

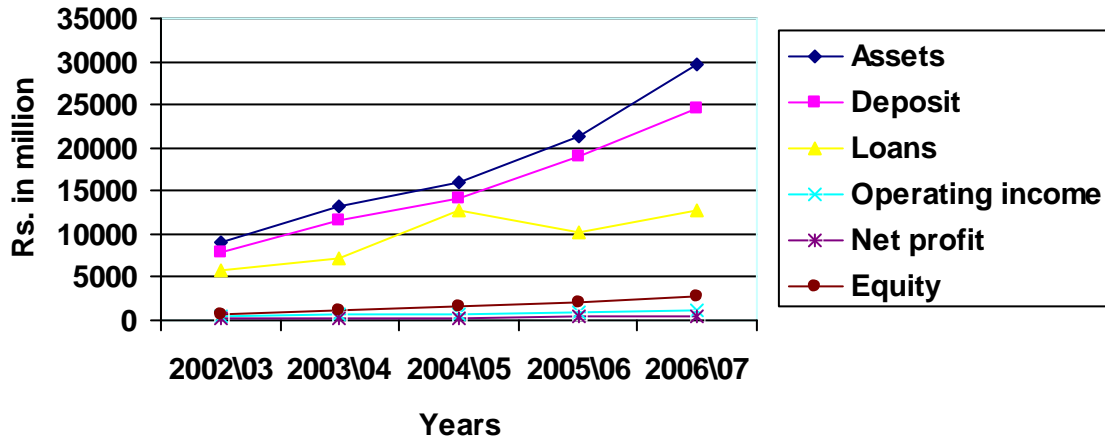
Details	2001\02	2002\03	2003\04	2004\05	2005\06	2006\07
Assets	4973.9	9014.25	13255.55	16063.54	21330.14	29590.84
Deposit	4174.76	7922.77	11524.68	14254.57	18927.30	24488.86
Loans	2564.42	5772.14	7130.13	12776.21	10126.06	12776.21
Operating income	285.25	388.23	585.74	753.89	959.39	1246.03
Net profit	57.11	116.81	152.67	232.15	350.54	501.40
Equity	491.86	695.25	1099.38	1578.77	2094.20	2851.62

Table 4.9 Growth Pattern of Financial Indicators in Percentage

Details	2002\03	2003\04	2004\05	2005\06	2006\07
Assets	81.23	47.05	21.18	32.79	38.73
Deposit	89.78	45.46	23.69	32.78	29.38
Loans	125.09	23.53	79.19	-20.74	26.17
Operating income	36.10	50.87	28.71	27.26	29.88
Net profit	104.54	30.70	52.06	51.00	43.04
Equity	41.35	58.13	43.61	32.65	36.17

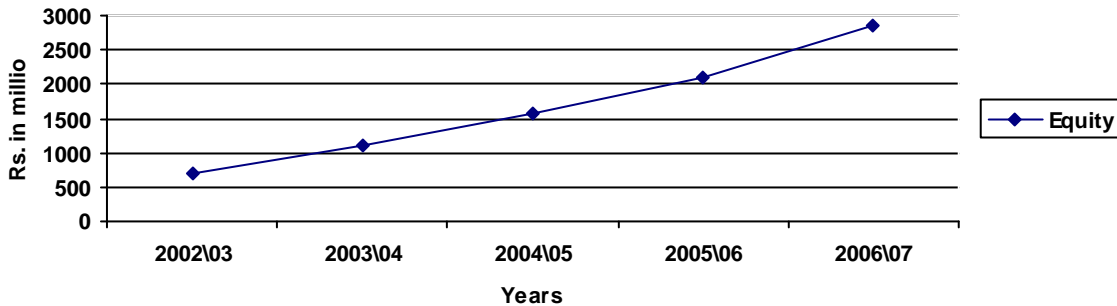
The above table shows the growth pattern of the financial indicators of NIBL during the period of last five years. The growth pattern of total assets is 81% in the year 2002\03 as compared to the year 2001\02, the growth of the deposits in the same year is 89.78%, and the growth of loans is 125% and the operating income increased by 3.10% which caused in the increase of the net profit by 104.54%. The growth of equity in the same year was 41.35%. In the year 2003\04 the growth of total assets is 47.05% as compared to the year 2002\03, the growth of the deposits in the same year is 45.46%, and the growth of loans is 23.53% and the operating income increased by 50.87% which caused in the increase of the net profit by 30.70%. The growth of equity in the same year was 58.13%. In the year 2004\05 the growth of total assets is 21.18% as compared to the year 2003\04, the growth of the deposits in the same year is 23.69%, and the growth of loans was 79.19% and the operating income increased by 28.71% which caused in the increase of the net profit by 52.06%. The growth of equity in the same year was 43.61%. The growth of total assets is 32.79% in the year 2005\06 as compared to the year 2004\05, the growth of the deposits in the same year is 32.78%, and the loan decreased by 20.74%, and the operating income increased by 27.26% which caused in the increase of the net profit by 51%. The growth of equity in the same year was 32.65%. In the year 2006\07 the growth of total assets is 38.73% as compared to the year 2005\06, the growth of the deposits in the same year is 29.38%, and the growth of loans is 26.17% and the operating income increased by 29.88% which caused in the increase of the net profit by 43.04%. The growth of equity in the same year was 36.17%. The graph presented below gives a clear pattern of the banks growth in terms of its financial indicators.

Figure: 4.14 Growth Patterns of the Financial Indicators of Bank



The growth of equity shows the actual size growth of the bank. The figure below shows the growth pattern of NIBL’s equity growth in the five years period as described above.

Figure: 4.15 Growth of Equity of NIBL



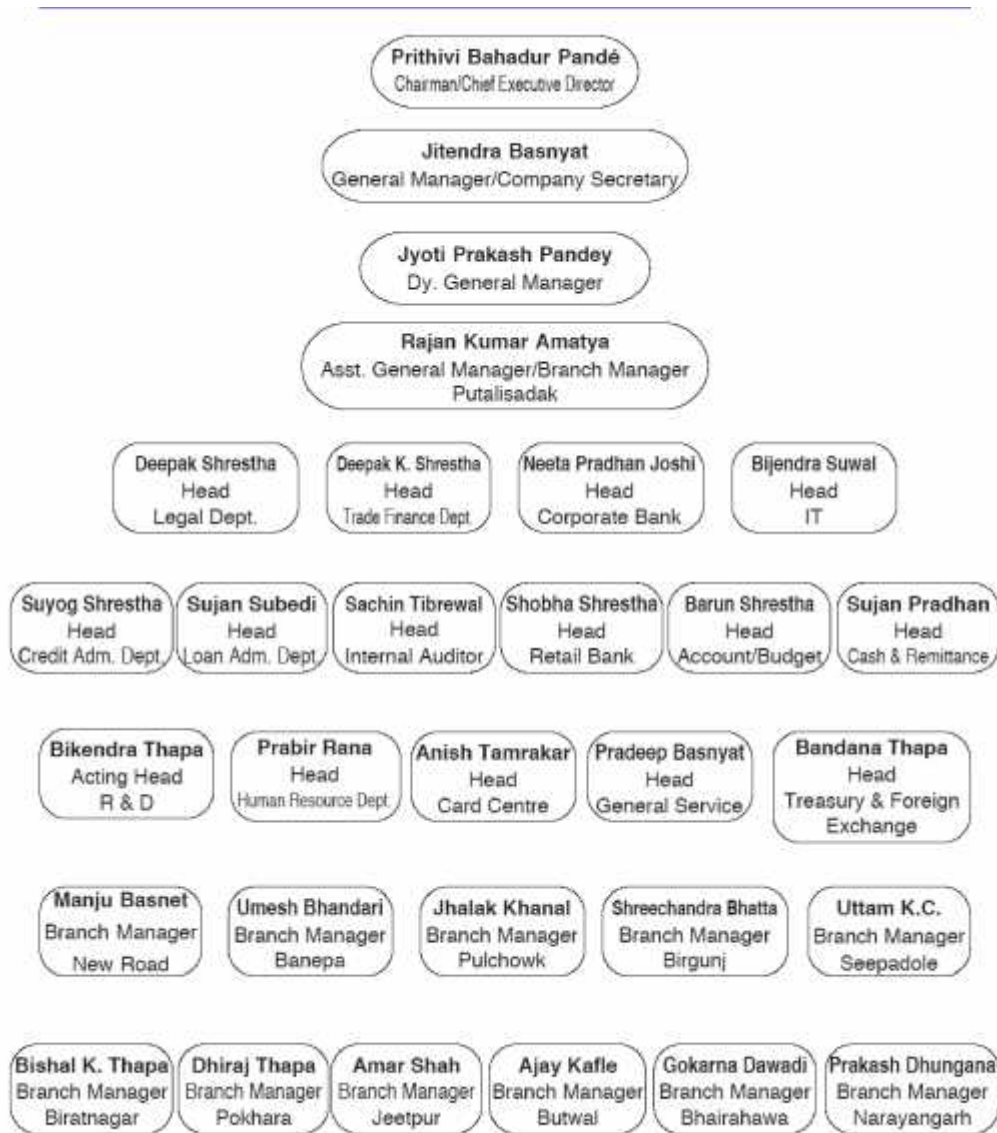
4.3 Performance of Bank in Terms of Internal Business Process

Any organization can produce excellent performance measures relating to creating satisfied and loyal customers by allocating executive resources to meet customer requirements. Adopting such an approach however is likely to have an adverse impact in the performance measures relating to the financial perspective. Creating satisfied and loyal customers only translates into achieving the financial perspectives objective by ensuring that the key internal business processes are effective and efficient. In the internal

business perspectives the managers identify the critical business processes for which the organization must excel in implementing its strategy.

To view NIBL from internal business perspective we must have the good knowledge about the authority and responsibility hierarchy of the organization. The board of directors leads as the leading team of the bank. The meeting of the board of directors decides the short term operational plans. For the long term strategies it has to be approved by the annual general meeting of the bank. Such strategies are presented as the proposals in the meeting. The bank has a six member board of directors headed by the chairman who is selected by the annual general meeting of the bank. The board of directors leads the management team to perform the day to activities of the bank.

Figure: 4.16 Organization Chart of NIBL (as on 2006)



The above is the management team of NIBL as on the fiscal year 2004\05. This chart is only the example of the organizational structure the bank is following. Here it is clear that the organization is structured in such a way that it is focused on serving its customers from each department. The organization aims at utmost customer satisfaction. There are all together 15 departments in the bank. Each department is headed by the department head who performs as the executive chief of the department. Every department chief is responsible towards the assistant general manager. The assistant general manager is then

responsible toward the deputy general manager who also performs the task of the company secretary and works as the assistant of the general manager. Branch managers are responsible for all the performances of the concerned with the respective branches. Besides the mentioned authorities other officers and assistants who work in the various departments of the bank are responsible towards their immediate supervisors and are to report to them.

The achievements as The Banker award presented by the 'Financial Times' group in 2003 and 2005 also indicates its internal business performance as one of the best performances in Nepal. Other achievement, as the best presented accounts award by the 'Institute of Chartered Accountants of Nepal' is another glance of the banks successful internal business performance. The other indicator of the internal business performance is the portion of the NPA in total loan which was 1.98% in 2002\03 but increased to 2.69% in 2004\05 and as of 2006\07 it is 2.37%. This seems as one drawback in the banks performance in terms of internal business process. by this point it can be said that the loan performance should be more conscious in decreasing the portion of NPA.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

There are altogether 23 commercial banks in Nepal until date. The one selected as sample for this research work is Nepal investment bank limited (NIBL). NIBL was established in 1986 as Nepal Indosuez bank limited in joint venture with French partners. After the group of Nepalese professionals, bankers, specialists and businesspersons, purchased the share holding of the French partners this bank was renamed as Nepal investment bank limited in 2002.

The objective of this study is to analyze the implement ability of Balanced Scorecard as a tool in improving the management performance of Nepal Investment Bank Limited. The sources of the data analyzed in this study are obtained from the annual reports of Nepal Investment Bank Limited published during the period of 2002\03 to 2006\07. Other sources of the data of this research are the 'Economic Survey' published by the Government of Nepal in the year 2006\07 and the 'Statistical Pocket Book' of the year 2006 published by the CBS.

For the financial analysis of the data this study has used the ratio analysis as the tool for data analysis and for the analysis of other prospects of the BSC the descriptive and comparative study of the past five years is carried out. For such descriptive analysis the comparative percentage analysis of the concerned data is carried out.

As there was found that balanced scorecard was not used as tool for management, in this study has analyzed the data available from the viewpoints of BSC. The thesis is analytical study of the past available data of NIBL.

5.2 Conclusion

After conducting the analysis of the past data of NIBL, the following conclusion have been drawn.

Financial Perspective

- The total asset of NIBL was Rs. 4.974 billion which in the end of fiscal year 2006/07 was Rs. 6.2607 billion. It has a continuous pattern of increment.
- The bank is found to be able to use its deposits in productive lending's and investments. The percentage of lending's and investments in total deposits is above 96% in all the five years of the study and for three years it was around 100%.
- The interest earned to total assets ratio shows that the earning capacity of the bank's assets is in average 5.5% and it is found to be in range of 5.1% to 5.76%, which is not so much remarkable deviation. This indicates a constant rate of return on total assets.
- The portion of net profit in total loan and advances is found to be between 1.97% to 2.82%. The ratio is in increasing order. This indicates the increasing rate of return on total loan.
- The EPS of the bank shows that it was in fluctuating rate till the year 2005/06 but in the year 2005/06 and 2006/07 the growth rate were in a growing pattern. The EPS of the bank for the last two years were above 50% of the face value of the banks shares that indicates the bank is able to pay a good return in the investments of the shareholders.
- The profit after tax of the bank is in a growing pattern. The bank had more than 60% increases in profit as compared to the previous year in the year 2002/03, 2004/05 & 2005/06. This indicates the bank's good performance in overall financial activities.

- The bank has a net profit to total income ratio in an increasing pattern that indicates; the bank is able to decrease the expenses as compared to the increase in the financial activities.
 - The exchange income of the bank is above 8% of total income which indicates that, exchange income contributes in a significant way to the total income of the bank.
 - The total loan and advances covers in average 70% of the total deposits of the bank, which shows the banks financial performance in utilizing the deposits available in an effective way.
 - The total operating expenses to total assets ratio is in decreasing pattern which means the operating expenses is being reduced as compared the rate of increase in the assets.
 - The capital adequacy in the risk weighted assets and CRR are found to be maintained in accordance to the NRB directives.
 - The NPA of the bank seems to be around 2% over the period of five years.
-) The book net worth of the bank is in increasing pattern. In the year 2002\03 the book net worth of NIBL was Rs. 638.542 million that increased to Rs. 1878.124 million in the year 2006\07.
-) The position of Nepal Investment Bank Limited as compared to the whole commercial banking industry is 6.5% and 7.5% in terms of deposits and 7.45% and 7.71% in terms of loan in the year 2005\06 and 2006\07 respectively.

Learning and Growth Perspective

-) The bank had all together 107 employees at the beginning of the fiscal year 2002\03 which has reached to 514 by the end of the fiscal year 2006\07.
-) The bank had been trained its employees in a good rate in each successive years.

-) By the end of the fiscal year 2006\07, there were 73staff with more than 10 years of service in the bank.
-) The growth rate of assets was 81% in the year 2002\03 as the highest rate of growth in the banks assets in other years it has decreased to 21 and 47%.
-) The deposit has the growth rate in accordance with the increase in total assets.
-) The growth of loan in the year 2002\03 is 125.09% where as it has reduced to deduction of 20% in the year 2005\06 in other years it is found to move in accordance with deposit.
-) The growth of the bank in terms of operating income, net profit and equity is seen to be in accordance with the growth of total assets.

Internal Business Process Perspective

- The board of directors heads the management of the bank. the board of directors is composed of seven members.
- The bank has all together 16 departments each department headed by the department heads, who have all the responsibility of the performance of the department.
- The bank has been awarded as ‘The Banker of the Year’ by the ‘Financial Times’ group in the year 2003 and 2005 and ICAN presented ‘The Best Presented Accounts’ award in 2007.

5.3 Recommendations

After completing the study on the various aspects of the NIBL it is found that the overall performance of the bank seems to be found good but it is not perfect. The method of evaluating the performance of the management is traditional. The bank is not found following the basics of the BSC. So, the following recommendations are made after completing the study on the banks records.

- The bank should divert its concentration on measuring the performance from the hard financial aspects and should collaborate the soft non financial measures so as to make balance of the success in the changing environment.
- As the bank is not following the balanced scorecard technique it is quite difficult to measure its performance from the four perspectives so the full picture of the banks performance is not available, for better evaluation of the banks performance in a balanced way the management is recommended to follow the balanced scorecard as a tool for improving the management performance.
- The bank seems to have no clear policy to adopt itself to cope with the changing environment, so the bank is recommended to have a balanced policy as regards to the satisfaction of the shareholders, customers and employees.
- The bank is found training its employees in a regular basis; it is further recommended that the bank should focus its training program in developing its employees to be prepared for the international business environment as we are going to face the tough competition with the international banks after the entrance of Nepal in the WTO by the year 2010.
- The internal business process of the bank is seemed to be operating in quite traditional way, so it is recommended to adopt the balanced scorecard approach for the internal business process. This process will help in developing the organization as more customer centered organization.

BIBLIOGRAPHY

- Arveson, P. (1997) "What is Balanced Scorecard", Washington DC; Balanced Scorecard Institute
- Bajracharya, P; Ojha, K.P.; Goet, J. and Sharma, S. (2005) "Managerial Accounting", Katmandu; Ashmita Books Publishers and Distributors.
- Bajracharya, S.M and Bhattra, R. (2005) "Corporate Financial Management" Kathmandu, Buddha Academic Publishers and Distributors.
- Cameron, Preston. (2002) "The Balancing Act: Even in Today's Volatile Economic Climate, Many Organizations Are Turning to the Balanced Scorecard to Help Steer Their Organization in the Right Direction" CMAManagement 75, no. 10
- CBS (Oct 2006) "Statistical Pocket Book Nepal 2006" Government of Nepal, National Planning Commission Secretariat, Katmandu. pp 255-258.
- Cribb, G. (2007) "Bonds Scorecard: Linking Strategic Planning to Measurement and Communication" Bond University.
- Dahal, B. and Dahal, S. (1999) "A Handbook of Banking" Katmandu, Ashmita Book Publishers and Distributors.
- Drury, Colin (2004) "Management and Cost Accounting" United Kingdom, Thomson Learning. pp 837-860,991-1014.
- Fago, G (2006). Financial Ratios and Prediction of Corporate Failure in Nepal: An Unpublished M Phil Thesis. Faculty of Management, Tribhuvan University
- Fago, G. (2006). Prediction of Corporate Bankruptcy in Nepal: An Unpublished Research Work. University Grants Commission, Sanothimi, Bhaktapur.
- Garg, K.N. (1968) "Principals of Banking" Eighth Edition, Allahabad, Kitab Mahal.
- Kaplan, Robert S., and David P. Norton "The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment." Boston: Harvard Business School Press, 2001.
- Kaplan, Robert S., and David P. Norton, (1992) "The Balanced Scorecard-Measures That Drive Performance." Harvard Business Review 70, no.1 p 71.
- Kaplan, Robert S., and David P. Norton, (1993) "Putting the Balanced Scorecard to Work." Harvard Business Review 71, no. 5.

- Kaplan, Robert S., and David P. Norton, (1996) "Using the Balanced Scorecard as a Strategic Management System" Harvard Business Review 74, no. 1 p 75.
- Kaplan, Robert S., and David P. Norton, (1996) "The Balanced Scorecard: Translating Strategy into Action." Boston: Harvard Business School Press
- Kaplan, Robert S., and David P. Norton, (2004) "Strategy Maps: Converting Intangible Assets into Tangible Outcomes." Boston: Harvard Business School Press.
- Lester, Tom (6 October 2004) "Measure for Measure: The Balanced Scorecard Remains a Widely Used Management Tool, but Great Care Must Be Taken to Select Appropriate and Relevant Metrics." The Financial Times.
- Lewy, Claude, and Lex Du Mee, (April 1998). "The Ten Commandments of Balanced Scorecard Implementation." Management Control and Accounting,
- Mali, Ram (1973) "Currency and Banking; With Special Reference to India" Agra: Agra Books Stores.
- Matt, H. Evans; (2007) "Building the Balanced Scorecard" Power Point Presentation
- McCunn, Paul. (1998) "The Balanced Scorecard...the Eleventh Commandment." Management Accounting 76, no. 11 p 34.
- Ministry of Finance (july2007) "Economic Survey – Fiscal Year 2006\07" Katmandu, Government of Nepal. pp 37-44.
- Nepal Investment Bank Limited (2003). Annual Reports. Katmandu.
- Nepal Investment Bank Limited (2004). Annual Reports. Katmandu.
- Nepal Investment Bank Limited (2005). Annual Reports. Katmandu.
- Nepal Investment Bank Limited (2006). Annual Reports. Katmandu.
- Nepal Investment Bank Limited (2007). Annual Reports. Katmandu.
- Sanders, J. (2007) "The Balanced Scorecard" , Presentation The California State University.
- Van de Vliet, Anita. (July 1997) "The New Balancing Act." Management Today, 78.
- Williams, Kathy (2004) "What Constitutes a Successful Balanced Scorecard?" Strategic Finance vol. 86, no. 5.
- Website

www.balancedscorecard.org

www.bsc.com

www.bsccol.com

www.isixsigma.com/library

www.nibl.com.np

www.referenceforbusiness.com

www.strategyact.com

Appendix- 1

Chapter VI Position of NIBL in terms of Deposit, Loan and advances and Investment

Data from book of NIBL						
Details	2001\02	2002\03	2003\04	2004\05	2005\06	2006\07
Total deposit	4.18	7.92	11.53	14.25	18.93	24.49
Total loan and advances	2.71	5.92	7.34	10.45	13.18	17.77
Total investmemnt	1.82	1.71	3.86	3.93	5.60	6.51
Total of lending	4.54	7.63	11.20	14.39	18.78	24.27

% Increment in each heads						
Details	2002\03	2003\04	2004\05	2005\06	2006\07	
Total deposit	89.77	45.46	23.68	32.78	29.38	
Total loan and advances	118.20	23.91	42.45	26.07	34.84	
Total investments	-6.42	126.51	1.87	42.42	16.11	
Total of lending	68.14	46.85	28.46	30.54	29.25	
% of total lending in deposit	108.65	96.26	97.18	100.93	99.23	99.13

Appendix- 2

Position of income and assets of NIBL

Total interest earned to total assets ratio					
Details	2002\03	2003\04	2004\05	2005\06	2006\07
Total interest income (Rs in million)	459.51	731.40	886.80	1172.74	1584.99
Total assets (Rs in million)	9014.25	13255.50	16063.54	21330.38	27590.84
Ratio	0.050976	0.0551771	0.055206	0.05498	0.057446

Appendix- 3

Financial indicators of Nepal Investment Bank limited

s/n	Details	2002\03	2003\04	2004\05	2005\06	2006\07	Unit
1	Net profit/total income	20.12	16.71	20.26	23.99	25.07	%
2	EPS	39.53	51.7	39.5	59.35	62.57	Rs
3	Market value per share	795	940	800	1260	1729	Rs
4	PE ratio	20.1	18.18	20.25	21.23	27.63	ratio
5	Dividend with bonus	20	15	12.5	55.46	30	%
6	Cash dividend paid	20	15	12.5	20	5	%
7	Interest income/loan and advances	7.8	9.03	7.36	7.32	7.33	%
8	Staff expenses/total operating expenses	36.2	37.52	34.65	38.77	37.39	%
9	Interest on deposits and borrowings	3	2.74	2.43	2.52	2.71	%
10	Exchange income/total income	8.8	9.63	8.95	8.6	6.77	%
11	Staff bonus/total staff expenses	30.85	28.66	38.22	41.84	49.76	%
12	Total loan/total deposit	74.74	63.68	73.33	69.63	72.56	%
13	Total operating expenses/total assets	1.85	1.78	1.71	1.43	1.38	%
14	Capital adequacy in risk weighted assets	8.8	11.97	11.58	11.97	12.17	%
15	CRR	10.11	9.19	9.78	13.61	10.47	%
16	Non performing loan/Total loan	1.98	2.47	2.69	2.07	2.37	%
17	Waited average interest rate spread	4.8	5.98	4.3	3.9	3.99	%
18	Book networkh	638.542	729.048	1180.173	1415.44	1878.124	Rs in 000,000
19	Total no of share	2952930	2952930	5877385	5905860	8013526	IN nos.

Appendix- 4

Profit after tax of NIBL

Details	2002\03	2003\04	2004\05	2005\06	2006\07
Net profit	116.82	152.67	232.15	350.54	501.4
% increaes in respective year	51.113	30.68824	52.06	50.9972	43.03646

Appendix- 5

Net profit to total income ratio

Details	2002\03	2003\04	2004\05	2005\06	2006\07
Net profit/total income	20.12	16.71	20.26	23.99	25.07

Appendix- 6

EPS PE Ratio and position of Performing and Non Performing Loans OF NIBL

Details	2002\03	2003\04	2004\05	2005\06	2006\07
EPS in Rs	39.53	51.7	39.5	59.35	62.57

PE Ratio of NIBL

Details	2002\03	2003\04	2004\05	2005\06	2006\07
PE ratio	20.10%	18.18%	20.25%	21.23%	27.63%

Position of non performing and performing loan of NIBL

Details	2002\03	2003\04	2004\05	2005\06	2006\07
Non performing loan/Total loan	1.98%	2.47%	2.69%	2.07%	2.37%
Performing loan	98.02%	97.53%	97.31%	97.93%	97.63%

Appendix- 9

Details of employees of NIBL for last five years

Details of employees for five years in NIBL					
Details	2002\03	2003\04	2004\05	2005\06	2006\07
Total number of employees	254	325	353	390	514
Number of added employees	147	71	28	37	124
Number of employees participating in the training	109	78	350	182	307
Number of employees participating in training outside country	10	9	N\A	N\A	18
% of employees addition	137.3832	27.95	8.62	10.48	31.79
% of employees trained in the year	42.91	24.00	99.15	46.67	59.73
Number of employees beyond 10 years of service	35	63	67	72	73

Appendix- 10

Comparative data of NIBL with the industry for the year 2006\07

Comparative data of NIBL with the industry for thr year 2006\07						
Details	Total deposits		Total loan		%increase in deposit	%increase in loan
	2005\2006	2006\07	2005\06	2006\07		
NIBL	18.93	24.49	13.18	17.77	29.39%	34.84%
All banks total	291.24	326.36	176.82	230.49	12.06%	30.35%
Portion of NIBL in the industry	6.50	7.50	7.45	7.71		

Appendix- 11

Growth pattern of the financial indicators of the bank

Growth pattern of the financial indicators of the bank						
Details	2001\02	2002\03	2003\04	2004\05	2005\06	2006\07
Assets	4973.9	9014.25	13255.55	16063.54	21330.14	29590.84
Deposit	4174.76	7922.77	11524.68	14254.57	18927.30	24488.86
Loans	2564.42	5772.14	7130.13	12776.21	10126.06	12776.21
Operating income	285.25	388.23	585.74	753.89	959.39	1246.03
Net profit	57.11	116.81	152.67	232.15	350.54	501.40
Equity	491.86	695.25	1099.38	1578.77	2094.20	2851.62

% increasement in each year					
Details	2002\03	2003\04	2004\05	2005\06	2006\07
Assets	81.23	47.05	21.18	32.79	38.73
Deposit	89.78	45.46	23.69	32.78	29.38
Loans	125.09	23.53	79.19	-20.74	26.17
Operating income	36.10	50.87	28.71	27.26	29.88
Net profit	104.54	30.70	52.06	51.00	43.04
Equity	41.35	58.13	43.61	32.65	36.17

Appendix-12

NIBL in figures

NIBL in Figures			
Details	2004\05	2005\06	2006\07
Assets	160635	213301	275908
Deposit	142545	189273	244889
Loans	104531	131782	177691
Total investment	39341	56029	65057
Operating profit	4769	6481	8572
Net profit	2321	3505	5014
NPA	2.69%	2.07%	2.37%
Return on paid up capital	39.50%	59.40%	72.04%
Return on shareholders fund	19.67%	27.01%	30.45%
Total number of customers	41015	59033	91502
Portion of deposit as compared to market	6.30%	7.30%	8.30%
Portion of loan as compared to market	6.80%	7.90%	9.10%
Capital adequacy	11.58%	11.97%	12.17%

Appendix-13

Details of employees for five years in NIBL

Details of employees for five years in NIBL						
Details	2001\02	2002\03	2003\04	2004\05	2005\06	2006\07
Total number of employees	107	254.00	325.00	353.00	390.00	514.00
Number of added employees	N\A	147.00	71.00	28.00	37.00	124.00
Number of employees participating in the training	N\A	109.00	78.00	350.00	182.00	307.00
Number of employees participating in training outside country	N\A	10.00	9.00	N\A	N\A	18.00
% of employees addition	N\A	137.38	27.95	8.62	10.48	31.79
% of employees trained in the year	N\A	42.91	24.00	99.15	46.67	59.73
Number of employees beyond 10 years of service	N\A	35.00	63.00	67.00	72.00	73.00