INVESTMENT ANALYSIS ON HUMAN RESOURCE DEVELOPMENT OF BANKING INSTITUTIONS IN NEPAL

Submitted BY

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VIVA – VOCE SHEET

We have conducted the Viva-voce sheet examination of the thesis

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Hema Shrestha

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and found the thesis to be original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as a partial fulfillment of the requirement for the degree of

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DECLARATION

I hereby declare that the work reported in this thesis entitled **" Investment Analysis on HRD of Banking Institutions in Nepal"** submitted to Patan Multiple Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's degree in Business Studies under the supervision of Mr. Mahananda Chalise.

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Hema Shrestha
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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATION

BOD	=	Board of Director
CEO	=	Chairman of Executive officer
E.H.	=	Economic History
HMG/N	=	His Majesty of Government
HR	=	Human Resource
HRD	=	Human Resource Development
IT	=	Information Technology
MBS	=	Master in Business Studies.
NABIL	=	Nepal Arab Bank Pvt. Ltd.
NATP	=	Net Profit After Tax
NBL	=	Nepal Bank Ltd.
NEPSE	=	Nepal Stock Exchange
NPAs	=	Non profit Assets
NRB	=	Nepal Rastrya Bank
R^2	=	Root Square
RBB	=	Rastrya Banijya Bank
ROI	=	Return on Investment
S.E	=	Standard Error
SPSS	=	Statistical Package for the Social Sciences
S.T.T	=	Space Time Today
T.H.T	=	The Himalayan Times
T.K.P	=	The Kathmandu Post
T.R.N	=	The Rising Nepal
T.U.	=	Tribhuvan University
UK	=	United Kingdom
US	=	United State
VRS	=	Voluntary Retirement Scheme
WTO	=	World Trade Organization

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Human resource is an inexhaustible unlimited resource which impacts the use of other natural or physical resources by an organization. The efficient use of all the other resources depends upon the quality of the HRs the organization. If competent manpower is absent in the organization, physical resources will be wastage. Therefore, the modern analysis considers human resources as human capital which is defined as the sum total of the knowledge, skills and aptitudes of people inhabiting the country at a particular time. In a broader sense, it includes initiative, resourcefulness, capacity for sustained work, right values, interests and attitudes, and other human qualities conducive to higher output and accelerated economic growth. Thus, it is increasingly recognized that economic development not only depends upon the growth of physical capital, but also upon the growth of human capital (Rao, 1990).

Human resources development is a continuous process of developing human skills and efficiencies to update them in various situations. HRD is a catch word that one can hear echoing since the early eighties and it has generally been equated to training and development (Bhaukajee, 1997). However, training and development are only a part of an institutionalized HRD program. According to Bhaukajee (1997) HRD is a process which includes a set of mechanisms and techniques such as recruitment, performance appraisal, induction, retention, welfare, counseling, growth, training, skill development, attitudinal orientation, compensation, motivation career planning, succession planning and organizational development interventions. Therefore, the basic concept of HRD in a corporate sense refers to the development of people working in the organization and their capabilities, work efficiency and self-values. Thus, an organization should continuously assure that the dynamism, competency, motivation and effectiveness in a systematic and planned way.

In the past, emphasis was given to natural resources endowment and it was a key indicator of a country's wealth and prosperity. The role and importance of

HR was realized in the early 1960s in the developed countries for the organization development (Sharma, 2000). Many international agencies and regional bodies have also conceptualized HRD and pointed out the role of HRD in the government. Thus, any organization should invest in HRD for the success of the organization. If the organization can not invest in HRD, then the organization will never go with new technology, changing time and compete in the market. Investing in HRD has already become the priority in western countries. The human dimension received its due share in developing countries only recently.

Nepal is one of the ten poorest countries in the world, with per capita income and social indicators among the lowest in the world. It is a land-locked and largely agrarian country. Rugged terrain makes communication and transport difficult. It is slowly being realized that Nepal has not made effective use of the vast reservoir of human capital (Sharma, 2000). If it uses even 30 percent of the human resources properly, we can make much progress in our institutions. At a time when multinational companies, operating in Nepal, are using sophisticated technology and high management skills, Nepalese enterprise could benefit from emulating such companies. The organization needs to integrate its HRs with the strategies of the organization. If HRD has to materialize, a long-term investment is a must in order to attain and sustain the cutting edge.

While the investment on HRD is important for the development of an organization, the analysis and evaluation of the investment fund is equally important for proper investment. Investment analysis is a systematic investigation of the activities within an investment. It is a basic technical procedure used to define the risk, return, assets and markets of the investment. Investment analysis provides answers such as how much money should be used for salaries, training, used for motivation, rewards, allowances, and for other facilities.

Among the important organizations, the financial institutions are those which accept deposit and grant loan to the needy person/organization. These institutions are the channel through which money, the "life blood" of economic activity, can be mobilized and distributed evenly through a poor economy like Nepal's. These sectors play a crucial role in the overall development of the economy. (Aryal, 2001). Nepal's financial sector has evolved into the most potential for growth in our economy, and there is a high demand for competent, quality human resources. There are 150 financial institutions (other than the Nepal Rastra Bank) in the country currently, and more than 20,000 people working in these institutions. These institutions are responsible for managing approximately Rs. 221 billion worth of assets, primarily loans and advances. The Rastrya Banijya Bank and Nepal Bank jointly hold half this sum (Jha, R., 2006). Further, rapid innovations in financial markets and internationalization of financial flows, technological progress and deregulations have assisted to increase competitive pressure among the various financial institutions.

Among the financial institution, Banking Institutions are the most important financial institutions in the economy and essential business in thousands of local towns and cities. A bank is an institution which undertakes monetary transactions. Working with the monetary transaction will automatically crop up uncertainties. For true and sustainable financial sector reform, in addition to addressing issues on loan recovery and loan management, we clearly need to focus on building capacity in the financial market, by providing institutions and employees platforms to acquire specialized and focused knowledge of global banking products. An understanding of these products will add significant value for customers and also enable banks to explore new opening to generate additional revenue streams.

The banking institutions are one of the growing and working with monetary transaction organization which is direct or indirect relate with today's each business as well as economy and it is bank should be developed to sustain in today's competitive market. The banks also are driven through human resource though there are various machines and the human resource should be updated to compete with market. That's why HRD and its investment analysis are very essential in the banking institutions as well as other organizations.

1.2 STATEMENT OF THE PROBLEM

Among many banks, the NRB, right from the beginning, has given due consideration to the human resource management front. Though the NRB's human resource policy is guided by the philosophy "Skill development is the major instrument for enhancing productivity", the Acts failed to address the HRD properly. Basically, the change in the human resource policy was realized and initiated following the Royal Assent to the new NRB Act 2058 B.S. This process of change received pace and intensity from the year 2002, (Nepal Rastra Bank in Fifty Years, July 2005, Kathmandu, Nepal). So the bank made the policy and invested on skill development and training. The significant example is enhancing **Education and Professional Skills**. The bank has adopted a policy of providing higher education inside and outside the country for the employees in different levels.

In Nepal, banks happen to provide the best of salaries, bonuses and non-monetary facilities for their staff members, even the best of the banks have not been able to retain their employees. This shows how mobile the human resource of a bank can be than in other sectors. The annual spending on training is low all of Nepal's financial institutions combined is just over Rs. 50 million. One of the reasons for this is that there simply aren't enough structured banking related courses available. There is a handful of banking -related training centers in the country that only provide piecemeal training courses. Even 10 % of what one learns in a postgraduate program for banking and finance at an overseas university is more than what is available here. Training in banking is necessary if we are to see any worthwhile product diversification in areas such as trade finance, remittance, and global markets and even credit management in Nepal. Following problems were identified in the Banking institutions of Nepal regarding investment on human resources development in Nepal:

- Lack of Effective Control and Correct Direction
- Lack of investment in Productive Sectors
- Traditional Approach in Services of Banks
- Lack of Training and Incentive for Employees
- Lack of Banking Competition Among Banks

- Some banks have large number of staffs, but are inefficient and some posts do not have proper qualified staffs. This causes the waste of both time and money.
- Some banks are inclined to take only fresher.
- Some want experienced old staffs but they experience difficulty to change these staffs by training.

However, the Banking institutions are unwilling to investing on HRD. Many believe that only costly machinery, new building structure, decorations and new technology provides the high productivity. They are unaware of increment in productivity of the institution by the investment and its analysis on HRD. To assess the position of HRD in Banking Institutions, the present study will focus the following fundament questions.

1. What is the investment trend of HRD in Banking Institutions?
2. What sort of return do banks expect for their investment in HR?
3. What is the major risk factor of insufficient expected return for investment on HRD?
4. What is the effective investment of key factor of HR?
5. Can investment in HRD help make other investment more productive in banking institutions?

1.3 FOCUS OF THE STUDY

It is said that the process of learning never ends and training, being a part of it, does neither. One after another new technology, effective methods keep creeping in to the business practice and hence, to be very effective, the employees in the institutions must be very aware of such developments and human resource is one of the important resources of any institution. By human resources, it is not just the physical body but is the knowledge, capacity and skill of the staffs that contributes to achieve the goals of the institution. Investment on HRD is a valuable investment and investment analysis on the human resource is one of the major factors which help in making decisions on proper investment of Banking institution and measuring the risk, return and output from such investments.

Today, most of the organizations in Nepal are aware of this fact and are incorporating this practice in their activities by making provisions for HRD. Therefore, this study focuses on the investment analysis on HRD of banking institution of Nepal. There are 51 banking institutions licensed by NRB in Nepal (NRB, 2006). But it is not possible to cover all the banking institutions. So three banking institutions are chosen, which will represent all the banking institutions of Nepal are government Bank, semi government banks and private bank. This study on investment analysis on human resource development of the banking institutions will incorporate the following issues:

- Role and important of investment analysis
- Output by analysis of HRD
- Importance of Investment and Investment analysis on HRD
- Numbers of human resources
- Trainings for staffs
- Process of development of staffs
- Effect of the human resource development

1.4 OBJECTIVE OF THE STUDY

Human Resource and its development is the main factor of the banking institutions. So the analysis of the investment on HRD by measuring risk, return and productivity of investment is the main goal of this study. To achieve this goal, the study has following specific objectives:

1. To examine the effect of investment on HRD on development of banking institutions.
2. To forecast of Return of Investment on HRD in banking institutions.
3. To measure Qualitative Risk Analysis of insufficient expected return for investment on HRD in banking institutions.

1.5 SIGNIFICANCE OF THE STUDY

Technology is developing at an accelerating rate. New and advanced technologies have made work easier and can solve problems within a few seconds in all sectors, including banking institutions. However, these technologies are operated by HR. Therefore skill and other facilities for HR are required in any organization and for the progress with time. To fulfill this requirement, proper investment is necessary and only investment analysis can provide the strategy for the proper investment for HR. Therefore, analysis of investment on HRD has great significance.

This study is focused on the investment (risk and returns) analysis on HRD of the banking institutions and conducted to provide basic and necessary information about investment process. This current study will help in decision making processes about how to set investment policies and how to analyze and evaluate the value of investments worthwhile over different time periods. The result from this study has provided answers to invest cost, the forecasted return of investing on the HRD and the relation between investment on HRD and efficiency output.

This study has been guided to manage the investment on the HR and to get output by reward investing the HRD. This research work will be valuable assets for the further research work.

1.6 LIMITATIONS OF THE STUDY

The major limitations of the study are highlighted are follows:

- Most of the data used in this study are secondary data published by the companies under study.
- The study is based on the data of 4 to 6 years only.
- The study is limited to three sample banks viz. NABIL, NBL and RBB.
- The dependability of the outcomes of the research is based on the accuracy of the provided data by the central bank and commercial banks.
- As a research student the study is unbiased but the resources and time limited.
- Mainly the study is concentrated on investment analysis on HRD of banking institutions in Nepal, other topics are not touched

1.7 ORGANIZATION OF THE STUDY

The study has been divided into five chapters and is organized as follows:

CHAPTER 1: Introduction

- Background
- Statement of the problem
- Focus of the study
- Objective of the study
- Significance of the study
- Limitations of the study
- Organization of the study

CHAPTER 2: REVIEW OF LITERATURE

This chapter would be devoted for the brief review of the related studies and findings are presented and various related literature are quoted. Previous research on the same field books, journals, and unpublished thesis are reviewed. The chapter consist conceptual review for banking institutions and their human resource development efforts and empirical review for Investment analysis on HRD of banking institutes in Nepal. The basic conceptual framework of investment analysis on HRD are illustrated and discussed.

CHAPTER 3: RESEARCH METHODOLOGY USED

This unit would present methodology used in the study. It consists of following subtopics:

- Research design
- Nature and sources of data
- Sampling procedure
- Variables and their operationalisation
- Data collection techniques
- Reliability
- Method of data analysis and tools

CHAPTER 4: DATA PRESENTATION AND ANALYSIS

Analysis of data and major findings is the heart of this study, which includes data presentation, interpretation and analysis and list out the major findings.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATION

The final and last chapter contains the summary of the whole study. Conclusions of the study have been presented and at last suitable and concrete measures are suggested in the form of recommendations.

CHAPTER 2
LITERATURE REVIEW

This chapter highlights the existing literature and research studies related to the investment on HRD and investment analysis. It also reviews background of banking institutions in Nepal. So far, the analysis of Investment on HRD in the context of Nepalese banking institutions are concerned, some studies have been undertaken by management experts and students of MBA or MBS describing the investment analysis and investment on HRD of the institutions. However, there are many studies related to the investment analysis on HRD of manufacturing, commercial and trading companies.

2.1 CONCEPTUAL/THEORETICAL REVIEW

2.1.1 Banking Institutions and Human Resource Development

Banking institutions are those which accept deposit and grant loan to the needy person/organization. These institutions may be one of the major areas within the service sector for mobilization of funds by catering to the people through mass and a high class service and the channel through which money, the "life blood" of economic activity, can be mobilized and distributed even through a poor economy like Nepal's and these sectors play a crucial role in the overall development of the economy (Aryal, 2001).

Human resource development is the backbone of any organization (Rao, 1996). According to him a provision should be envisaged that ensures selection, recruitment and placement of right people in the place of bureaucracy and the principals of right scholarship for the right person should be implemented with firm determination. This study, therefore, suggests a need of an effective manpower development plan in Nepalese bureaucracy. Therefore, these organizations should be developed and sustained and for the development of the organization, the human resources have to be developed because human resource (HR) is the hub of the organization without HR organization will be only a skeleton. So human resource is the most important and valuable factor for the development of the organization including other natural and physical resources to improve its all round effectiveness.

Some banks in Nepal have applied Human Resource policies and invested on Human Resource Development and are discussed below:

2.1.1.1 NABIL Bank Ltd.

NABIL was established in 1984 as the first joint venture bank of Nepal. Its head office is in the capital Kathmandu. Initially, the Bank was started with the investment of Dubai bank under the commercial bank Act of Nepal. Currently, it is working jointly with the National Bank Limited of Bangladesh. The bank has completed 16 years of its operation and has been able to earn a fair amount of goodwill and confidence of Nepalese, especially for providing prompt and efficient service. At the beginning, it started its operation with 30 employees at Kantipath, Kathmandu, now it employs 418 employees including branches in difference parts of the country.

Initially the Bank had started its transaction with an authorized capital of 60 million rupees and paid up capital of rupees 30 million. It has been running in profit from the first year of its establishment. Currently the bank had an authorized capital of 500 million rupees of which Rupees 261 million rupees is paid up capital. Of the total shares of the Bank 50 percent is held by the National bank Limited of Bangladesh, 20 percent is held by the National Insurance Company, employee provident Fund and Nepal Industrial Development Corporation and remaining 30 percent share is held by the general public. The net profit for the year 1997 was 177 million Rupees. The main source of the Bank's income is interest on investment, commission and discount, dividend, foreign exchange and other non-operating incomes. Since the Bank is in operation as per the commercial Bank Act of Nepal, it has to follow its objectives. Thus, the main objectives of the bank are: to collect funds through deposits in current, savings and fixed accounts, to utilize the collected funds by providing loans and increasing investment in agriculture, industrial, irrigation, power and other sectors as prioritized by the government; and to make foreign exchange transaction.

The Board of Directors consists of 9 directors of whom 4 directors are from the National Bank Limited (Bangladesh), 1 from the government, 2 from the general public, 1 from Nepal Rastra Bank and 1 from financial institutions. The Board is headed by a chairman who is selected from among the 9 directors. Presently, the member Secretary of the Board is the Chief of Personnel and Administration Section. The bank is headed by an Executive Director who is responsible and accountable to the BOD. Furthermore, there is a Deputy Executive Director, a General Manager and an Assistant General Manager. Two major departments of the Bank are Operational and Marketing and Credit Departments. Personnel and Administration Section has been operating under the Operational Department headed by an Assistant General Manager.

2.1.1.2 Human Resource Policies and Practices at NABIL Bank

The Personnel and Administrative Section has to look after human resource policies and practices. Its HR activities are guided by the Technical Service Agreement. The main HRM policy and practice include:

- **Recruitment, selection and placement:** The executive director and the deputy executive directors are appointed by the national bank limited of Bangladesh. The bank does not have the system of direct recruitment. For each job there is a job description and, over and above, there is department-wise operational description. Both job and operational descriptions are changed and modified from time to time as per the needs of the bank. The bank's jobs are created strictly based on the volume of operation at the head office and branch offices. The BOD makes the final decision on how many employees are required. The entry point is the Junior Assistant level. For an applicant to apply for Junior Assistant, his or her age must be between 18 and 25 years. After his or her selection, he or she has to work on a work on a 6-month probation period. This time may differ for the Assistant manager and other junior level employees below the Junior Assistant. In case of any special requirement of the Bank, such as, to fulfill a vacancy of a technical expert, the entry level may be above the Junior Assistant level. Every candidate has to attend a written examination held by an independent recruitment agency (since the last two years the bank has authorized St. Javier's School to take a written examination for the applicants). The final selection of the candidates will be made by the Interview Committee, which comprises 5 to 7 members.

- **Training and development:** NABIL has a separate training unit. The Bank has been providing training in the execution and operational aspects to its employees. For newly appointed employees, Personnel and Administrative Section chief will provide an orientation programmed to introduce them on banking operations. The training needs are identified on the basis of the results of performance evaluation and other operational measures. Furthermore, the bank is sending some participants to attend locally organized training programs conducted by Banker's Training Center and the management Association of Nepal.
- **Performance management and appraisal:** From head office to the branch offices there are operational norms and standards of performance which usually guide performance behavior of the employees in the Bank. Line managers are free to provide their suggestions, ideas on future plans to the General Manager and to the ED without any hesitation. Bank is operating completely with business policies and all operations are guided by such policies. Since line managers are promoted from the Junior Assistant level, all line managers are already exposed to performance management problems and attitudes of the junior level employees.
- **Salary, allowances and other benefits:** Salaries and allowance of directors would be as per specifications in the Technical Service Agreement of the Bank. Although the bank has basic pay rate for employees, the individual pay level of an employee may differ significantly due to its system of performance related increment system. In principle, the salary of an individual employee is confidential. Normally, the pay level of an employee is higher compared to other government banks. In addition to their pay levels, employees receive bonus as per the rules of Commercial Bank Act. There are provisions such as medical allowance, insurance, group insurance, accident insurance, and allowance for children's education, transportation benefits (the amount of allowance varies with the level of employees) and Provident Fund. In addition, employees are getting a house loan equal to the gross salary profit and loss account of the Bank, total personnel expenditure was 84.4 million rupees in

the year 1995/96 whereas this amount has increased to 99.6 million rupees in the year 1996/1997. Normally, employees are getting competitive salary and allowance similar to the counterpart banks.

- **Promotion and transfer:** Since the Bank has the principle of managing the organization based on corporate culture, employee promotion is based on the critical job elements and experience. From the junior to an assistant level. Promotion is based on the results of performance evaluation. Similarly, there is a system of file promotion from the junior assistant level to the assistant and senior levels. In case of repeated substandard performance of an employee, he or she will be dismissed from bank service. As per the rules of the bank, an employee cannot work in an office for more than 2 years continuously. Thus, after 2 years of service, he or she should be transferred to another job or office.
- **Job deign**: Employees argue that jobs in the bank are challenging and will remain challenging in the future. The belief system of the bank management is that, if they can utilize the capacity of employees, they can get opportunities in the market. Every employee feels that his or her job is challenging for their future. He or she never left office room without any job related reason. Very few barriers prevail to job performance. Employees feel that the present job leads to a desirable future. It means they have very high growth needs and less dissatisfied with the present pay level. The overall quality of work life on job related matters, such as job variety, difficulty, challenges, pay and allowances, is moderately satisfactory.
- **Provision for leaves:** There is a system of mandatory leave with pay for 15 days. In addition, an employee can take casual leave, medical, leave, annual leave and study leave as per the discretion of the chief of the division.
- **Employee relations:** Since 1990 employees have formed a union which is working in co-operation with the bank's management. Till now, except for a case of threatening, no strike has occurred in the bank. One of the main reasons for such relations between management and union is that there is no barrier of inter and intra departmental communication and information. Any employee can ventilate his or her grievance directly to the line manager or the GM or the ED without any complication. Management is always ready to

listen employees' problems without any prejudice or bias. The Union is completely non-political and just works for the welfare of the employees and the Bank.

- **Others:** employees will receive an amount of Provident fund and gratuity depending on years of service in the Bank. So far as the gratuity is concerned, depending on the number of years of bank service, it will be determined on the following basis: for 3 to 5 years of service, the amount equals 0.5 times number of years of service, for 5 to 10 years the amount equals to 1 times number of years of service, and for 10 or more years of service the amount is equal to 1.5 times number of years of service. However there are some weaknesses in the human resource management policies and practices:

  - Although the bank has a sound pay and benefit package, employee turnover still exists at the rate of about 5 percent per annum. Most of them are joining other joint venture banks.
  - Bank management is fairly successful in maintaining corporate culture and developing operational responsibility and authority to the line managers; however, managers' futures need training on the behavior improvement and participatory management styles.

2.1.1.3 Human Resource Management

NABIL Highly values its human resources and takes every possible initiative to develop and motivate than in order to achieve organizational objectives a well as individual development. Human Resources strategy of the Bank is guided by the mission statement of the Bank, that is; also to be the "Bank of 1st Choice "for its internal customers for their career progression in the Bank.

As of July 15, 2005, total permanent headcount in the Bank was 426. Total 336 staffs have attended various training programs to enhance their knowledge and skills during the same period. Out of the above numbers 31 staff attended training in India, 6 staff attended training abroad and remaining 299 staff attended in Nepal. 46 trainings held in Nepal were facilitated by outside experts from IIM-B, XLRI, NIBM, and Fun n Joy At Work, Mankidy Associates etc.

Total person-days training was 1304.55. Besides the above regular training program Bank also organizes some team building offsite programs. Total 29 managers attended a management Development offsite in April 2005 facilitated by the Borderland Resort at Gokarna Safari Park, Kathmandu.

The Bank also gives awards and appreciation letter to its staff as recognition of their commendable activities/initiatives for the growth of business, saving cost and handling critical and difficult situations to avoid loss of people and property of the bank. During the financial year 2004/5 three security guards and one staff were rewarded with cash prize and appreciation letter for their initiative and timely actions taken to save the bank from potential huge loss. Similarly, four staffs were also awarded with an appreciation letters for their initiative and innovative suggestions provided to the management. (Nabil bank, annual report 2006)

2.1.2 Nepal Bank Ltd.

NBL is the oldest bank in Nepal (established in 1935) - it is also the second largest bank with deposits of Rs. 35 billion. Originally, the Government owned the entire bank but its shareholding was sold down throughout the 1990s to reach 41%. The government's policy of successively selling shares to the general public has, however, left the bank without a strategic banking partner-and, meanwhile, the connected lending activities of the new private owners are thought to have further compromised its operations. In common with RBB it has suffered from weak management, political interference, and a lack of financial controls.

Using Word Bank assistance, HMG/N decided to bring in professional management from the Bank of Scotland to take over the day-to-day running of NBL in August 2002. Initial main areas of focus for the new management team have included, producing credible audited accounts for 2001 and 2002, designing and developing a minimum Information Technology (IT) platform for the bank, developing appropriate human resource policies for the staff, strengthening its treasury management function, identifying non-performing loans and establishing a loan recovery unit to deal with these NPLs. The Management is also restructuring the bank by reducing staffing levels by almost 50 percent; rationalizing the branch network; recovering on non-performing loans; and requesting delisting from the Nepal Stock Exchange (NEPSE). (Document of the World Bank, Jan 22, 2004, report no. 27417)

As per the objectives stated in the Commercial Bank Act, the Bank is established to increase economic welfare and facility of the general people, to provide loan in agriculture, industrial and commercial sectors and to provide banking facilities to the country and the people. Some of the major activities of the Bank are the following:

- Collection of funds through deposits in current, savings and fixed accounts.
- Utilization of funds by providing loans and increasing investment in agriculture, industries, irrigation, power and other sectors prioritized by the government.
- Foreign exchange transactions.

As far as the performance of the Bank is concerned, it has made a lot of progress in collecting deposits, mobilizing funds, increasing social and economic welfare of the general people, assisting trade, agriculture and industrial development and growth, making a reasonable amount of profit and providing employment opportunities directly and indirectly to many people in the country. Recently, the Bank reduced its rates of interest on deposit and lending. Although the present interest rates harass depositors, these certainly motivate investors.

2.1.2.1 Human Resource Policies and Practices at NBL

Two major departments concerned with the employment and development of HR are Department of Personnel Administration and Training Department. The existence of a separate training department in the Bank is an attempt to institutionalize HRD within the organization. The bank has its own employee rules and regulations guided by the Civil Service regulations system. Many policies and practices are still borrowed from the government system, which are found to be the main hindrances to the future development of the bank. Some of the major HR policies are presented below.

- **Recruitment, selection and placement:** Before 1990, about 80 percent of the employees were recruited into the Bank without a formal vacancy notice (known as backdoor entry). However, after the restoration of democracy in 1990 the system of backdoor entry has completely stopped. Normally, entry level starts at the assistant level.

  So far as the manpower planning in the Bank is concerned, departments have to present annual plans and budgets to the BOD. However, there are many instances where the boards of directors appoint employees without prior consultation with departmental heads. There are 11 groups of jobs starting from Deputy General Manager down to the peon, security guard and sweeper. Appointment and promotion (expect file promotion) in the Bank are made only after announcing vacancy. Fresh appointments for both officers' and non-officers' posts are made by conducing written examinations and interviews. On the recommendation of the Selection Committee, the final decision of appointment of non-officer employees are made by the General Manager or by any officer authorized by the General Manager. In the case of appointment of officer level employees, such decision is made by the BOD. Any appointee selected for the officer post has to work for a probation period of one year whereas for the non-officer post he or she has to work for six months. In case of poor performance of an appointee during probation period, he or she can be dismissed from the job.

  Appointments are made from both internal and external source. Out of the total vacancies for non-officer posts, normally 75 percent are advertised externally for fresh appointment and remaining 25 percent are internally promoted. On the other hand, in case of supervisor, assistant and department managers, of the total vacancies 50 percent are appointed from file promotion (promotion of a candidate based on his or her filed records of performance and experience), 25 percent by internal competition and remaining 25 percent are selected through open completion. However, line managers are of the view that the percentage of fresh entries needs to be increased for bringing in new talents in the Bank. They argue that these categories of employees are necessary for innovations at their traditional work places.

According to the Employee Regulations, any person of the age above 40 years will not be qualified to apply for any job in the Bank. Due to some unavoidable pressures from politicians and relatives in the recruitment and selection process, some top managers of the Bank opine that it is better to give this responsibility to an independent recruitment agency.

- **Training and development:** The Bank has its own Training Centre headed by a training manager. Although the Bank has been trying to institutionalize training as its main function, there are several institutional weaknesses in the lack of clear-cut in house training policies, program and budget. Trainees are getting nominal training allowance, which is not enough to cover even their daily expenses. The Centre lacks minimum logistic facilities such as computer, photocopy and fax machines. There is only one room to conduct training program. The Centre has no library facility and is always facing difficulty to develop and find training materials. Almost all line managers argue that in the present and future the training of the Bank's employees are urgent in order to cope with the new challenges that have been seen in the service sector.
- **Performance management:** As far as the performance management of the bank is concerned, every year a conference at the regional level is organized where all managers of different regions discuss problems encountered in different offices, future plans of the bank, human resources problems and find ways to strengthen the branches. All performance related problems are grouped into three categories:
    a. Those that can be solved at the local level
    b. Those which can be solved regionally
    c. those which are to be presented before the full board of the bank

Line managers are of the view that there should be standards of performance, and evaluation should be based on these standards. The Bank also has to standardize performance level, service required and performance plans. Performance evaluation of employees is made by supervisors and monitoring committees on the approval of the Board. Once evaluation is completed, its results are used for promoting employees in the organization. In the process of performance evaluation, the immediate supervisor, regional office, department head, supervisory committee and top management are involved. However, the scientific basis of performance evaluation is still in doubt. For example, an employee making 300 debit and credit entries every day at the Central Office, Katmandu is rated low in performance compared to an employee working in remote Nepal where he or she does not work that much even in a month.

Some employees stated that performance evaluation method in the Bank is very traditional and does not meet the professional requirements of the jobs. Many supervisors and evaluation committee members are not professionals.

- **Salary, allowances and other benefits**: Salary and allowances of the Bank's employees are determined following the BOD decision. In case of an employee having special skill and knowledge, BOD can make a special provision to provide salary above the prevailing rates. Each employee receives a monthly salary after deducting 10 percent Provident Fund. The same amount is deposited in the Provident Fund by the Bank on which a reasonable rate of interest- above the rate of interest on savings account - is provided by the bank. For the benefit of employees, they will receive various allowances.

  Since the Bank has to operate under restrictions of the government, it cannot follow a flexible or performance based salary system. It is therefore that the salary level and other facilities are far less compared to the joint venture banking. Although the result of wage survey shows that the Bank is providing pay and facilities above the rates that are offered by other public undertakings, some members of top management are of the view that the present pay and incentives are not enough to introduce changes to make the business competitive.

- **Promotions and transfers:** In principle, employee's promotions in the bank are made on the basis of educational qualifications, experience, training, result of performance evaluation and the number of years of service.

  The final promotion decision of the Banks' employees is, however, be approved by the BOD on the recommendation of the Promotion Committee, whereas for the non-officer employees such authority is given to the General Manager. As per the Employee Regulations of the Bank, generally, transfer of an officer level employee is done after completing 3 years of service at the present office. However, union members claim that this rule is not strictly followed by the bank. They have further stated that there are many examples where the bank has transferred its employees just after 3 or 6 months of posting.
- **Leaves:** Although not accepted as employees' rights, there are provisions for leaves such as: causal leave, sick leave, privilege leave, death rites leave, maternity leave, study leave, unpaid leave, unpaid deputation, special sick leave and special abnormal sick leave.
- **Others:** Any employee completing his or her 30 years of Bank service or 58 years of age will get compulsory retirement from the Bank service. There are provisions for pension as per the regulation of the Bank. In 1990 it offered an incentive package, namely 'golden handshake', to those who wanted to leave the organization voluntarily and who had completed 20 years of their services. Under this scheme, about 800 employees left the bank and in return, they received a lump sum gratuity amount equal to 7 years of salary. However, after 7 years of such retirement, the Bank promised to provide pension to these employees as per the employee regulation.

  The Bank's employees are not allowed to be members of any political party. Some of the serious offensive actions punishable in the Bank are: leaking information to press or media without management approval, misbehaving with the Bank's customers, publishing articles or essays criticizing banks' transactions and trying to influence any person to get any personal advantage.

2.1.3 Rastriya Banijya Bank

RBB is 100 percent Government owned. It is the biggest of Nepal's commercial banks with deposits of approximately Rs. 40 billion -25 percent of the Nepali banking system. RBB is technically insolvent with high levels of non-performing assets (NPAs)-and had an estimated negative net worth of US $ 335 million as of July 2003. A professional management team took over the bank in early 2003 - the new CEO, recruited on a fixed -term contract, joined the bank on January 16th 2003, followed by the rest of the team in late February 2003. In variance to the original concept, each member of the management team has been hired individually.

Due to the on-going insurgency, branches have been reduced from more than 200 to around 130 nationwide and the total number of staff in the bank is being reduced from 5522 to a target figure close to 3200 through a Voluntary Retirement Scheme (VRS) launched in September 2003. At the same time a process of computerization is underway and some 42 branches are expected to operate with an online system. RBB continues to suffer from a high percentage of non-performing loans although performance in this field is improving under the guidance of the new management team. (Document of the World Bank, Jan 22, 2004, report no. 27417).

2.1.3.1 Human Resource Policies and Practices at RBB

The major departments concerned with the employment and development of HR are Department of Personnel Administration, Training Department and planning strategy department. The existence of a separate training department in the Bank is an attempt to institutionalize HRD within the organization. The bank has its own employee rules and regulations guided by the Civil Service regulations system. Many policies and practices are still borrowed from the government system, which are found to be the main hindrances to the future development of the bank. Some of the major HR policies are below:

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1990 the system of backdoor entry has completely stopped. Normally, entry level starts at the assistant level.

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2.2 EMPIRICAL REVIEW

2.2.1 Investment on HRD and Importance of Its Analysis

Investment in human resource directly contributes to economic development and growth by promoting the knowledge and application of science and technology to production process (Rao, 1990). According to him this investment also help in developing innovations and research, training workers in technical skills needed for modern production and building up of the right type of attitudes, values and interests conducive to higher output (R.Jayagopal, 1990, HRD: *Conceptual Analysis and Strategies,p-94)*

Many authors have explained about the essentiality of investment on HRD. Salahudean (1990) has portrayed the linkage of androgenic strategies for developing functional literacy skills. According to him, the greatest and most renewable resources of all precious assets are those which never appear any budget or balance sheet - a man is brain. The human resource is the ultimate (basic) resource of a nation is reiterated again that investment in human development is more productive than investment in physical assets, and moreover, it leads to a faster rate of national growth. He also pointed out that immense manpower; superb skills and enterprise are to India, what oil is to West Asia. The only difference is that oil will be exhausted one day but human resources will never dismiss**.**

Study made by Schultc (1990) reveal that one of the important factors responsible for the rapid growth of the American economy has been increasingly relative outlays on education for the HRD. They pointed out that a dollar invested on education brings a greater increase in national income than a dollar spent on dams, roads, factories or other tangible capital goods. Economists therefore believe that it is the lack of investment in human capital which has been responsible for the slow growth of the developing countries. According to Schultc, etal (1990), investment in human capital means expenditure on health, education and social services in general and expenditure on education and training in particular. The investment in human resource is as necessary for general economic development as the investment in the material means to bring these about. The development status of a country can be gauged (measure) from the investment made by the state in human development.

Similarly, Resta J., (2006) suggested that for true and sustainable financial sector reform, in addition to addressing issues on loan recovery and loan management, we clearly need to focus on building capacity in the financial market, by providing institutions and employees platforms to acquire specialized and focused knowledge of global banking products. An understanding of these products will add significant value for customers and also enable banks to explore new opening to generate additional revenue streams.

Pokhrel (2002) indicated that investment on HRD is a valuable investment. Investment analysis on the human resource is one of the major factors which help in making decisions on proper investment of financial institutional and measuring the risk, return and output from such investments. **(**Pokhrel, 2002.)

Rao (1990) evaluated the importance of investment on human capital in various developed countries. For example he discussed how economy of US is boosted due to investment in human capital such as expenditures on information, labor mobility, health, education, and training. All these factors are responsible in enhancing the productive capacity of a worker and how loss of human capital. He also explained the degradation of the economy of UK due to loss of human capital. He analyses the economic losses from the London plagues with the examples of estimated value of an English man's production, the extra probability of his death if he remained in London, and the cost of transportation from the city. He concluded that expenditure to move people and thereby to save lives, would indeed be a financially wise investment.

Capital Investment analysis for managers {Byers S., Groth J., Richards R., Wiley M.- MCB University Press, ISSN (0025-1747)}

Selection of good capital projects is cardinal (basic) in efforts to add value to a company and to the economy. The proper analysis of capital projects is essential. Leaders, managers and analysts have the responsibility for identifying, approving, managing or analyzing potential capital investments.

Several factors motivate an understanding of the basics of investment analysis. First, the professional manager, regardless of functional specialty, benefits from a practical knowledge of the important elements of analyzing and selecting capital projects. Second, a well-executed analysis often requires estimates best provided by those with functional area expertise and experience. For example, the analyst may call on the marketer to estimate sales levels at various prices or the production specialist and accountant to estimate variable costs of production.

This paper provides the conceptual basis, perspectives and guidelines for analysis of capital investments. The breadth and depth of presentation is appropriate for professionals regardless of functional area. On another occasion we will address specific nuances of investment analysis of particular interest to just the financial professional.

Byers et al, (date) discusses a brief description of the nature and importance of capital investments, related issues of import to leaders and managers, and a review of important concept. Attractive capital investment offer economic returns sufficient to compensate investors for capital invested at risk. The decision to place capital at risk hinges on properly evaluating the prospects of earning attractive economic returns and recovering the invested capital. Capital projects are long-term-their life extends beyond the current period – and they support the creation of goods and services. Success at the “point of value” allows the company to transform capital in the form of goods and services back into cash. Good capital projects generate incremental net cash returns that exceed the cost of capital employed in the project. For now, the cost of capital is assumed to be the opportunity cost on funds after taking account of risk or the returns available elsewhere with the same risk exposure.

Next, the paper identifies important factors in capital investment analysis and provides practical guidelines for analysis. Proper identification, selection and management of projects are important. Realizing returns in excess of the cost of capital adds value to the company and society. Good projects also result in capital formation in the economy with a host of attendant benefit to society. In contrast, projects generating less than the cost of capital destroy value and adversely affect the company, shareholders and society. Projects with a negative economic return destroy capital. **An economic analysis must capture the timing and risk of cash flows and the exposure at risk of invested capital**. It also must consider the opportunity that one could employ the capital in another attractive alternative, an alternative that we will capture by using the appropriate opportunity cost of capital in the analysis. On the decision time-line, this certain cash exists now. The dollar amount of the cash today is its present value. The company must decide if it should exchange certain, present value. The company must decide if it should exchange certain, present value capital (cash) for an uncertain capital project. Transforming cash into capital in the form of a project increases risk. The company hopes the cash returns that will occur at future points in time provide for a recovery of capital and a sufficient net economic return to justify the investment of capital at risk.

2.2.2 Techniques of Investment Analysis

After investing, the organization must do the analysis of investment and investing the money, the organization has to evaluate the investment fund. For evaluation of the investment, the organization has to use different kind of activities. So investment analysis is a systematic exploration of the activities within an investment. It is a basic technical procedure, one that is used to define the risk, return, assets and markets of the investment, (Jack C.F,Willion F.S, Gordon J.A, Jeffery V.B., 7th edition, *Investment Analysis and Management*).

Instead of investing the fund themselves, they entrust their investment decisions to some portfolio management service, many investment companies like mutual fund have been developing to manage the funds and to delegate the investment management function to a particular investment management service institution the fund controller should evaluate the performance of these service companies. This type of evaluation is called Investment analysis.

The organization must know how their investment stage is and is it use on proper way or not, is it expected return or not, how is stage of the risk? By this investment analysis, the organization can find how much use for the salary, how much invest on training, for motivation, rewards, allowances, and for other facilities and also invest in these sector is effective or not and how much risk. All of these problems will be solved by the investment analysis on the HRD which direct effects the financial institutions and this is involved in the development of the countries' economy.

2.2.3 Measurement of Human Resources Development

Brument et al**, 1968** pointed out that most of the corporate annual reports are not able to address the important questions like “What is the value of this “most important” or “most valuable” human asset? Is it increasing, decreasing, or remaining unchanged? What return, if any, is the firm earning on its human assets? Is the firm allocating its human assets in the most profitable way? Although financial reports do not presently provide the information necessary to answer such questions, a growing number concern that their accounting systems are not adequate.

As corporate managers make expenditures which they justify as investments in human resources, accountants reflect them as immediate charges to income without considering the timing of expected benefits. This treatment is elected because investments in people seem more tenuous (thin) than investments in machines, and because there are special difficulties involved in distinguishing between the future benefits of such expenditures and the portion consumed currently. We also have difficulty thinking of people individually as assets since they are not legally owned by the firm and because of cultural constraints or taboos on the notion of valuing an individual in monetary terms.

2.2.4 Human Resource Accounting

A Statement of Basic Accounting of the American Accounting Association describes the importance of the accounting of human assets in the several phases of management’s planning. Human resource accounting information is critical in the evaluation of alternatives. It can be useful in capital budgeting decisions involving human resources, where the impact of decisions on human assets is typically considered to be a “qualitative” factor and accordingly, is ignored. It can also be used to evaluate investments in human capital.

At present, rather sophisticated tools are used to evaluate alternatives in capital budgeting decisions. Yet the effects of decisions on human assets are generally ignored, or considered to be nil. Further, human assets are not included in the asset base used to calculate rates of return on investment. Accordingly, human assets are implicitly assumed to be a free good, without cost. But since human as well as physical assets have an opportunity cost associated with their use, this cost should be quantified and considered in evaluating alternatives.

Another problem area which can be recognized and defined with information about human resources involves personnel turnover. Although it is generally recognized that turnover is costly to the firm, managers do not have adequate measurements of the magnitude of such losses. It has been estimated that the insurance industry, for example, experiences a 100% turnover of agents in about 5 years, yet the amount of associated cost is unknown. Measurements of these costs could be useful in deciding on remedial action and the assessment of results. Some organizational psychologists like Rensis Likert of the University of Michigan's Institute for Social Research, believe that certain managerial leadership styles result in the long-run liquidation of human assets while showing immediate increases in earnings. Likert believes that managers are sometimes encouraged to put pressures on employees for cost reduction which result in immediate increases in current net income as measured by conventional practice. But these also result in unmeasured deterioration of employee attitudes, motivation, and other psychological variables that will determine the level of profits in future periods. If the accounting system provided measurements of the value of the firm's human resources and their changes over time, the "net income" (as conventionally defined) might be adjusted to reflect changes in the value of human resources, in order to avoid the illusion of reporting of "profits" derived from the liquidation of human resources. A net income figure adjusted for changes in the value of human resources would thus give a more realistic measurement of managerial effectiveness (**Brument** et al**, 1968)**.

Human resource accounting should make it possible to evaluate investments in human assets themselves. Many firms invest heavily in training programs without evaluating the expected payoff or return on such investments. Similarly, it is currently in vogue for firms to send their managers to a vogue (trend) for firms to send their managers to a variety of executive development programs. The value of such training and development programs is essentially taken on faith, with such expenditures treated as a luxury that the firm can afford only when its profits are high. It is suggested that a systematic attempt should be made to evaluate the yield or return on these investments over time.

Accounting for human resources will tend to move “the human factor” from a qualitative factor that is typically held constant or ignored to a quantitative one which may be an integral part of decision models. Human resource accounting should also be useful in reporting on actions taken and result achieved in relation to objectives and goals. Information about the composition of investments in human resources can be analyzed to determine standard costs of recruiting, hiring, training and developing individuals in order to bring them up to their present level of technical competence and familiarity required for a given position. In addition to providing a cost control mechanism, these data should be useful to estimate replacement costs to acquire people for various positions. Replacement costs can be used to budget investments in manpower planning and development. The result is a standard cost accounting system for human resource costs similar to that for manufacturing costs.

2.2.5 Multiple Measures of Human Resources

Brument et al**, (1968)** suggested different indices for the measurements of human resources should assist in recognizing and defining problems. Trends in the ratio of investments in human assets to total assets (the human asset investment ratio) may be a useful predictor of future profit performance. There is some evidence to indicate a degree of meaningful correlation between profitability of organizations and their expenditures on acquisition, training, and retention of human resources. This suggests that firms with a high human asset investment ratio will ultimately generate high profits, while firms with a low ratio may experience profit declines.

In developing human resource accounting, an attempt is being made to measure human resources in terms of their acquisition cost, replacement cost, and economic value. Acquisition cost refers to the conventional accounting concept of historical cost which is derived from transactions data. It provides a basis for determining the firm’s cost to acquire its (www. Jstor.org, wed. mar 2006) Human resources and thus the magnitude of its investment in human resources.

Replacement cost is a measure of the cost to replace the firm‘s existing human resources. It should indicate what it would cost the firm to recruit, hire, train, and develop people to their present level of technical proficiency and familiarity with the organization and its operations. The concept of the economic value of human resources is the present value of the portion of the firm’s future earnings attributable to human resources. The use of these multiple concepts should contribute to the objective of developing useful approximations of the unknown value of human resources and the unknown value of human resources and the changes taking place in this value.

While there are some special problems associated with acquisition and replacement cost measurements of human resources, the basic approach is similar to those related to other assets. Problems of estimating value in a more direct way present some interesting possibilities. Earnings in excess of the average within an industry may be translated into “goodwill”, which may be allocated to human resources in terms of the ratio of human assets to total assets.

Periodic measurements are being made of the behavior of managers and supervisors and their level of technical proficiency, the resulting motivations, loyalties, and behavior of subordinates, and the communication, decision making, and control processes of the divisions or profit centers. Statistical analysis of variations in leadership styles, technical proficiency levels, motivational, attitudinal, behavioral, and performance variables. If, for example, a meaningful relationship is established between changes in leadership styles (causal variables) which result in changes in subordinate attitudes, motivations and behavior (intervening variables), which produce changes in productivity, innovation and manpower development (end result variables), then trends in earnings can be predicted. Forecasts of predicted earnings can be discounted to determine the present value of the firm and its human resources.

The Human Organization: Its Management and Value. It is important to note that although evidence exists that there are definite meaningful relationships among these variables, little has been done to apply these findings to the problem of valuing human resources.

After human resource accounting systems have been designed and installed in a number of organizations, the second phase of the research may be undertaken. This phase will involve monitoring the way in which the system is being used in order to increase knowledge of the application of the system. Although a number of potential uses of the system are presently anticipated, more will be learned about the specific ways in which human resource information may be used in decision models. The technique of simulation will be utilized to determine whether decisions involving people will be modified if information about human resources is used in decision-models. The technique of simulation (model) will be utilized to determine whether decisions involving people will be modified if information about human resources is used in decision-models.

The third phase of the research will be aimed at developing a body of generalizations about the impact of human resource accounting people. The basic thrust will be to determine how people react to being viewed as assets or resources of an organization with a monetary figure designated as the firm's investment in them; whether knowledge of the firm's investment in an individual will affect the individual's attitude toward the organization or his motivation and productivity; and the ways in which knowledge of differential investments in people will affect relationships among peers and between superiors and subordinates.

It is significant to note that many of the concepts and much of the terminology being used in developing human resource accounting are being adopted from conventional accounting. They are merely being applied to a problem that has been relatively ignored. Although familiar accounting concepts and terminology are being used, human resource accounting is not being designed for use in published financial statements. It is designed to satisfy information needs presently faced by operating management with relevant, timely quantifiable and verifiable information about human resources to encourage informed judgments and decisions. It is future oriented and thus deals not only with transactions data as conventional accounting, but also with measurements of replacement cost and economic value. Since human resource accounting is intended as a managerial tool, it need not be constrained by accounting conventions, legal restrictions, or tax laws.

The relevance of human resource data for management decisions can hardly be denied. Although the reliability of measurements in the field is not yet fully established, a start has been made and businessmen are reacting with understandable enthusiasm. (www. Jstor.org, wed. mar 2006)

2.3 CONCEPTUAL FRAMEWORK

Various researchers have conducted internationally on the issue of investment analysis on HRD but in the Nepalese contest, it is difficult to find the any researcher have conducted to analyze the risk analysis and effect of investment on HRD on development of organization due to the organization never thought it is one of the capital. Despite of this lacking, the study tries to identify on the investment (risk and returns) analysis on HRD of the banking institutions and conducted to provide basic and necessary information about investment process. Also help in decision making processes about how to set investment policies and how to analyze and evaluate the value of investments worthwhile over different time periods.

However, the Banking institutions are unwilling to investing on HRD. Many believe that only costly machinery, new building structure, decorations and new technology provides the high productivity. They are unaware of increment in productivity of the institution by the investment and its analysis on HRD. To assess the position of HRD in Banking Institutions, This study is focused on the investment (risk and returns) analysis on HRD of the banking institutions and conducted to provide basic and necessary information about investment process. This current study has helped in decision making processes about how to set investment policies and how to analyze and evaluate the value of investments worthwhile over different time periods. The result from this study has provided answers to the following questions:

What is the investment trend of HRD in Banking Institutions?

1. What sort of return do banks expect for their investment in HR?
2. What is the major risk factor of insufficient expected return for investment on HRD?
3. What is the effective investment of key factor of HR?
4. Can investment in HRD help make other investment more productive in banking institutions?
5. What is the forecasted return of investing on the HRD?

7. What is the relation between investment on HRD and efficiency output?

This study, on the basis of the survey conducted at banking Institutions, tries to explore the above mention issues.

CHAPTER 3

RESEARCH METHODOLOGY

Research means to research the problems again and again to find out something more about the problem. Methodology refers the barious steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. Thus, research methodology is a way to systematically analyze the logic behind problems so as to find out something about the problems. (Mahat, Kiran, 2008).

An appropriate choice of research methodology is a difficult task. Which is must necessary to support the study in realistic term with sound empirical analysis. So that the study uses the following research methodology like research design, population and sample, data collection procedure method
s of data analysis, methods of presentation etc. Detail explanations of the above points are given which seems appropriate to understand methodology in detail.

The banking institutions are one of the direct contributed and essential role played sectors to develop the economy of country and also these institutions are more transparent. Without analysis of investment on HRD, the institutions cannot investment on development of HRs in the proper way and the skillful and knowledgeable HRs essential role contribute to develop the institutions. In this part of sector, no research or study has been done on analysis of investment on HRD in the banking institutions. Therefore, banking institutions, being one of the important sectors of country's economy, are selected for this study.

3.1 RESEARCH DESIGN

The main objective of this research is directed to the investment analysis and interpretations on HRD of the banking institutions and the output of the banking institutions by the analysis of investment on HRD. The research design has been carried out by using quantitative and qualitative analysis methods. Mostly, the secondary data will be used for analysis. Hence, research design for undertaking this study will be based on the descriptive and analytical method. In order to analyze and interpret the findings, a suitable research mythology must be applied. This section focuses on the methodologies employed for the analysis and interpretation of the banking institutions.

3.2. NATURE AND SOURCES OF DATA

- Financial (investment and profit) data of banking institutions
- Interview with the Human Resource managers.
- Primary and Secondary data.

3.3. POPULATION AND SAMPLE

In this research data has been collected from the randomly selected banking institutions. All the banking institutional of the kingdom are taken as the population whereas; three banking institutions will be the sample, which is listed as follows: -

1. NABIL Bank Ltd.
2. Nepal Bank Ltd. (NBL)
3. Rastriya Banijya Bank (RBB)

3.4. VARIABLES AND THEIR OPERATIONALISATION

The variables which used in this study are listed below. Depending on data availability and the variable with reliable data will be selected from the list.

- Salary
- Allowances
- Promotion
- Provident Fund contribution
- Gratuity and Pension
- Training/ Management Development
    - Internal Training
    - External Training
- Package Tour
- Study Facilities
- Rewards
- Others

3.5 DATA COLLECTION TECHNIQUES/INSTRUMENTS

Research has been based on secondary data and has been analytical as well as descriptive in nature. Appropriate financial and statistical tools will be used.

- websites
- Published and unpublished reports of the banks
- Books, magazines, newspapers and journals.
- Banking Directives issued from time to time by NRB.
- Economic Surveys of FY 1997/98, 1998/99.
- Unpublished official records.
- Previous studies and reports/thesis

Besides the above-mentioned sources, the researcher will conduct a detailed review of the relevant literature in order to acquire the in–depth information and data. For the review purpose, the relevant literature will be collected from libraries and other available reliable sources.

3.6 RELIABILITY

The quantitative data of this research is collected from the annual reports and financial statement of the banking institutions. So, the quantitative data will be reliable. Significance tests will be performed for statistical significance of the results whenever necessary. However the qualitative data obtained from the interviews and questionnaire will only be the perceptions.

3.7 METHOD OF DATA ANALYSIS AND TOOLS

For the analysis and interpretation of the data and information, basically the following tools are used.

3.7.1 Financial Tools.

The investment analysis will be used as the financial tool for the data analysis. They are:

- Return on Investment (ROI)

$$ROI = \frac{\text{Net Profit}}{\text{Investment}}$$

ROI is a system of measuring the rate at which HRD provides a return on the (investment) of HRD activity. The ROI approach has been widely promoted and has achieved a high degree of acceptance by HRD practitioners (Philips, 2002)

The basic approach of ROI is to calculate all of the direct and indirect costs of an HRD program; gather baseline data per training to the area or activity that is to be the focus of the HRD; and analyze the effects or outcomes from the HRD program on the area or operation under examination.

Formula

$$ROI = \frac{NPAT}{\text{Investment on HRD}}$$

Where

ROI= Return on Investment

NATP= Net Profit After Tax

HRD= Human Resource Development

3.7.2 Statistical Tools

The following statistical tools will be used in this research for analyzing and interpreting the data and information in order to draw the best possibly reliable conclusions:

- Trend analysis
- Pearson's coefficient of correlation
- Regression analysis
- One-way ANOVA

3.7.2.1 Tend Analysis

For Trend Analysis, Three models are used

- Linear:
- Quadratic
- Exponential:

Procedures

- **Bivariate Correlations:** The Bivariate Correlations procedure computes Pearson's correlation coefficient, Spearman's rho, and Kendall's tau-b with their significance levels. Correlations measure how variables or rank orders are related. Before calculating a correlation coefficient, screen your data for outliers (which can cause misleading results) and evidence of a linear relationship. Pearson's correlation coefficient is a measure of linear association. Two variables can be perfectly related, but if the relationship is not linear, Pearson's correlation coefficient is not an appropriate statistic for measuring their association.

  Statistics. For each variable: number of cases with non-missing values, mean, and standard deviation. For each pair of variables: Pearson's correlation coefficient, Spearman's rho, Kendall's tau-b, cross-product of deviations, and covariance.

- **Pearson correlation**: A measure of linear association between two variables values of the correlation coefficient range from -1 to +1. The sign of the coefficient indicates the direction of the relationship and its absolute value indicates the strengthen with layer absolute values indicate stronger relationships.

- **Regression:** Regression is the estimation of unknown values or prediction of one variable from known values of other variables. This analysis is a mathematical measure of the average relationship between two or more variables in terms of the original units of the data.

- **Curve Estimation:** The Curve Estimation procedure produces curve estimation regression statistics and related plots for 11 different curve estimation regression models. A separate model is produced for each dependent variable. You can also save predicted values, residuals, and prediction intervals as new variables.

Statistics: For each model: regression coefficients, multiple R, R2, adjusted R2, standard error of the estimate, analysis-of-variance table, predicted values, residuals, and prediction intervals. Models: linear, logarithmic, inverse, quadratic, cubic, power, compound, S-curve, logistic, growth, and exponential.

- **Linear Regression:** Linear Regression estimates the coefficients of the linear equation, involving one or more independent variables that best predict the value of the dependent variable. For example, you can try to predict a salesperson's total yearly sales (the dependent variable) from independent variables such as age, education, and years of experience.

  Statistics. For each variable: number of valid cases, mean, and standard deviation. For each model: regression coefficients, correlation matrix, part and partial correlations, multiple R, R2, adjusted R2, change in R2, standard error of the estimate, analysis-of-variance table, predicted values, and residuals. Also, 95% confidence intervals for each regression coefficient.

$Y= b_0+ b_1t$

i.e. ROI = $b_0+ b_1\, t$ (t= time t^{th} year)

Quadratic equation:

$Y= b_0 + b_1t + b_2t^2$

i.e ROI = $b_0 + b_1t + b_2t^2$

Exponential equation:

$Y= b_0e^{b1t}$

i.e. ROI = b_0e^{b1t}

Where

Y (ROI) = dependent variable (Profit of institutions)

t =Time (t) other of year

b_0 = Y-intercept because its value is the point at which the line crosses the Y - axis (the vertical axis)

b_1 = slope of the line (i.e. it measures the change in Y per unit change in t).

- **One -Way ANOVA:** The One-Way ANOVA procedure produces a one-way analysis of variance for a quantitative dependent variable by a single factor (independent) variable. Analysis of variance is used to test the hypothesis that several means are equal. This technique is an extension of the two-sample t test.

  In addition to determining that differences exist among the means, you may want to know which means differ. There are two types of tests for comparing means: a priori contrasts and post hoc tests. Contrasts are tests set up before running the experiment and post hoc tests are run after the experiment has been conducted. You can also test for trends across categories.

  Statistics : For each group: number of cases, mean, standard deviation, standard error of the mean, minimum, maximum, and 95% confidence interval for the mean. Levene's test for homogeneity of variance, analysis-of-variance table and robust tests of the equality of means for each dependent variable, user-specified a priori contrasts, and post hoc range tests and multiple comparisons.

- **Standard Error (SE)**: The standard error of a method of measurement or estimation is the estimated standard deviation of the error in that method. Specifically, it estimates the standard deviation of the difference between the measured or estimated values and the true values. Notice that the true value of the standard deviation is usually unknown and the use of the term *standard error* carries with it the idea that an estimate of this unknown quantity is being used. It also carries with it the idea that it measures, not the standard deviation of the estimate itself, but the standard deviation of the error in the estimate, and these can be very different.
- **Significant:** Significant" means important, while in Statistics "significant" means probably true (not due to chance). A research finding may be true without being important. When statisticians say a result is "highly

significant" they mean it is very probably true. They do not (necessarily) mean it is highly important.

- ***R-Squared:*** R-Squared is a statistical term saying how good one term is at predicting another. If R-Squared is 1.0 then given the value of one term, you can perfectly predict the value of another term. If R-Squared is 0.0, then knowing one term doesn't not help you know the other term at all. More generally, a higher value of R-Squared means that you can better predict one term from another.

  R-Squared is most often used in linear regression. Given a set of data points, linear regression gives a formula for the line most closely matching those points. It also gives an R-Squared value to say how well the resulting line matches the original data points.

- **Coefficient :** Statistical method that explains how much of the variability of a factor can be caused or explained by its relationship to another factor. Used in trend analysis, it is computed as a value between 0 (0 percent) and 1 (100 percent)—higher the value, better the fit. Symbolized by 'r^2' because it is square of the 'coefficient of correlation' symbolized by 'r', it is an important tool in determining the degree of linear-correlation of variables ('goodness of fit') in regression analysis. Also called r-square.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

This section presents analysis, results and discussion of the study. This chapter is divided into two primary sections. In the first section, some main figures of the banks on human resources are presented. In the second, the collected data was analyzed using various methods described in the Chapter 3 to fulfill the objectives of the study.

Data has been collected for the study from both primary and secondary sources. Primary sources include questionnaires, data collecting forms, and note cards. Different methods of presentation have been applied to tabulate and present the collected data and have been arranged in graphs and tables.
The main purpose of analyzing the data is to change it from unprocessed form to an understandable presentation. The analysis of data consists of organizing, tabulating and performing its statistical analysis.

4.1 COMPARISON OF HUMAN RESOURCES SECTOR IN THE BANKS

The total number of staff and total investment in HRD is presented in Figure 4.1a through Figure 4.1b. These graphs are based on the last year of the collected data series for each bank for NABIL it is 2007, for NBL it is 2004 and for RBB it is 2007.

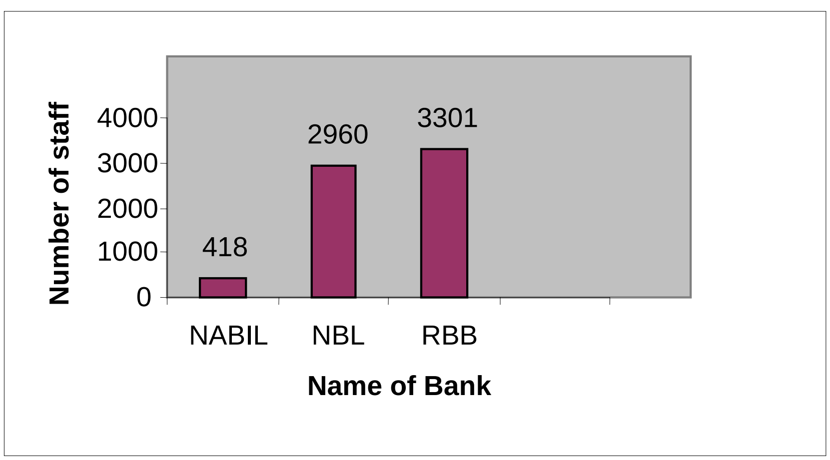

Figure 4.1a Comparison of number of staff

Figure 4.1a shows that the number of staff is highest in RBB and NABIL has the lowest number of staff. The number of staff for RBB and for NBL is about 8 times and about 5 times higher than NABIL on the year 2007.

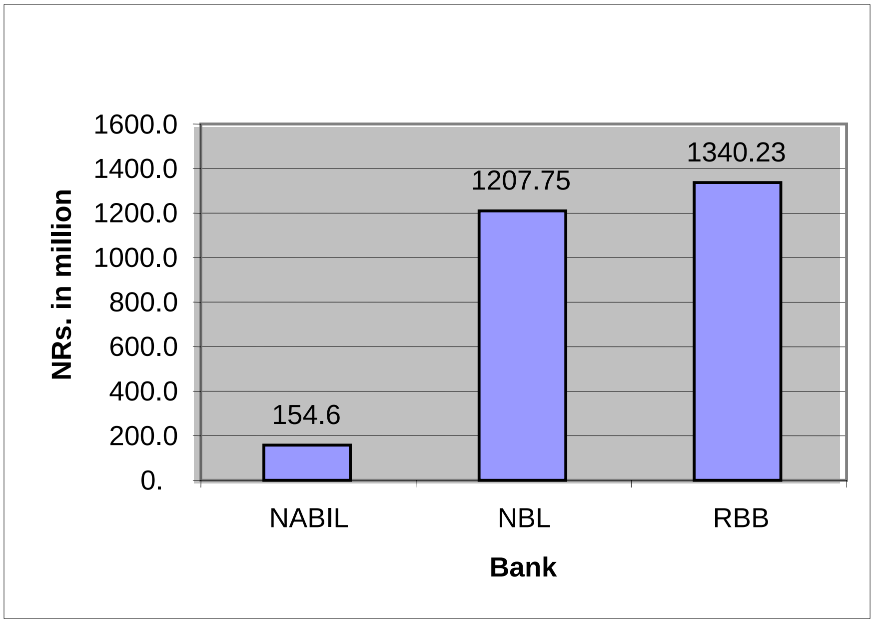

Figure 4.1b Comparison of Average investment on HRD

Figure 4.1b shows that the NBL and RBB have similar average investment and NABIL has the lowest average investment on the HRD. The average investment on HRD for NBL and RBB is about 5 times higher than NABIL. Above average Investment on HRD was taken from the year 1996 to 2006 for NABIL, from the year 2000 to 2004 for NBL and from the year 2001 to 2006 for RBB.

The comparison of above two Figures 4.1a and 4.1b shows that the average investment on HRD is high for RBB and for NBL, which could be because of the number of staffs are high while the average investment on HRD is less for NABIL which could be the number of staffs are less.

4.2 ANALYSIS AND PRESENTATION

This study has three objectives. To achieve the first two objectives, the financial tool Return on Investment (ROI) is analyzed. For the third objective, the data collected from questionnaire and interview method were analyzed.

4.2.1 Analysis of Investment on HRD for Banking Development

The first objective the study is to analyze the investment on HRD and its effect on HRD of banking institutions. The main financial tool used in this study to analyze the HRD is Return on Investment (ROI). ROI is a system of measuring the rate at which HRD provides a return on the cost (investment) of HRD activity. The ROI approach has been widely promoted and has achieved a high degree of acceptance by HRD practitioners (Phillips, 2002). The basic approach of ROI is to gather baseline data pertaining to the area or activity that is to have the focus of the HRD, calculate all the direct and indirect costs of an HRD program and analyze the effects or outcomes from the HRD program on he area or operation under examination.

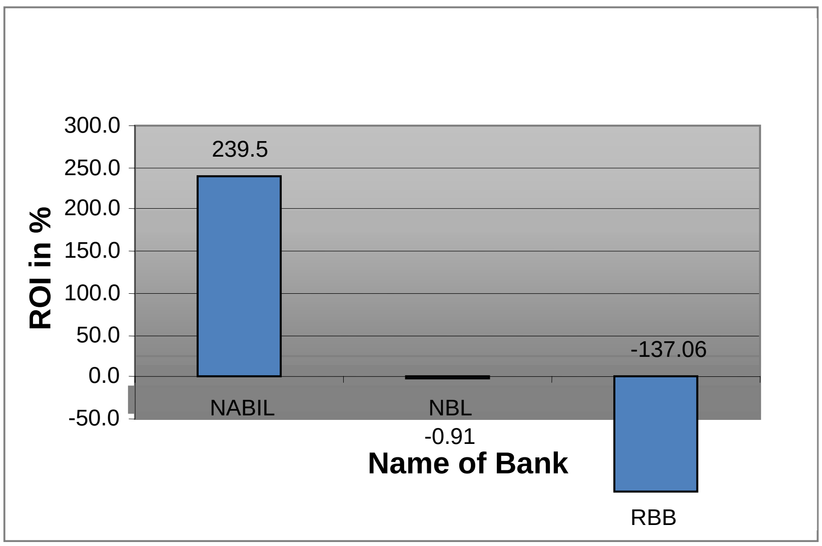

Figure 4.2.1 Average Return on Investment of HRD

Figure 4.2.1 shows that the Average Return on Investment of each banks. This chart shows that NABIL has high average Return on Investment on HRD despite its low investment on HRD. This indicates NABIL has effective investment than other two banks. The average Return on Investment on HRD for RBB and NBL a negative average Return on Investment on HRD.

The statistical method correlation method is used to analyze the effect of investment on different sectors of HRD on development of banks. In this method, the correlation between investment in each sector and its corresponding ROI is computed. For this analysis Pearson Correlation method is used at 95% of significance level. The correlation results are presented Table 4.1, Table 4.2 and Table 4.3 for NABIL, RBB and NBL respectively.

Table 4.1: Pearson Correlation Coefficient between investment in HRD and ROI for NABIL

Key HRD Factors	Correlation Coefficient	Significance level at 95%	No. of Years
Training	0.911	99%	11
Salary	0.838	99%	11
Allowances	0.251	68%	6
Medical	-0.758	96%	6
Insurance	-0.867	98%	6
Provident fund	0.111	64%	11
Gratuity and pension	-0.820	99%	11
Other	-0.705	94%	6

For NABIL (Table 4.1), investments in Medical, Insurance, Gratuity and Pension and Other have negative correlation with ROI. The negative correlation shows investment in these sector reduces return, thus these investments are not effective. Among these, the highest negative correlation is found for investment in insurance is least effective. Investment in Training, Salary, Allowances and Provident fund have positive correlation with ROI. Among these key sectors, the highest correlation is found in Training is effective investment.

Table 4.2: Pearson Correlation Coefficient between investment in HRD and ROI for NBL

Key HRD Factors	Correlation Coefficient	Significance level at 95%	No. of Years
Training	0.088	54%	5
Salary	-0.920	96%	5
Allowances	0.632	82%	5
Medical	-0.883	94%	5
Welfare	-0.38	69%	5
Insurance	-0.883	94%	5
Provident fund	-0.879	94%	5
Gratuity and pension	0.793	90%	5
Uniform	-0.532	77%	5
Other	0.344	67%	5

For NBL (table 4.2), investments in Salary, Medical, Welfare, Insurance, Provident fund, Uniform have negative correlation with ROI. The negative correlation shows investment in these sector reduces return, thus these investments are not effective. Among these, the highest negative correlation is found for investment in Salary is least effective. Investments in Training, Allowances, Gratuity and Pension have positive correlation with ROI. Among these key sectors, the highest correlation is found in Gratuity and Pension is effective investment.

Table 4.3: Pearson Correlation Coefficient between investment in HRD and ROI for RBB.

Key HRD Factors	Correlation Coefficient	Significance level at 95%	No. of Years
Salary	-0.902	99%	6
Allowances	0.41	79%	6
Provident fund	-0.943	99%	6
Training Expenses	0.62	91%	6
Uniform	0.28	71%	6
Medical	-0.60	89%	6
Insurance	0.19	64%	6
Others	0.18	63%	6
Package Tour	0.77	94%	5
Welfare	-0.999	99%	3
Promotion	0.940	89%	3
Reward	0.684	89%	5

For RBB (Table 4.3), investments in Salary, Provident Fund, Medical and Welfare have negative correlation with ROI. The negative correlation shows investment in these sector reduces return, thus these investments are not

effective. Among these, the highest negative correlation is found for investment in Welfare is least effective. Investment in Allowances, Training, Uniform, Insurance, Others (Welfare Provident Fund, leave encashment, overtime, Dashain expenses, employees loan and others waivers, employee welfare, fund, endowment life insurance fund, miscellaneous), Package tour, Promotion and Reward have positive correlation with ROI. Among these key sectors, the highest correlation is found in Promotion is effective investment.
RBB.

Key Factor wise, investment in training in NABIL has highest positive correlation with ROI, showing effective investment on training, while RBB and NBL have very low correlation in this sector, indicating less effectiveness of the investment in training in these banks. In another sector salary, which is main motivational factor for the HRD (Bhandari, The Himalayan Times, 2008), NABIL has positive correlation, but RBB and NBL have negative correlation. This negative correlation depicts the situation where operational efficiency of the Banks have been negative due to heavy operating expenses and assumption that the increase in salary leads to increased productivity does not prevail. Bank officials in interview revealed the fact that appropriate level of investment in salary has not been possible in these banks because of over-staffing.

4.2.2 Forecast of Return of Investment on HRD

The second objective of the study is to forecast the ROI of Total investment in HRD for the year 2008. To achieve this objective trend analysis is done. In trend analysis, three curves (Models) were used and the best among these three is selected to forecast the ROI for 2008. The best curve is chosen based on highest R^2, lowest standard error (S.E.) and highly significant level.

In trend analysis ROI of investment on HRD of NABIL, three models were fitted. These models are Linear, Quadratic and Exponential. The equation of the model, R^2, S.E. and level of significance are present in Table 4.4. Based on R^2, St. Error and significant level exponential curve fits best on ROI on total investment trend. The best curve (Exponential) is shown in Figure 4.2.2.

Table 4.4: Parameters of Trend Analysis for NABIL

Model	Method	R^2	S.E	Significance level
ROI= 1.66 + 0.12t	Linear	0.60	0.33	More than 95%
ROI= 1.99+ (-0.036)t + 0.013 t^2	Quadratic	0.66	0.33	Not significant
ROI= 1.74 $e^{0.048t}$	Exponential	0.60	0.14	95%

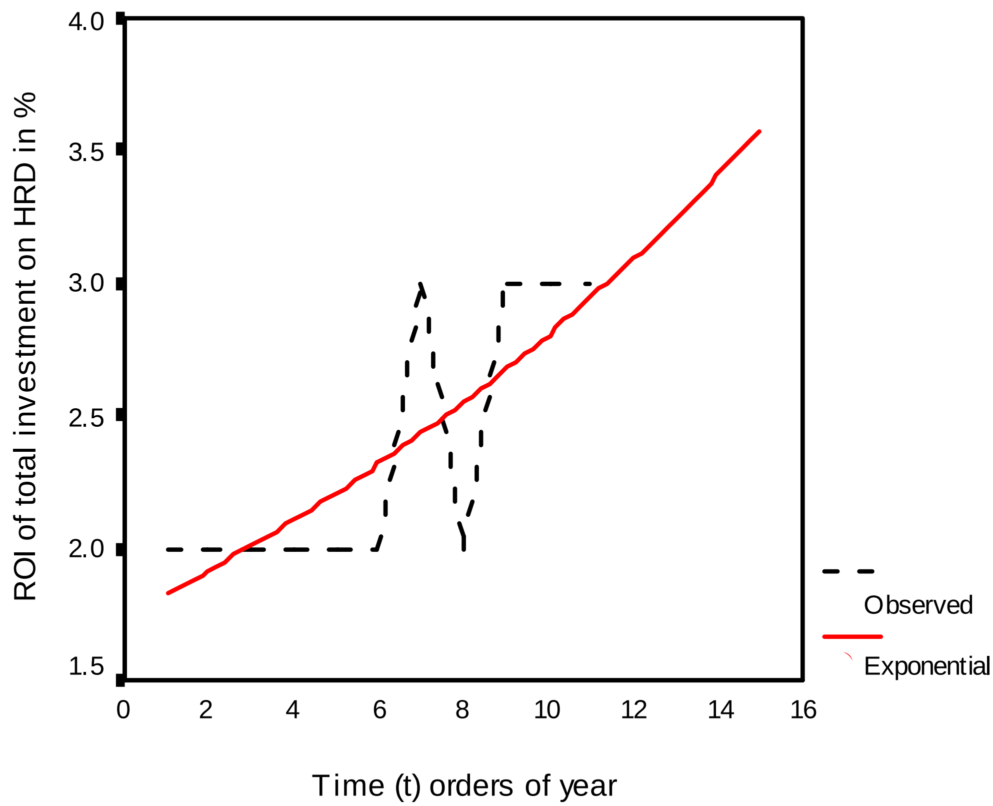

Figure 4.2.2 : Exponential for ROI of Total Investment on HRD of NABIL

In trend analysis ROI of investment on HRD of NBL, two models were fitted. These models are Linear and Quadratic. In this case also, the exponential curve could not be used due to the negative data. The equation of the model, R^2, S.E. and level of significance are presented in Table 4.5. Based on R^2, S.E. and significant level, Quadratic curve fits best on ROI on total investment trend. The best curve (Quadratic) is shown in Figure 4.2.3.

Table 4.5: parameters of Trend Analysis for NBL

Model	Method	R^2	S.E.	Significance level
ROI= 1.66 + 0.12t	Linear	0.68	128.14	1.2%
ROI= 1.988+ (-0.036)t + 0.013 t^2	Quadratic	0.98	44.75	86%

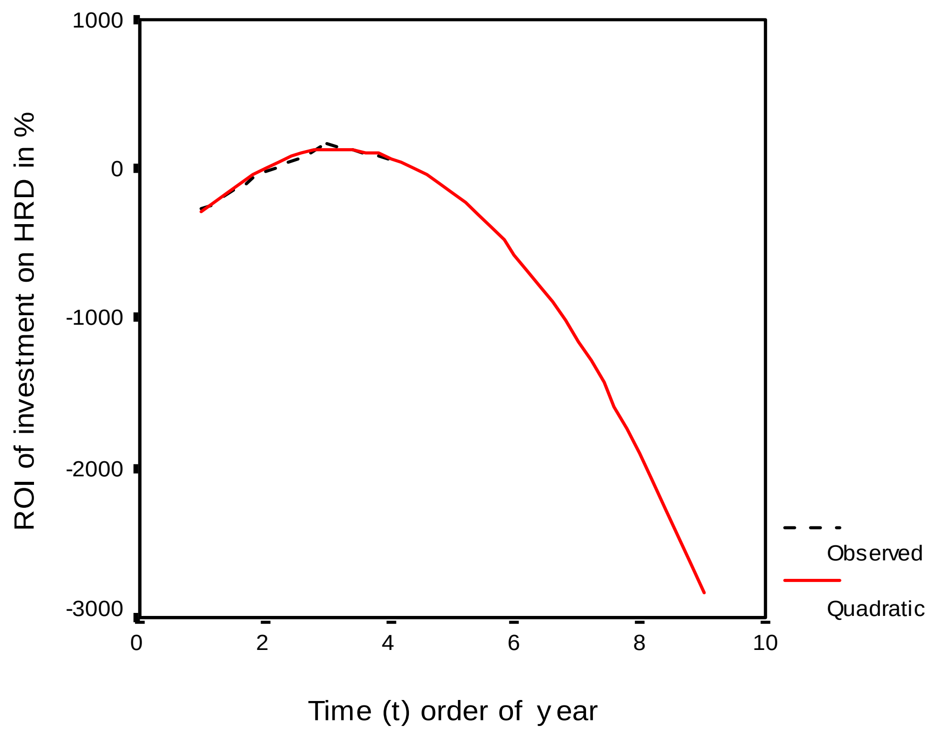

Figure 4.2.3: Quadratic for ROI of Total Investment on HRD of NBL

In trend analysis ROI of investment on HRD of RBB, two models were fitted. These models are linear and quadratic. The exponential curve could not fit due to the negative value in data. The equation of the model, R^2, S. E. and level of significance are presented in Table 4.6. Based on R^2, S.E. and significant level, quadratic curve fits best on ROI on total investment trend. The best curve (Quadratic) is shown in Figure 4.2.4.

Table 4.6: Parameters of Trend Analysis for RBB

Model	Method	R^2	S.E	Significance level
ROI= -272.12+ 22.51t	Linear	0.05	348.54	Not confidence
ROI= 193.57+ (-192.42)t + 18 t^2	Quadratic	0.29	319.78	80% significance

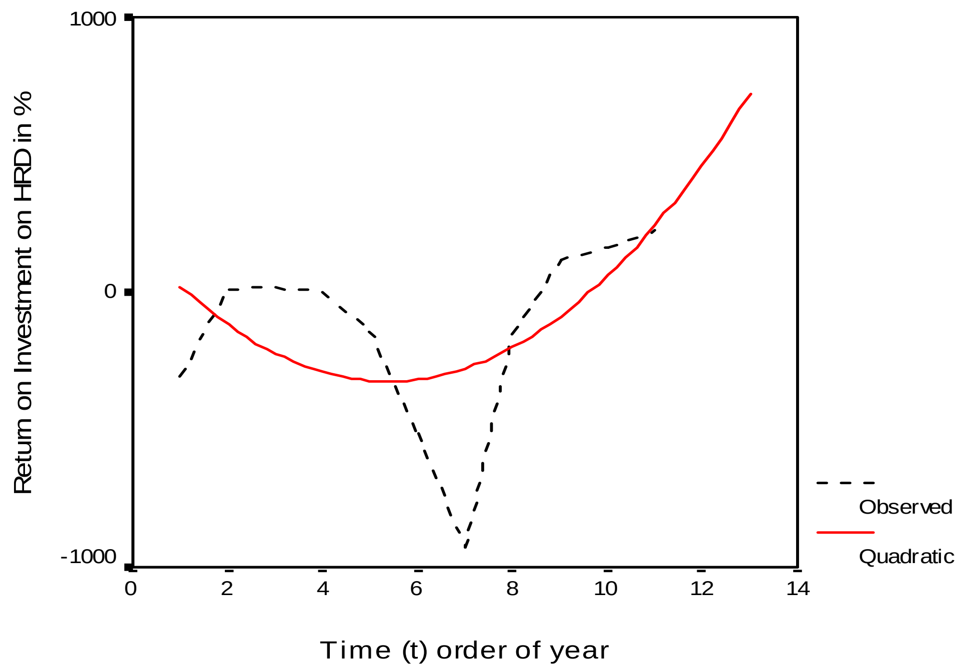

Figure 4.2.4: Quadratic for ROI of Total Investment on HRD of RBB

Based on the best models for NABIL (Exponential), NBL (Quadratic) and RBB (Quadratic), the forecast of return of Investment on HRD for the year 2008 are done. The forecast values for year 2008 for these three banks are presented in Table 4.7. The predicted values for the others years when data is not available are also presented in this Table. The forecasted return for NABIL, based on observed data of the year 2007, is 3.19% and for NBL, based on observed data of the year 2004, is -2843.68% and for RBB, based on observed data 2007, is 719.06%.

The predicted return for NABIL and RBB is positive. Among these two, the return on investment is higher in RBB than in NABIL. This indicates that the effective investment in HRD in RBB compare to NABIL in recent years. However, it is noteworthy that because of limited data the standard error (319.78%) of estimation is higher for RBB than for NABIL (0.14 %) and the R^2 only 0.29 for RBB. Among three, Nepal bank has a negative return. This shows that if Nepal Bank does not improve the investment style on HRD, the return will be negative in the year of 2008 /09. In other words, if the investment style on HRD remains same as in year 2004, the ROI will be in negative.

Table 4.7: Forecasted Return on Investment in HRD in (%)

Year	NABIL	NBL	RBB
2008	3.19%	-2843.68	719.06%

4.3 Qualitative Risk Analysis of insufficient expected return for investment on HRD

The third objective of study is to ascertain the risk factor of not having expected return for investment on HRD. To fulfill this objective interview was taken with HRD Managers of the three banks. Based on the perception of the Mangers obtained during the interview was analyzed qualitatively. During the interview, the managers were asked what factors contribute to increase the risk of not meeting the expected return.

In NABIL the major contributing risk factors are:

1. Rigid implementation plans regarding HRD outcomes. Therefore there should be the flexibility in implementation plans to reduce the risk factor in investment.
2. Lack of strategic perspective in HRD efforts and their implementation in regulatory and different physical and socio-culture environment also increases the risk factor. In addition, the changing business environment

such as technologies, legal / regulatory, physical, socio-culture aspects also affects to implement the HRD efforts planned for desired return.

3. Lack of appropriate training also contributes to increase the risk factor in investment. Therefore there is necessary of need assessment to invest in the training.

Interviews with the concerned manager of RBB and NBL showed common views on the major contributing risk factors. These are as follows:

1. Ineffective management in training delivery. When the training in term of resource persons, coordination in training team and required technical and financial resources are not well managed the risk factor on investment increases.
2. Lack of monitoring and evaluation, after completing or during the invested HRD efforts (programs) also increases the risk factor on investment. In other words there should be proper implementation of the invested HRD efforts.
3. Lack of specific management on HRD goals and objectives increase the risk factor on investment. Because of this deficiency there is possibility of improper investments which will not give the expected return.
4. Lack of strategic perspective in HRD efforts and their implementation in regulatory and different physical and socio-culture environment also increases the risk factor. In addition, the changing business environment such as technologies, legal / regulatory, physical, socio-culture aspects also affects to implement the HRD efforts planned for desired return.
5. Lack of integration of HRD efforts with performance management system and career progression of individual also increases the risk factor.
6. Inappropriate design of skill development programs also increases the risk factor. When the skill development programs are not designed according to requirement, there will be high risk on investment on such programs. Therefore, these programs should be designed based on need assessment.

In addition to the above six factors, Nepal Bank believes that the major contributing risk factor is the lack of proper working environment in relation to the plan and adopted strategies. Transfer of learning into implementation is not possible because of unfavorable learning and working environment. This factor increases the risk on investment.

4.4 Perception of Banks about Investment on HRD components

To understand the various aspects of HRD and importance of investments on different factors of HRD, the perceptions of the banks were collected using questionnaire. The questionnaire mainly focused on perception of six major aspects of HRD and investment

4.4.1 Human Resource Development Policy:

All three banks have explicit human resource development (HRD) policy. HRD policies of three banks are focused on different aspects of HRD. These aspects are presented in Table 4.8

Table 4.8: Focus on HRD policies of three banks.

NABIL	RBB	NBL
• Motivation • Recruitment • Training	• Training and development plans/programs • Professional study e.g. E-MBA, MBA etc. • Study assignment.	• Training • Job Rotation

<u>Investment priorities in HRD and applied incentives</u>

RBB has highly prioritized the investment in HRD. NABIL and NBL have ranked the investment in HRD only as prioritized area. All three banks used On the job-and Off the job trainings for skill development activities. NABIL and RBB consider both Executive level and operational level staffs for management development. However NBL considers training only to executive level for management development. Regarding incentives and motivation as a mechanism for HRD, RBB has been using all the 11 incentives listed while

NABIL has been using 10 incentives and NBL has been using 7 incentives. The applied incentives is presented in Table 4.9

Table 4.9: Incentives of HRD

NABIL	RBB	NBL
• Salary • Promotion • Reward • Allowance • Provident fund contribution • Gratuity and Pension • Welfare • Medical • Insurance • Annual leave 15 days mandatory and leave fare assistant is provided.	• Salary • Promotion • Rewards • Allowance • Provident fund contribution • Gratuity and Pension • Package Tour • Study Facilities • Welfare • Medical • Insurance	• Salary • Promotion • Allowance • Provident fund contribution • Gratuity and Pension • Medical • Insurance

(source: Survey, 2008)

Analysis of investment in HRD by different banks

Only two banks, NABIL and RBB used evaluation criteria for investment in HRD efforts. The NBL does not use any evaluation criteria. NABIL used Cost Benefits Analysis and Normal Company Average method and RBB uses only Normal Company Average method for evaluation criteria. All these three banks usually evaluate efficiency of the investment but they did not consider these evaluation results for allocating budget.

New recruitment vs. developing existing staff: Analysis of risks and return

All three banks have a policy to give priority to internal promotion as compared to new recruitment and selection because of the banks might bear such type of risk like the lack of special knowledge and skill according to organization's requirement.

4.4.2 MAJOR FINDINGS OF THE STUDY

In this research in investment on HRD of three banks, mainly NABIL (Joint venture-private bank), NBL (semi government bank) and RBB (government) were analyzed. In this analysis ROI is used to carry out financial analysis and two statistical tools such a Persian correlation method, Trend analysis by curve fitting were used to validate significance of date . In addition, for qualitative analysis based questionnaires and interviews.

In comparison to private banks, semi government and government banks had 5 to 8 times higher no. of staffs and equal times were used higher average investment on HRD. In addition average investment (ROI) is about 300 times higher than semi/government banks.

In NABIL, Investment in Training, Salary, Allowances and Provident fund have positive correlation with ROI. Among these key sectors, the highest correlation is found in Training in terms of effective investment. In RBB, Investment in Allowances, Training, Uniform, Insurance, Others (Welfare Provident Fund, leave encashment, overtime, Dashain expenses, employees loan and others waivers, employee welfare, fund, endowment life insurance fund, miscellaneous), Package tour, Promotion and Reward have positive correlation with ROI. Among these key sectors, the highest correlation is found in Promotion in terms of effective investment. In NBL, Investment in Training, Allowances, Gratuity and Pension have positive correlation with ROI. Among these key sectors, the highest correlation is found in Gratuity and Pension is effective investment.

Based on analysis of interviews, all three banks show that the investment in training is positive correlate to increase in profit. In training, all the three banks have similar result. Regarding investment in salary, NABIL shows positive correlation but the other two banks show negative correlation. The negative correlation could be due to excess staff in the two banks (NBL/RBB).

Forecasted ROI for 2008 shows that RBB has a highest ROI (719.06%). This result shows that RBB has improved on their investment style. NBL has a negative ROI (-2843.68%). This result shows that the NBL has to improve their investment style. If this bank does not change or improve their investment style, the return could be negative for the year 2008

As per the survey, all these three banks have policy for HRD and have invested in various key factors governing HRD. In addition, though they have measurement tools, they hardly used those tools.

According to the interviews, it is found that the risk factor could be reduced, if the banks evaluate the in investments properly and incorporate the result outlying implementation. Also, the investment should be done after needs assessment.
However the bank one of growing organization and highly pay and facilities for staff in Nepal and they have a large amount of HR and had invested in it and its development, they were unwilling for analysis and effective output. They hardly evaluate the investment of HRD.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

Though Nepal is referred to a developing country, the banking sector is growing mainly private banks and the face of banking which reforms has increased the profitability, productivity and efficiency, is changing rapidly with financial liberalization under the WTO. There has been an improvement in overall capital adequacy of banks.

The banking institutions were never in priorities for HR and it was not consider as capital and also handle this resource from the administration and personal department though the high paid and facilities like bonus and loan system in minimum interest than other organization. Since five or six year, the banks have started an independent HR department. The banks invest in HRD as per their policies and practices and they have different procedures. Though the banks have policies outlying investment for HRD, some problems were identified in the banking institutions of Nepal regarding investment on HRD in Nepal i.e. Lack of effective control, of correct direction, of investment on training and incentives for employees and most banks used traditional approach in services with over staffs including lack of proper qualified staffs in required post. Some banks are inclined to take only fresher and some want experienced old staffs but they experience difficulty to change these staffs by training This causes the waste of both time and money.

Therefore, this study focus on investment and investment analysis and its role and important of HRD of the banking institutions and effective investment on the key factor of HRD and its effect of HRD for analyzing the following objectives:

- The effect of investment on HRD on development of banking institutions.
- Forecast of Return of Investment on HRD.
- Qualitative Risk Analysis of insufficient expected return for investment on HRD.

5.2 CONCLUSION

Sustainability of organization also depends on human resource development. The investment analysis in HRD assists to identify the efficiency and effectiveness of its human resource in achieving organizational goal. So, organization has to be serious on its investment analysis as well as investment. The banking institutions have crucial role in the economy and growing service business. Therefore, this study is focused on identifying the effectiveness of investment on key aspects of HRD and exploring the effects of investment on HRD on the outcome of three banks.

By applying the financial and statistical tools, the study revealed that investment on key factor of HRD is positively correlated with profitability.

Specially, quantitative and qualitative analysis correlation showed that

- Investment in HRD has significant contribution to this development of banking institutions
- ROI is higher with higher level of investment is key factor of HRD.
- Lack of strategic perspective on HRD, improper assessment of HRD needs, ineffective implementation and weak monitoring and evaluation of the efforts are major risk factors for insufficient expected return from investment on HRD.

To conclude present study has identified the fact that there is a positive relationship between investment in HRD and performance of banking institutions. There is awareness for further research in empirical test based on larger sample.

5.3 RECOMMENDATION

The banks make a policies and procedures for the HRD and they invest for HRD. The bank hardly implements these policies due to lots of physical, external and internal risk factors and the lack of proper knowledge on investment criteria on HRD including financial and management skill. Despite these problems, the banks run smoothly. The banks can get effective output if the banks implement those sectors. Here some recommendation provided to concern based on the findings.

- The bank should implement the investment analysis method for HRD and the investment is research and plan based.

- The bank should do need assessment before provide the training to staffs.
- The bank has to find out the effective key factor of the HRD with the profit of bank.
- The bank has to invest those factors of HRD which gives more efficient and self motivate to employee.
- The bank has to create a homely and conducive working environment for them.
- For a strong and resilient banking and financial system, therefore, banks need to go beyond peripheral issues and tackle significant issues like improvements in profitability, efficiency and technology, while achieving economies of scale through consolidation and exploring available cost-effective solutions. These are some of the issues that need to be addressed if banks are to succeed, not just survive, in the changing milieu.

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APPENDIX 1

QUESTIONNAIRE

Topic of Thesis: **Investment analysis on Human Resource Development (HRD) of banking institutions in Nepal.**

Name of Organization :

Human Resource Department:

1. Does your organization have explicit human resource development (HRD) policy?

   YES NO

2. If yes, what are the major activities envisaged in HRD policy?
   a.
   b.
   c.
   d.

3. If No, Do you think, is it essential for running HRD efforts effectively?
   a. Essential, organization is planning to formulate
   b. Essential, However, organization has no each priority is formulating future right now
   c. Not essential

4. Does your organization consider HRD as prioritized area of investment?
   a. Highly prioritized
   b. Prioritized
   c. Need-based

5. What types of tools (mechanisms) are used for human resource development in your organization?

I. Skill development and training activities.

- Training a) On the job- training

  b) Off the job-training

- Management development
  a) Executive Level

  b) Operational level

II. Incentives and Motivation

a. Salary
b. Promotion
c. Rewards
d. allowance
e. provident fund contribution
f. gratuity and pension
g. package tour
h. study facilities
i. Welfare
j. Medical
k. Insurance

5. Does your organization have evaluation criteria for investment in HRD efforts?

   Yes No

   If yes, which tools or what type of criteria are set?

   a. Return on Investment (ROI)
   b. Cost Benefits Analysis
   c. Normal Company Average
   d. Any other

   If No, what sort of criteria would you recommend on the ground that they are essential for utilization of limited resources?

   a.
   b.
   c.
   d.

6. Does your organization have a policy to give priority to promote within an organisation as compared to new recruitment and selection?

YES NO

7. If yes, what type of risk do you think in such priority?

a. Leave the organization
b. Lack of special knowledge and skill according to organization's requirement.
c. Chances of discrimination.
d. Chances of threatened /favorable to relatives /hazarded
e. Any other

If No, Are there any risks in selecting fresh candidates?

a. Leakage the confidential information.
b. Take a long time to socialize in the organization.
c. Costly
d. Less chance to fulfill the required expectation.
e. Any other

8. Does your organization periodically evaluate the effect of training and development in performance?

a. Most often
b. Sometimes
c. Usually
d. If needed, Only

9. Does your organization have identified some linkages in investment in HRD efforts and performance of your organization in monetary terms?

YES NO

If yes, what was the result in correlation in relation to following parameters?

Parameters		**Correlation**	
a.	Decrease in cost	+ Ve	- Ve
b.			
c.			
d.			

If No, Do you think essential to develop certain correlation tools to know the return on investments? What might they include?

a.
b.
c.
d.
e.

10. Does your organization regard efficiency in investment in HRD efforts as the basis for allocating budget for the next period?

YES NO

11. What sort of tools does your organization apply to reduce risk on investment in HRD?

a.
b.
c.
d.

12. Which tools should be invested the most to increase the profit?

- Training
- Salary increase
- Recruitment and selection
- Welfare
- Benefits
- Others

13. Which tools should be invested the most to reduce the risk?

- Training
- Salary Increase
- Recruitment and selection
- Welfare
- Benefits
- Others…….

14. Is risk measured before and after investing in HRD of your organization?

a. yes b. No

If yes, which tools are used for measuring the risk?

15. What type of risk is most common?

a. Internal risk i.e. leaves the job by executive level staffs, after training staff could not do the efficiency work.

b. External risk i.e. political unstable,

16. Do you measure the return before and after investing in HRD of your organization?

a. Yes b. No

17. If yes how do you measure? Which tools are used?

Please rank the following possible answer in order of their importance

(1= Highly important, 5= Not necessary)

Please provide the historical data more than 5 years for the following parameters:

a. Investment in the human resource department
b. Investment in management development
   i. Executives level
   ii. Operational level
c. Number of staffs (human resources) work in your organization.
d. Number of staffs turnover during the year.
e. Invested in following tools each year?
   i. Recruitment
   ii. Selection
   iii. Salary
   iv. Training
   v. Motivation
   vi. Others

Thanks for your kind cooperation.

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