PERFORMANCE MEASUREMENT IN NEPALESE COMMERCIAL BANKS

A Dissertation submitted to the Office of the Dean, Faculty of the Management, in partial fulfillment of the requirements for the Degree of Masters of Business Studies

By

Puskar Silwal

Roll. No 3493/17

Registration No. 7-2-271-177-2010

People's campus

Kathmandu

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "Performance Measurement in Nepalese commercial Banks" The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purpose.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

Puskar Silwal
30-08-2020

REPORT OF RESEARCH COMMITTEE

Mr. Puskar Silwal has defended research proposal entitled "Performance Measurement in Nepalese commercial Banks" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Mr. Rajan Bilas Bajracharya and submit the dissertation for evaluation and viva voce examination.

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Supervisor (Defend) **Dissertation Proposal Defended Date:**

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Rajan Bilas Bajracharya **Dissertation Submitted Date:**

Supervisor

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Gopal Krishna Shrestha, PhD **Dissertation Viva Voce Date:**

Head Researcher Committee

APPROVAL SHEET

We have examined the dissertation entitled "Performance Measurement in Nepalese commercial Banks" presented by Mr. Puskar Silwal for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

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Dissertation Supervisor

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Internal Examiner

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External Examiner

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Chairperson, Research Committee

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Researcher

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LIST OF ABBREVIATIONS

BSC	:	Balanced Scorecard
CAR	:	Capital Adequacy Ratio
CEO	:	Chief Executive Officer
CSR	:	Corporate Social Responsibility
DPS	:	Dividend per Share
EPS	:	Earning Per Share
FM	:	Quantitative Measures
NBL	:	Nepal Bank Limited
NFM	:	Qualitative Measures
HBL	:	Himalayan Bank Ltd.
NIN	:	Net Interest Margin
NPA	:	Non-performing Assets
NPV	:	Net Present Value
PM	:	Performance Measurement
RBB	:	Rastriya Banijya Bank
ROA	:	Return on Assets
ROE	:	Return on Equity
ROI	:	Return on Investment
SE	:	Standard Error

CHAPTER ONE

INTRODUCTION

1.1 General Background

Banks are a core of the financial sector especially when it comes to developing economies where the capital market is not strong enough. It plays a vital role in the economic resource allocation of countries and serves as important sources of funds for businesses. For this reason, the survival and consistently good performance of banks is an issue of concern to all. The expansion of financial globalization and intense competition in the banking industry has made to rethink on better ways of measuring performance. Competition within this sector, as well as customer awareness of different services offered by the banks, stimulates most banks to adopt non-financial measures in order to acquire competitive ability. Most banks and financial institutions are struggling to go further beyond the application of financial measures.

The only thing that really matters, in the business world, is organization's performance. However, it has been considered that, the traditional financial performance measures, such as profits and return on investment are under serious challenge due to its short-term rather than long-term focus, measuring the past rather than future and inward looking rather than out-ward looking. At these circumstances, the ability of banks, to mobilize and exploit its intangibles has become more decisive than investing in physical, tangible assets. Moreover an organization's emphasis on traditional performance measures such as return on investment distracts from non-financial factors such as market share, customer satisfaction, efficiency and productivity, product quality and employee satisfaction.

Organizations usually do performance measurement to determine things, such as determining the needs of customers, and seeing if they are able to fulfill their requests or not; seeing if they are successful generally; making sure that the taken decisions are made with facts not with emotions.

In this context, performance measurement is the way to measure performance across a range of critical success factors that are derived from the competitive strategy.

Performance measurement is the process of quantifying the efficiency and effectiveness of past action (Neely et al., 1995). In general, performance measurement can be viewed as the process of quantifying the efficiency and effectiveness of purposeful action and decision-making (Waggoner et al., 1999). According to Neely, et al., (1997), it is the way to measure performance across a range of critical success factors that are derived from the competitive strategy and critical to the survival of the business. Neely, et al., (2000), explained that the process of deciding which measures of business performance to adopt is a valuable one, not least because it forces management teams to be very explicit about their performance priorities and the relationship between them, thereby exposing, and offering an opportunity to resolve, any hidden differences of opinion. Moullin, (2002), defines performance measurement in terms of its purpose emphasizing the assessment of how well organizations are managed and the value they deliver for stakeholders.

Litman, et al. (1999) defined some key concepts on performance measurement system in the following way:

- Performance measureis quantitative or qualitative characteristic of performance.
- Performance measurement is the process of assessing progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services, the quality of those outputsand outcomes, and the effectiveness of companies' operations in terms of their specific contributions to program objectives.
- Performance objectiveis a critical success factor in achieving the organization's mission, vision, and strategy, which if not achieved would likely result in a significant decrease in customer satisfaction, system performance, employee satisfaction or retention, or effective financial management.
- Performance goal is a target level of activity expressed as a tangible measure, against which actual achievement can be compared.

- Performance management is the use of performance measurement information to effect positive change in organizational culture, systems and processes, by helping to set agreed-upon performance goals, allocating and prioritizing resources, informing managers to either confirm or change current policy or program directions to meet those goals, and sharing results of performance in pursuing those goals.

In management accounting literature, performance is associated with performance measurement and performance management issues (Laats, et.al 2011).Effective management depends on the effective measurement of performance and results (Kanji, 2002). According to Dixon et al. (1990), performance measures provides a set of mutually reinforcing signals that direct managers attention to strategically important areas that translate to organizational performance outcomes and guides managers behavior toward key organizational outcomes.

According to Simons (2000) performance measurement is the tool for balancing five major tensions within a firm. Balancing those tensions leads to effective strategy implementation and achievement of planned performance. Balancing five major tensions within a firm are as follows:

- balancing profit, growth and control;
- balancing short-term results against long-term capabilities and growth opportunities;
- balancing performance expectation of different constituencies;
- balancing opportunities and attention;
- And balancing the motive of human behavior.

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

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

In this view, performance measurement system can provide data for monitoring past performance and planning future performance.

Alzoubi (2014), the process of measuring the performance of financial and non-financial information systems are used to assess individual and organizational performance of the banks. Norreklit (2000) has criticized some organizations for their adoption of the financial performance measures only and for the fact that the process of determining financial performance measures is a simple matter because it is subject to the followed rules and guidelines that are given, and these rules and principles cannot be used for the non-financial performance measures (Speckbacher et al. 2003).

Traditional financial measures are criticized (Banks and Wheelwright, 1979; Hayes and Abernathy, 1980; Goldratt and Cox, 1986; Schmenner, 1988; Turney and Andersen, 1989; and Camp, 1989; Kaplan and Norton, 1992) because they:

- Encourage short-termism,
- Lack strategic focus and fail to provide data on quality, responsiveness and flexibility,
- Encourage local optimization, for example "manufacturing" inventory to keep people and machines busy,
- Encourage managers to minimize the variances from standard rather than seek to improve continually,
- And fail to provide information on what customers want and how competitors are performing.

1.2 Statement of the Problem

A sound financial system is crucial for an indispensable and vibrant economy. Thus, the performance of any economy to a large extent depends on the performance of the banking sector as it being the predominant component of the financial service industry. Like most developing countries, the banking sector in Nepal is characterized by the co-existence of different ownership groups, public and private, and within private domestic and foreign. The Nepalese public sector banks came into existence in several phases.

The financial sector reform of Nepal begins from mid 1980s with deregulation of interest rates on deposits and lending, phasing out of margin rates, statutory reserve requirements, and targeted credit programs, opening up of financial industry to private sector (domestic and foreign), permission to open foreign currency accounts to commercial banks and current account convertibility.Since then, various liberalization measures have been implemented in order to widen the financial system through the removal of entry barriers to foreign investors in banking.

In recent years the environment that banking sector have toface has brought changes and challenges. These challenges are compounded by deregulation in reaction to the increasing global competitionand the shortened product life cycle stemming from technical innovations (Abdel-Kader & Luther, 2008). The global market and its rapid pace of change have increased the demand on measurement systems. Kaplan and Norton (1992) “What you measure is what you get”. In this respect an organization's measurement system strongly affects the behavior of management and employees. Furthermore performance measurement provides a systematic link between organizational strategy, resources, and processes. It is a comprehensive management process framing the continuous improvement journey, by ensuring that everyone understands where the organization is and where it needs to go to meet stakeholder needs.

Traditional approaches to performance measurement which include financial accounting measures fail and give a misleading results and signals for continuous improvement and innovation. Singh & Kumar, (2007), stated that financial measures of performance were criticized by many authors for: being short term oriented, considering past performance, being non consistent with current business's environment, focusing on tangible assets, lacking predictive power and being irrelevant for all levels in the organizations.

It was believed that traditional financial indicators worked well for industrial era.Traditional methods of measuring a company’s performance by financial indices alone have virtually disappeared from large organizations (Basu, 2001). In this respect, the information era demanded to change the strategies of the business.Kaplan and Norton, (1992), (1996), Frigo, (2002), expressed that non-financial measures are at the heart of describing strategy and of developing a unique set of performance measures that clearly communicate strategy and help in its execution. It means that strategies had to change from managing tangible assets to those that leveraged the company intangible assets which measured by non-financial strategic measures. Moreover,such as customer relationships, innovative products and services, high-quality and responsive operating processes, skills and knowledge of the workforce, the information technology that supports the workforce and links the firm to its customers and suppliers, and the organizational climate that encourages innovation, problem solving, and improvement has got more emphasis.

Several studies have emphasized the need to pay attention to performance evaluation measures (Ewert&Wagenhofer, 2006; Adelegan, 2000; Carmona, 2006; Abdel-Kader & Luther, 2006; Islam & Kantor, 2005). In the same way many studies were undertaken in order to trace the history development of management accounting particularly, performance evaluation measures (Spraakman, 1999; Fleischman & Tyson, 2006; Okano & Suzuki, 2006; Näsi& Rohde 2006; Ahmad B. Abdel- Maksoud, 2004); Strauss 1992; Spraakman&Margret, 2005).

There are a limited number of studies focusing on performance evaluation measures in developing countries, (Adelegan, 2000; Sulaiman et al, 2004; Ismail, 2007; Triest&Elshahat, 2007; Kattan et al., 2007; Billings &Capie, 2004). Previous studies conducted in banking sector shows that, the competition has been forcing to rethink on better ways of measuring performance and struggling to go further beyond the application of financial measures.Performance measurement of financial institutions, particularly commercial banks, has received increased attention over the past several years (Seiford and Zhu, 1999). But at present there is a lack of knowledge and research into management accountingpractices specifically, performance measurement in Nepalese banks.In this perspective the performance measurement in Nepalese banks has been considered an importance issue and area to beinvestigated. In this context, this study has raised the following questions:

1. Which quantitative performance measures have been used by Nepalese commercial banks?
2. Whichqualitative performance measures are used in commercial banks?
3. In what extent quantitative and qualitative performance measure is used in order to evaluate the performance?
4. Which quantitative and qualitative measures have got more or less importance in commercial banks?
5. What are the problems encountered during performance measurement practices?

6. What is the relationship between utilization of quantitative and qualitativemeasures in Nepalese banks?
7. Is the performance measurement system effective in Nepalese banks?
8. In what extent balanced or multidimensional performance measures are used?
9. Under what circumstances does the use of performance measurement systems have a significant influence on organizational performance?
10. What factors affect the way in which measurement systems change over time?
11. How can organizations manage their measurement systems so that they continually remain relevant?

1.3 Objectives of the Study

The major objective of this study is to examine the performance measurement in Nepalese foreign joint venture commercial banks. The specific objectives of the study are:

i. To examine the extent use of quantitative and qualitative measures in order to evaluate the performance in banks.
ii. To evaluate the relationship between performance measurement systems and organizational performance.
iii. To identify the problems encountered during performance measurement.

1.4 Significance of the Study

The literature in the field of performance measurement emphasizes the importance of maintaining relevant measures that continue to reflect the issues of importance to the business (Lynch & Cross, 1991).Performance measurement is an important issue for the business organizations. The long term success depends on the use of appropriate measures. Successful operation of financial sector is essential to boost up the Nepalese economy. There are limited numbers of studies on this phenomenon especially in developing countries. The detail analysis of performance measurement in Nepalese banks has comprised in this study. Therefore this study may be useful to know the different dimension of performance measurement. This study can be fruitful for the managers to achieve competitive advantages by using appropriate measures. Moreover this study contributes a foundation for further research in this phenomenon.

1.5 Limitation of the Study

The study has several limitations. This study has considered only five banks among thirty commercial banks operating in Nepal. Primary data were collected through self-administered structured questionnaire, observation and unstructured interview with the high authority of banks. Therefore the study suffers from the use of small samples. The study reveals the organizational performance of five years only. Performance measurement practices in banking sector are mainly focused under this study. In this respect it may not provide the performance measurement practices of other sectors like manufacturing and other service sectors.

1.6 Organization of the Study

The structure of this study has been organized into five chapters. Chapter one deals the general background of the study including statement of the problem, objectives of the study, significance and limitations of the study.

Chapter two provides the review of literature related to the topic. It incorporates the conceptual issues regarding performance measurement systems and practices. This chapter also reviews various previous empirical studies on performance measurement in corporate sector. It also presents conceptual framework, theoretical framework, research gap and the statements of hypothesis.

Chapter three deals the research methodology employed under this study. Research design, population, nature and source of data, sampling methods with statistical techniques for analysis and variables are presented in this chapter.

Chapter four provides the presentation and analysis of data. This section of the study makes the analyses of primary as well as secondary data and presents the results of them. It also provides the extent of the use of performance measures and organizational performance in Nepalese banks. This section also empirically examines the relationship between performance measurement practices and organizational performance of Nepalese banks by the use of linear models of regression analysis.

Chapter five is the final section of this study. This section summarizes the discussion of the study and provides the conclusions. This chapter highlights the major findings of the study, and some recommendations for future research under this area.

CHAPTER TWO
REVIEW OF LITERATURE

2.1 Introduction

Information about performance is important in different ways to the various stakeholders within a business. In a more strategic sense, performance measurement is seen as an important way of keeping a company on track in achieving the company's objectives. Furthermore performance measurement is the process of assessing progress toward achieving predetermined goals.

The concept of performance measurement is a comprehensive objective specifying the strategies, policies and procedures to examine the results of the activities and effectiveness. Quantitative measures are based on accounting information, and are expressed in monetary units, such as profit and return on investment. While qualitative performance measures are expressed in non-monetary units such as employee satisfaction and productivity.This chapter is basically concerned with the review of literature relating to the topic whether they are conceptual or empirical. As the past study becomes the roadmap for present study. Therefore various previous empirical researches on performance measurement in banking, manufacturing and service sector are reviewed and analyzed. This in turns provides comprehensive foundation to build the theme concerned with conceptual issues includingevolution of performance measurement system. Furthermore it also supports to decide research gap, to develop research framework, hypothesis, defining variables andmethodology. This chapter has been divided into five sections. The first section deals the concept of performance measurement while the second section describes the rational of performance measurement. Third section deals the conceptual framework and forth section describes brief review of empirical studies. Final section of this chapter provides research framework and research gap.

2.2 The Rational of Performance Measurement

The changing of the nature of competition in world markets during the last three decades has hada great impact on the environment, externally and internally, within which most companies operate. As other businesses, commercialbanks are also competing in a highly competitive environment to offer quality oriented services according to customers' expectations.Performance measurement plays a key role in developing strategy, evaluating the achievement of organizational objectives and compensating managers. Choosing performance measures is a challenge.In the past few decades, performance measurement has become a hot topic, and has witnessed continuous developmentand modifications. The designing of a balanced performance measurement system has become critical to the survival and long term success of companies as it plays an important role in leading the organization by providing crucial information.Yet many managers feel traditional financially oriented systems no longer work adequately. Inadequacies in financial performance measures have led to innovations ranging from non-financial indicators of intangible assets and intellectual capital to balanced or multidimensional measure of integrated quantitative and qualitativemeasures.

Qualitative measures offer four clear advantages over measurement systems based on financial data. First of these is a closer link to long-term organizational strategies. Second, critics of traditional measures argue that drivers of success in many industries are intangible assets such as intellectual capital and customer loyalty, rather than the tangible assets allowed on to balance sheets. Third, qualitative measures can be better indicators of future quantitative performance. Finally, the choice of measures should be based on providing information about managerial actions.

According to Lebas (1995) performance measurement helps managers to answer five strategically important questions:

- Where have we been?
- Where are we now?
- Where do we want to go?
- How are we going to get there?

- How will we know that we got there?

Kaplan & Norton (2001) suggest performance measurement as a basis for defining strategic objectives, for continuous improvement as well as a vehicle for cultural change.

2.3 Characteristics of an Effective Performance Measurement System

There are certain characteristics for an effective performance measurement system. The successful performance measurement system must have to be incorporated the following features.

- The measures should be few and improved. Few and improved measurement system may save time and arrive at specific goals and objectives for success.
- The performance measures should be changed as the strategy and situation of the organization changes. Measures must change dynamically with the strategy as the basis for continuous improvement and for designing an adequate information system.
- Performance measures should be modified when there is a change in the organizations objectives.
- The indicators of performance measures of the organization should be tied to company performance requirements and should represent a clear basis for aligning all activities with the company's goals.
- The performance measures must be reliable. The significance of measurement is often dependent on the reliability and comparison of measures over time.
- The performance measures need to be aligned with the organization's strategy.
- The performance measures should have linkage with vision, values, and key success factors. Identifying vision where you want to be and to know how to link measures with the key success factors is essential in today’s competitive environment.
- The performance measurement metrics should be linked to the needs of the customers, shareholders, and employees. The set of measuresused by an organization has to provide a "balanced" picture of the business between quantitative and qualitative measures.

Metrics should focus on the past, present, and future. Measures should be long-term oriented as well as simple to understand and implement.

- The performance measures should flow down to all levels and should be consistent.The multiple measures can be combined into several overall indices of performance. The way of reducing the number of measures to a reasonablenumber is to assign a weight to each individual measure in a family of metricsand develops an index that is an aggregate statistic.

According to D'Souza and Williams (2000), Euske et al. (1993), Kimball (1997) and Mayo and Brown (1999) a good performance measurement system should be:

- Supportive and consistent with an organization's goals, actions, people/culture, and key success factors;
- Driven by the customer;
- Appropriate to the internal and external environment;
- Developed by a combined top-down and bottom-up effort;
- Communicated and integrated throughout the organization;
- Focused more on managing resources and inputs, not just simply costs;
- Committed to providing action-oriented feedback; and
- Supportive of individual and organizational learning.

How performance is actually measured is still a ‘black box’ for many organizations (Cross & Lynch, 1992). A performance measures used in one company may not be appropriate for another company facing a different situation or different set of circumstances (Otley, 1980).

Review of related empirical previous studies

An empirical study under the title 'A survey of performance improvement through benchmarking in commercial banks in Kenya: The managers' perception and experience' was conducted by Kerandi et al. and published on International Journal of Business and Economics Research in 2014. The aim of this study was to investigate the performance improvement through benchmarking in commercial banks in Kenya.

The research design used for this study was descriptive survey. The target population constituted all managers from all the twenty five banks within the Nakuru town of Kenya. Simple random sampling technique was used to select the respondents. A sample of 50 respondents was considered. The study mainly used primary data collected through semi-structured questionnaire that was self-administered. The performance improvement measures through benchmarking were examined by asking the respondents in terms of the extent of usage of different financial and non-financial measures by formulating a five-point Likert scale. The data was then analyzed using the Statistical Package for Social Sciences (SPSS) version 20.0 for windows. Both descriptive and inferential statistics were employed to analyze data. The Pearson-Product correlation coefficient was used to determine the strength and the direction of the relationship between benchmarking & organizational performance, while regression analysis was used to assess the level of influence of the independent variable (benchmarking) on the dependent variable (organizational performance). The regression model used was as follows:

Y=a+b1x1+b2x2+e

Where;

Y = Organizational performance (dependent variable)
X1= Internal comparisons (independent variable)
X2= External comparisons (independent variable)
E= the error term

The study indicated that benchmarking had a positive and significant correlation with organizational performance. The results indicated that benchmarking was an established performance improvement technique that was proved to be effective in the banking industry in Kenya over time.

'Factors Affecting Performance of Commercial Banks in Uganda: A Case for Domestic Commercial Banks' by Frederickwas presented on 25th International Business Research Conference 13 - 14 January, 2014, Taj Hotel, Cape Town, South Africa. The study was intended to investigate the impact of key internal factors that affect the performance of domestic commercial banks in Uganda so that remedial action can be taken for better performance.

The descriptive research design was used. The study population was included all licensed Domestic commercial banks (4) in Uganda as at 31st December 2011. Data was collected from published annual financial statements for both dependent and independent variables for the study.The study used Return on Assets (ROA) and Return on Equity (ROE) as the dependent variables.Internal and external factors were taken as independent variables.The study used multiple regression analysis due to the nature of the study.

Using Linear multiple regression analysis over the period 2000-2011, the study found that, management efficiency; asset quality; interest income; capital adequacy and inflation were factors affecting the performance of domestic commercial banks in Uganda over the period 2000-2011.

'The extent of using Financial and Non-Financial Measures in evaluating branches performance of commercial banks in Jorda, A field study according to internal auditors viewpoint by Alzoubi was published in Research Journal of Finance and Accounting in 2014. Aim of study was to identify the extent of using financial and non-financial measures in evaluating theperformance of branches of commercial banks according to internal auditors' viewpoint.

The hypotheses of the study were formulated as follows:

- Financial measures are used in order to evaluate the performance of branches of commercial banks in Jordan.
- Non-financial measures are used in order to evaluate the performance of branches of commercial banks in Jordan.

Descriptive method was used, and relied on two sources of data. A questionnaire which was designed for this purpose, consisting of twogroups of describing demographics, and a set of questions related to the study hypotheses.The study population consists of all internal auditors working in all Jordanian commercial banks and that number was (13) banks, a random sample of (90) internal auditor was selected, the questionnaire was distributed to them. A questionnaire was distributed to a targeted sample of (90) respondents. Cronbach's alpha coefficient was calculated to measure the stability, reliability. Frequencies and means were used to describe the study sample and (***t*** test) was used at the degree of confidence (95%) to test the hypotheses of the study.

Among the most important findings, the study concluded that there was a use of financial measures in evaluating the performance of bank branches and not using non-financial measures in the evaluation. Based upon this result, a set of recommendations were made the internal auditors including the administrations in Jordanian banks for more attention and support of non-financial measures in evaluating the performance ofbranches in the commercial bank.

The aim of the study conducted by Wafaa1, and Abderrezzak, (2014) under the title'A Study of the Relationship between Banking Service Quality and Customer Satisfaction in Algerian Public Banks' was to study the variables that may affect customer satisfaction in banking sector (banking service quality, financial benefits and social bonding), and investigate the empirical relationship between them through its impacts on perceivedvalue as an intermediate variable. A Structural Equation Modeling technique was applied to study the different relationships between the proposed variables. A questionnaire was developed and administered to a sample of 650 Algerian public bank customers in the Tlemcen region. The study found that the existence of a positive indirect impact of banking service quality, financial benefits and Social bonding on customer satisfaction.

This empirical study on 'Integrating Financial and Non-financial measures to measure the performance of commercial banks: Evidence from Tanzania' was conducted by Raphael& Man was published in 2013 onResearch Journal of Finance and Accounting.The study was aimed to assess the performance of commercial banks in Tanzania, using financial and non-financialmeasures. Eleven references were taken from 1991 to 2011 consisting performance measurement in banking, service and manufacturing in UK, Turkey etc.

Descriptive as well as analytical design was used.A total of 21 commercial banks were involved in this study. The study used both quantitative and qualitative information during construction of balanced performance index based on customer survey and bank officials from three departments of commercial banks human resource department, operations department and commercial department. Financial data from annual reports and non-financial data from balanced score card templates obtained from commercial banks as well as from survey data.

The study classified commercial banks according to ownership and size. Statistical test one way ANOVA, was used to explain the significant difference in performance index between groups of performance ofcommercial banks.It used Spearman correlation for both financial and non-financial measures to analyze the overall performance of commercial banks. Financial performance was used as dependent variable. It performed regression analysis to test which among the perspective of the balanced scorecard that had significant impact on the financial performance.

The overall performance indexes of commercial banks were found to be higher in large foreign banks, followed by large domestic bank and lastly small banks. Where large foreign banks were found to be more efficient compared to the counterparts. The high performance of large foreign banks was due to the fact that these commercial banks had long history of implementing BSC compared to the counterparts.

A study conducted by Ongore and Kusa on 'Determinants of Financial Performance of Commercial Banks in Kenya'was published in 2013 on International Journal of Economics and Financial Issues.

This explanatory study was based on secondary data obtained from published statements of accounts of all commercial banks in Kenya. The unit of analysis in this study was all the licensed domestic and foreign commercial banks operating in Kenya. All the licensed commercial banks in the country are the target population of this study.In this study 37 commercial banks were considered. Out of these 13 of them were foreign owned banks and 24 domestic. The secondary data used in this study were obtained from the statements of the commercial banks etc. A multiple linear regression model and t-statistic were used to determine the relative importance (sensitivity) of each explanatory variable in affecting the performance of banks. The moderating effect of ownership identity was also evaluated by using ownership as a dummy variable.

The major dependent performance indicators (dependent variable) used was Return on Asset (ROA), Return on Equity (ROE) and Net Interest Margin (NIM). The major determinants (independent variables) werecapital adequacy, asset quality; management efficiency and liquidity status were providing by selected ratios.

This empirical study showed that capital adequacy, asset quality and management efficiencysignificantly affect the performance of commercial banks in Kenya but the effect of liquidity on the performance of commercial banks was not strong. The relationship between bank performance and capital adequacy and management efficiency was found to be positive and for asset quality therelationship was negative. This indicated that poor asset quality or high non-performing loans to totalasset related to poor bank performance. Thus, it concluded that banks with high assetquality and low non-performing loan were more profitable than the others. The other bank specificfactor liquidity management represented by liquidity ratio was found to have no significant effect onthe performance of commercial banks in Kenya.

The study conducted in Ethiopia by Kasie and Belay (2013) was under the title of "The impact of multi-criteria performance measurement on business performance improvement". The research was aimed to investigate the relationship between multi-criteria performance measurement practice and business performance improvement. Qualitative and quantitative research approaches was used and the primary and secondary data were collected using questionnaire survey, interview and observation of records. 33 selected manufacturing companies were taken for sample using random sampling. The study indicates that companies which measure their performance using important financial and non-financial measures achieve better business performance. Non-financial measures were not integrated with each other, financial measures and strategic objectives.

Tripathi (2013) conducted an empirical study on "Awareness of Customers on Service Quality of Public Sector Banks in Varanasi" which was published on Journal of Business Management & Social Sciences Research. The objective was:

To study the awareness of the customer on service quality.

To determine and evaluate the quality of service in selected private sector banks in Varanasi district.

To determine the gap between customer expectation and perception

To determine the areas that needs to get better by banks to deliver better-quality of service

Convenience sampling method was used. 300 survey questionnaires were distributed among the participants, 270 questionnaires were filled and returned, and 250 fully filled questionnaires were taken for the final analysis. Thus the effective response rate of survey is 83.34 percent. The respondents were asked to rate their expectations and perceptions of service offered by the respective banks by using a seven point Likert scale.

The study found that Customers' expectations of service quality in banks are high and perceived quality of service is quite lower across public sector banks. For Public sector banks the most prominent gap is in reliability, empathy, responsiveness dimension of the service quality.

The study of Nayebzadeh (2013), on "The Relationship between Customer Satisfaction and Loyalty with the Bank Performance in IRAN" was aimed to examine the relationship between customers' satisfaction and loyalty with the financial performance. Correlation study which used structural equation modeling was used. 400 questionnaires were randomly distributed among customers and finally 324 of them were returned back. Cronbach's alpha coefficient of reliability in internal consistency method 0.88 was obtained. The findings demonstrate that there was a strong positive relationship between customer's satisfaction and loyalty at 95 percent. Any of the satisfaction and loyalty variables were significantly related to the bank performance at 90 percent.

'Devising a Balanced Scorecard to determine Standard CharteredBank's Performance: A Case Study' was studied by Panicker and Seshadri (2013), and was published in International Journal of Business Research and Development. It was aimed to contribute to the BSC literature, to encourage further research on application of BSC concept to foreign banks in India. A case study made. The cause-effect relationships between the non-financial, and the financial dimensions of the BSC were found. The use of the BSC developed here was limited to the bank studied.

The diffusion of performance evaluation measures: An empirical study in Jordanian Banks' was conducted by Al-Nimer et al.It was published on 2012 by Canadian center of science and education in International Journal of Business and Management. A total of 59 research articles were reviewed while conducting the study, published during the period of 1987 to 2008 in. More than 80% reviewed article were from 2004 to 2007. Most of the reviewed articles were related with management accounting practices, mainly focusing at performance measurement in different manufacturing and service sector in UK, Japan, South Africa, Jordan, New Zealand, China etc.

The study was conducted because there was a lack of knowledge and research into management accounting practices specifically, performance evaluation measures in Jordan and attempted fill the gap in developing countries and particularly in Jordan as a developing country.

The research was aimed to provide a view of the present role of performance evaluation measures in Jordanian banks, to identify the extent of usage of performance evaluation measures and to examine the contingent variables in order to find out their effect upon the extent of usage in the Jordanian banks.

Descriptive as well as analytical research design was used. The Jordanian banks were selected as the population of the research which comprised of all the banks. Fourteen banks were taken as sample for the study which was recorded on the Ministry of Industry and Trade records at February 2008.Age of the company; net sale growth, number of employees; sophistication of operations; professional certificates; and academic certificate were taken as contingent variables in terms of testing the hypotheses related to the association between each contingency variables and the extent of usage of performance evaluation measures. The respondents were selected from senior management and executives, directors, managers and department heads taking different responsibility.

A self-administration questionnaire survey was used in order to identify the current status of performance evaluation measures in the Jordanian banks. The performance evaluation measures were examined by asking the respondents in terms of the extent of usage of different financial and non-financial measures by formulating a five-point Likert scale of never, rarely, sometimes, often, and very often. Similarly a three-point Likert scale, (consisting: not important; moderate important; and important) was used in order to examine the importance of those performance evaluation measures in the Jordanian banks. The research used 80 (out of 140) valid questionnaires. Several statistical tests were used to analyze the data, namely, descriptive and bivariate correlation analysis (Kendall`s tau test) in order to discover the association between each of the contingency variables and the extent of use of performance evaluation measures.

The study indicated that there was a lack of use of non-financial measures that were considered as contemporary management accounting practices but financial measures were highly practiced. However, based on the analysis of the importance of contemporary practices, the research predicted that companies intend to adopt non-financial measures in the future. Due to the crucial role on economy of banks, it advised the companies to adopt advanced performance evaluation measures.

'An Empirical Investigation into the Performance Management Practices of Selected Manufacturing Firms in Southern Nigeria' by Mounanu et al. (2012) was published in European Journal of Business and Management.The aimed of that study was to assess whether current performance management practices yield effective results and compare performance management practices in Nigerian firms to best practices.

The survey research method and the ex-post facto research design were also employed. Thus data were collected from both primary and secondary sources. A set of questionnaire containing thirty questions was drawn in connection with the issues raised in the study. The sample frame consists of manufacturing firms in Southern Nigerian States. It was made up of 993 manufacturing organizations contained in Gold Star Directory (2008) for the major 5000 companies in Nigeria. The questionnaire was administered to the various managing directors of these firms who were strategically placed to provide data for a proper evaluation of performance management practices of the sampled organizations.

Yamane (1964) formula was utilized for computation of the sample size. The questions were optioned using a five point Likert type of responses namely: Strongly Agree, Agree, Neutral, Disagree and Strongly Disagree. In all, 280 respondents returned their copies duly completed from a total of 285. A combination of Chi- Square and one sample Kolmognov-Smirmov Z test hypotheses was adopted for analysis. These techniques were considered appropriate because the samples of the variables were randomly selected from the population.

The study revealed that current performance management practices in Nigeria delivers effective results, but did not conform to best practices. Furthermore the top management of these manufacturing firms should continue to apply performance management strategies including training and development programmes in a positive manner in order to enhance productivity amongst employees.

Upadhyay and Gupta (2012), made a study on "Efficacy of performance management system: An empirical study at ICICI Bank" states that performance management system till today poses greatest challenge for their professional therefore aspect like efficacy of performance management system became an important aspect of researchers for study. It was aimed to study the level of effectiveness of performance management system in ICICI bank and to study the factors contributing to the effectiveness of performance management system.A total of 30 sample size was considered with convenience sampling technique of the employees of ICICI Bank.

The study of Al-Najjar and Kalaf (2012), conducted a case study on "Designing a Balanced Scorecard to Measure a Bank's Performance". The objective of the study was to contribute in the understanding of how Balanced Scorecard in evaluating the performance of a Large Local Bank in Iraq. Their study concluded that the Large Local Bank did not use this approach in the past and highlighted the importance of viewing performance from other perspectives in addition to the financial perspective. The bank's administration realized the importance of this tool as a strategic and valuable performance management system, and expressed its interest and willingness to learn this approach and to apply it in the future.

A case study conducted by Dave S R (2012), "Appling Balanced Scorecard in Indian Banking Sector: An empirical study of State bank of India" was aimed to evaluate the significance of intangible aspects as a tool for performance measurement in Indian banking sector. Panel data from 1997 to 2008 were taken considering with 29 performance indicators. This study explored that the significance of measurement of intangible assets and integration of contingencies in performance evaluation establish the need to design a comprehensive evaluation system in Indian banks.

The study of Matthew and Esther (2012), on "A Financial Performance Comparison of Foreign VS Local Banks in Ghana" exposed that return on assets and return on equity, local banks in Ghana are doing better than foreign banks. Foreign banks have a higher capital adequacy ratio than local banks. Foreign banks have more quality assets than local banks. Similarly management of local banks more efficient than that of foreign banks and foreign banks has more earnings power in terms of net interest margin than local banks. The objective decided by the study was to examine the performance of banks in Ghana and to compare financial performance of local and foreign banks in Ghana. 25 banks including local and foreign were taken for the study applying descriptive design.

The population of the study was the customers of consolidated banks in Nigeria. Simple random sampling was used to selected samples. Descriptive research design was adopted by the study. Qualitative variables were used that were collected based on perception of respondents through field survey. Ordinal level of measurement was used by constructing a five – Point Likert Scale.

A total of 400 questionnaires were administered to the sampled customers of the 4 selected consolidated banks. The instrument used for data collection were questionnaires which were structured non-disguised. Analyses were carried out on collected data by the use of inferential statistic such as factors analysis and multiple regressions.Non-financial measures(cost of transaction, information technology, service delivery, quality of service, bank offering and loan application, and customer satisfaction) were taken as independent variable and bank performance (financial performance) as dependent variable.Multiple regressions revealed that cost of transaction was not significant in terms of variation of performance of consolidated banks but the other six factors were significant in the variation of performance of consolidated banks.

The study suggested that when consolidated banks emphasize information technology, service delivery, quality of service, bank offering, loan application and customer satisfaction these could improve their financial performance.

"Performance measurement patterns in service companies: An empirical study on Estonian service companies" by Laats K et al (2011) was aimed to explore the dynamics of the usage of performance measurement (PM) methods and indicators, and this usage's influencing factors in service companies. The study is based on the contingency theory framework and focused on PM patterns. The sector, company size, and market environment dynamics, which were these patterns' primary determinants, were analyzed. The study used empirical survey data gathered from the61 largest companies in Estonia. The research showed the increasing use of more balanced PM tools combining financial and non-financial, market-related and internal process dimensions. It demonstrated that the companies predominantly used traditional cost accounting and reporting methods, as well as financial indicators for their PM.

Kumbhar (2011) explored that customers perception about efficiency, security and responsiveness, cost effectiveness, problem handling and compensation and contact service related to ATM service was low in both public and privates sector banks. The study considered 150 respondents of public and private sector banks through a structured questionnaire. The aim of the research was to provide a preliminary comparative investigation of the customer satisfaction in ATM service of public and private sector banks in India.

2.4 Theoretical Framework

The effective performance measurement for enterprises could definitely contribute to effective management. According to Ittner & Larcker, (1998), existing performance measurement systems are often insufficient to help managers to recognize changes in the business environments and to capture factors critical to the success of the companies. Throughout the 1990's, considerable interest of researchers and practitioners has focused on promoting balanced performance measurement and the structural and procedural frameworks for designing performance measures (Neely, 2005). Multiple frameworks have been introduced and the concept of "balanced" performance measurement systems have been developed, with the Balanced Scorecard (Kaplan & Norton, 1992) apparently being the most high profile framework (Neely, 2005). Although the concept of a balanced set of measures, or "family" of measures, has been around for much longer, Kaplan and Norton's balanced scorecard approach appears to have served as a catalyst for change in performance measurement practices across many sectors and types of businesses (Atkinson et al., 1997).

Many excellence models and performance measurement frameworks, have proposed like the EFQM (2001) excellence model, Kanji's business scorecard (Kanji and Sa´, 2002), the performance prism (Neely et al., 2002), and the balanced scorecard (Kaplan and Norton, 1992).If the management of enterprises could conduct their own measurement or diagnosis of the enterprises at regular intervals, management most likely would gain a better understanding of how effectively they have used their resources.

Several empirical studies report increased use of non-financial measures as evidence of attempts to design and use a more balanced set of measures (Chan, 2004; Ho & Chan, 2002; Speckbacher et al., 2003; Stivers et al., 1998).

Improvements in intangible assets affect financial outcomes through chains of cause-and-effect relationships involving two or three intermediate stages (Huselid 1995; Becker and Huselid 1998). For example, consider the linkages in the service management profit chain (Heskett et al.1994):

- Investments in employee training lead to improvements in service quality
- Better service quality leads to higher customer satisfaction
- Higher customer satisfaction leads to increased customer loyalty
- Increased customer loyalty generates increased revenues and margin

2.5 Performance Measurement Systems and Models

Some of the performance measurement frameworks/models are presented as follows:

Table no 1

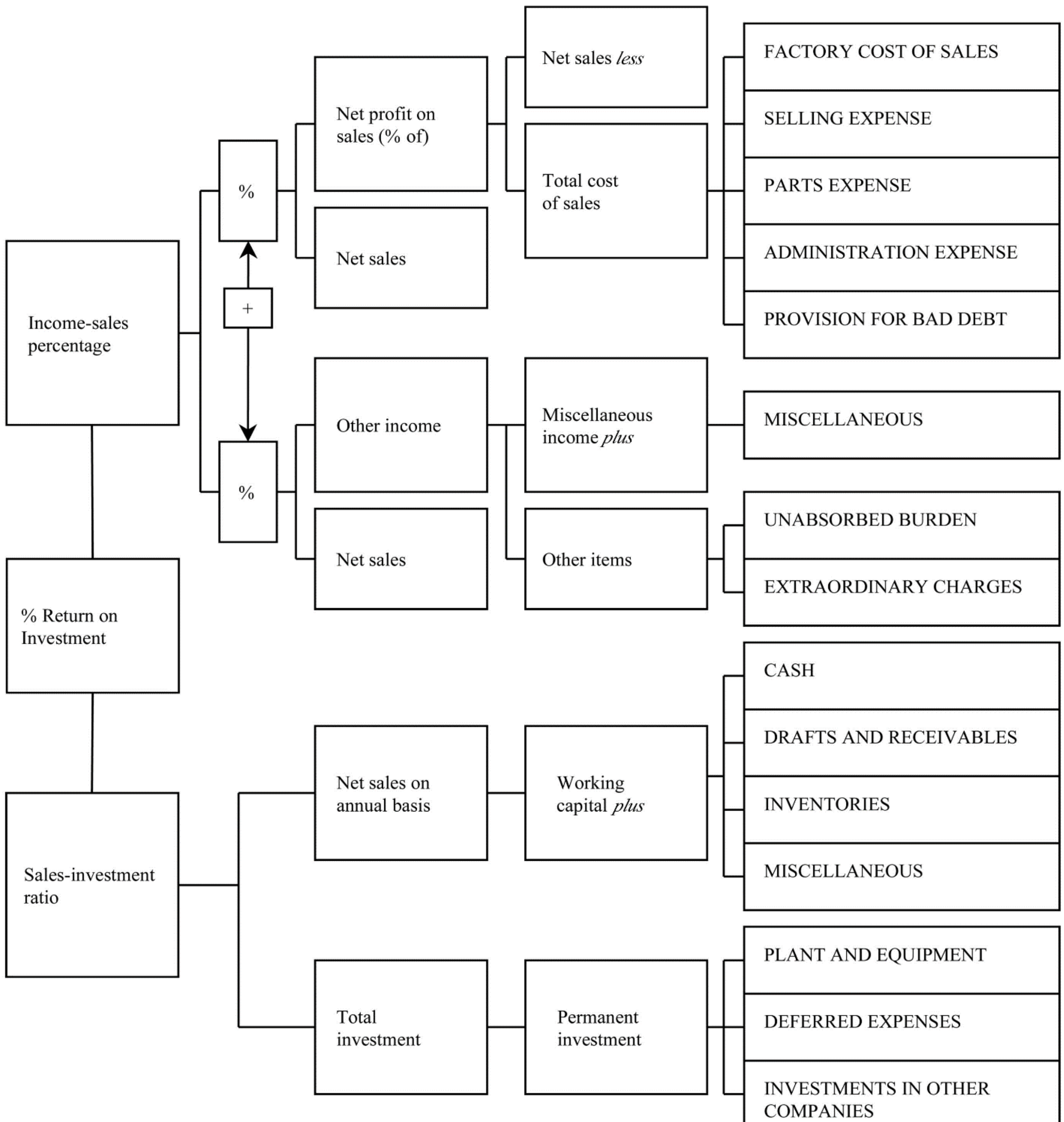
Performance measurement frameworks/models

Model/framework	Measures/Indicators/Criteria	Reference
Sink and Tuttle (1989)	Efficiency, Effectiveness, Quality, Productivity, Quality of work life and innovation, Profitability/budget ability, Excellence, survival and growth,	Sink and Tuttle (1989)
Du Pont Pyramid	Financial ratios, Return on investment (ROI)	Chandler (1977); Skousen *et al.* (2001)
PM matrix	Cost factors, Non-cost factors, External factors, Internal factors	Keegan *et al.* (1989)
Results and determinants matrix	Financial performance, Competitiveness, Quality, Flexibility, Resource utilization, Innovation	Fitzgerald *et al.* (1991)
PM questionnaire	Strategies, actions and measures are assessed, Extent to which they are supportive? Data analysis as per management position or function, Range of response and level of disagreement	Dixon *et al.* (1990)
Brown's framework	Input measures, Process measures, Output measures, Outcome measures	Brown (1996)
SMART pyramid (Performance pyramid)	Quality, Delivery, Process time, Cost, Customer satisfaction, Flexibility, Productivity, Marketing measures, Financial measures	Developed by Wang Laboratories. Lynch and Cross (1991)
Balanced Scorecard (BSC)	Financial, Customer, Internal processes, Learning & growth	Kaplan & Norton (1992)
Consistent PM system	Derived from strategy, continuous improvement, fast and accurate feedback, explicit purpose, relevance	Flapper *et al.* (1996)
Framework for small business PM	Flexibility, Timeliness, Quality, Finance, Customer satisfaction, Human factors	Laitinen (1996)
Cambridge PM process	Quality, Flexibility, Timeliness, Finance, Customer satisfaction, Human factors	Neely *et al.* (1997)
Integrated dynamic PM System	Timeliness, Finance, Customer satisfaction, Human factors , Quality, Flexibility	Ghalayini *et al.* (1997)
Integrated PM framework	Quality, Flexibility, Timeliness, Finance, Customer satisfaction	Medori and Steeple (2000)
Integrated PM system	Finance, Customer satisfaction, Human factors, Quality, Flexibility, Timeliness	Bititci (1994)
Dynamic PM Systems	External and internal monitoring system, Review system, Internal deployment system, IT platform needs	Bititci *et al.* (2000)
Integrated Measurement model	Customer satisfaction, Human factors, Quality, Flexibility, Timeliness, Finance	Oliver & Palmer (1998)
Comparative Business Scorecard	Stakeholder value, Delight the stakeholder, Organizational learning, Process excellence	Kanji (1998)
Skandia Navigator	Financial focus, Customer focus, Human focus, Process focus, Renewal and development focus	Edvinsson and Malone (1997); Sveiby (1997)
Balanced IT Scorecard (BITS)	Financial perspective, Customer satisfaction, Internal processes, Infrastructure & innovation, People perspective	ESI (1998) as mentioned in Abran and Buglione (2003)
BSC of Advanced Information. Services Inc (AISBSC)	Financial perspective, Customer perspective Processes, People, Infrastructure & innovation	Abran and Buglione (2003)
Intangible Asset-monitor (IAM)	Internal Structure: *Growth, *Renewal, *Efficiency, *Stability, Risk (Concept models, Computers, Administrative systems); External Structure: *Customer, *Supplier, *Brand names, *Trademark & image; Individual Competence: * Skills, *Education*Experience, *Values, *Social skill	Sveiby (1997)
Performance Prism	Stakeholders satisfaction, strategies, processes, capabilities, stakeholders contribution	Neely and Adam (2000)
QUEST	Quality, Economic, Social and Technical factors	Abran & Buglione (2003)
European Foundation for Quality Management (EFQM)	Leadership, Enablers: people management, policy and strategy, resources; Processes, Results: people and customer satisfaction, impact on society; and Business results	http://www.efqm.org/ as mentioned in Wongrassamee *et al.*(2003)

Compiled summary of performance measurement models/frameworks (Parida, 2006)

2.5.1 Du Pont Pyramid of Financial Ratios

It is widely recognized as being the founder of financial performance measurement.



Source: Chandler, 1977

Figure no 1 Du Pont Pyramid

2.5.2 The Performance Measurement Matrix

According to Keegan et al. it seeks to integrate different classes of business performance and quantitative and qualitative, internal and external.

The performance measurement matrix

	Non- cost	Cost
External	• Nos. Repeat buyers • Nos. customer complaints • Market share	• Competitive cost position • Relative R&D expenditure
Internal	• Design cycle time • Per cent on time delivery • Nos. new products	• Design cost • Material cost • Manufacturing cost

Figure 2.The performance measurement matrix

Noted from: Keegan et al., 1989

2.5.3 Balanced Scorecard

Balanced Scorecard was first introduced by Kaplan and Norton as an improved way of viewing organization's performance measurement model. According to Kaplan and Norton such an approach allows managers to answer four fundamental questions:

1. How do we look to our shareholders (financial perspective)?
2. What must we excel at (internal business perspective)?
3. How do our customers see us (the customer perspective)?
4. How can we continue to improve and create value (innovation and learning perspective)?

The Balanced Scorecard retains financial metrics as the ultimate outcome measures for company success, but supplements these with metrics from three additional perspectives – customer, internal process, and learning and growth – that have been proposed as the drivers for creating long-term shareholder value.

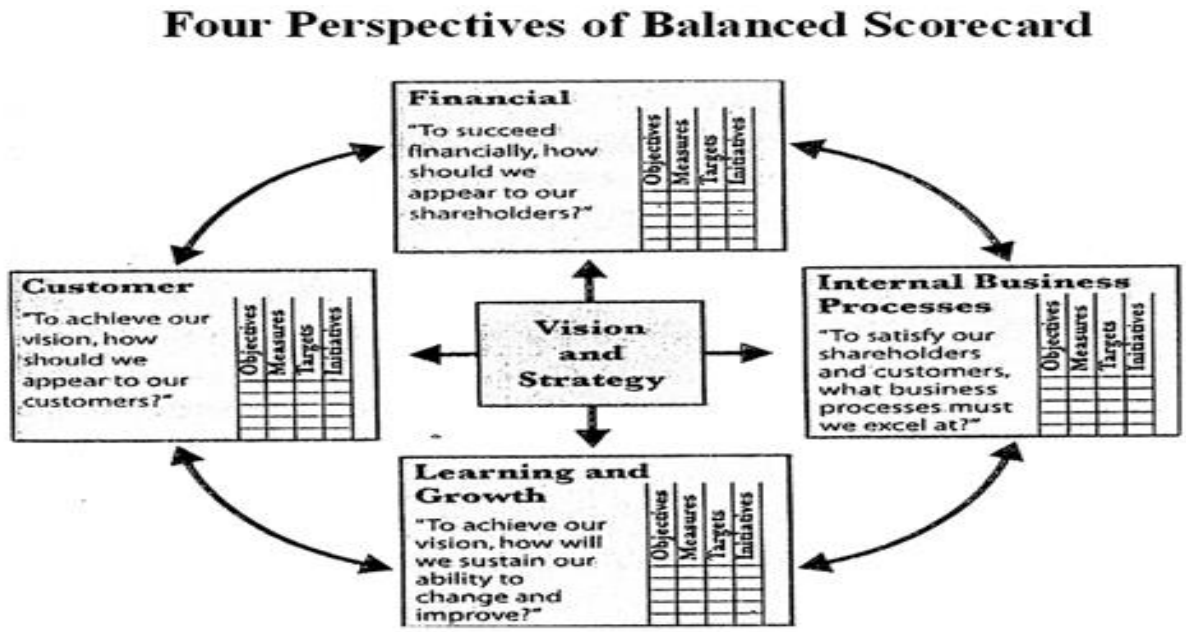
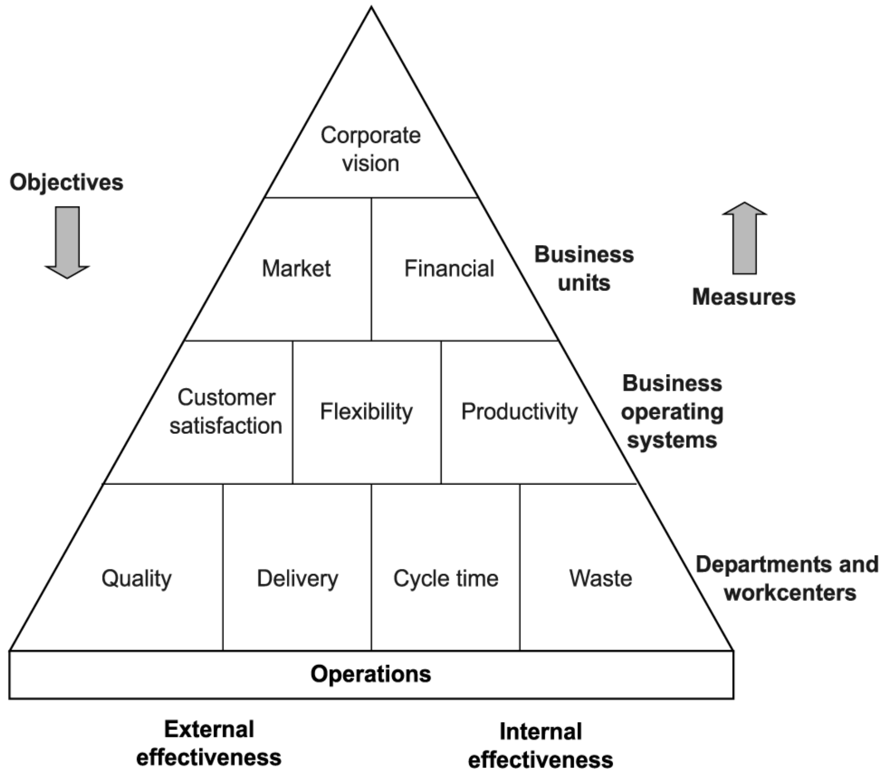


Figure no.3 Balanced scorecard

Noted from: Kaplan and Norton 1996.

2.5.4 The performance pyramid

It was proposed by Cross and Lynch (1992) whichlinks between performance measures at the different hierarchical levels in a company, so that each function and department strives towards the same goals, translating objectives from the top down. (Based on customer priorities) and measures from the bottom up.



Source: Cross and Lynch (1992)

Figure no.4 The performance pyramid

2.5.5 The performance prism

This framework suggests that a performance measurement system should be organized around five distinct but linked perspectives of performance (Neely et al., 2001):

(1) Stakeholder satisfaction. Who are the stakeholders and what do they want and need?

(2) Strategies. What are the strategies we require to ensure the wants and needs of our stakeholders?

(3) Processes. What are the processes we have to put in place in order to allow our strategies to be delivered?

(4) Capabilities. The combination of people, practices, technology and infrastructure that together enable execution of the organization's business processes (both now and in the future): what are the capabilities we require to operate our processes?

(5) Stakeholder contributions. What do we want and need from stakeholders to maintain and develop those capabilities?

Source: Neely *et al*. (2001)

Figure no.5 The Performance prism

2.6 Research Framework

By reviewing the above theoretical frameworks, the following conceptual framework has been developed**:**

2.6.1 Framework of Quantitative Measures and QualitativeOutcomes

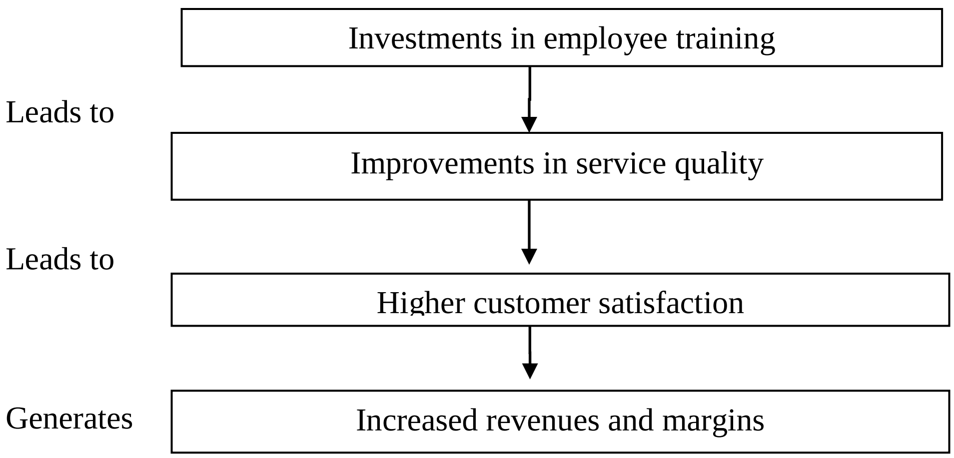


Figure no 6 Framework of cause-and-effect relationships:

2.6.2 Framework of Balanced Performance Measurement and Organizational Performance

The study of Scott and Tiessen's (1999) indicates that work teams having more diverseperformance measures (i.e., both financial andnon-financial measures) achieve higher self-assessed performance. Similarly Hoque and James (2000) also found a significant positive relation between perceived organizational performance and the use of a diverse set of performance measures.

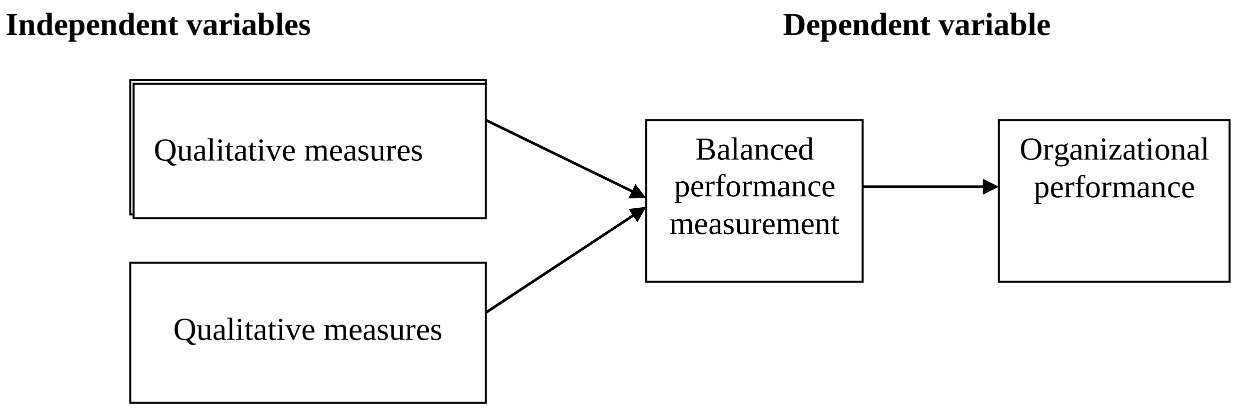


Figure no 7: Balanced performance measurement and organizational performance

2.7 Research Gap

Performance measurement practices play a critical role in evaluating the achievement of firms' goals, compensating managers, and developing strategies. Previous studies conducted in banking sector in different economies shows that, the competition has been forcing to rethink on better ways of measuring performance. Moreover an organization's emphasis on quantitative measures distracts from qualitative measures. At this perspective, there is no doubt that Nepalese commercial banks should adopt both quantitative and qualitative measures for their survival and long term success. At present this is an area to beinvestigated due to the lack of knowledge and research especially in developing country like Nepal. Thereforethe current research attempts to remedy this shortage of studies in performance measurement and fill the gap in the management accounting literature.It also aims to provide a view to theextent of usage of performance measures in the Nepalese banks.

CHAPTER THREE
RESEARCH METHODOLOGY

This chapter gives detail about research design, nature and sources of data, data collecting procedures, survey of respondents and expected relationships of different variables used in the research. Similarly, it also describes the statistical tools and models applied to draw logical conclusions about performance measurement in Nepalese banks.

3.1 Research Design

By following the research questions and the objectives, the present study is based on primary and secondary data. Primary data is collected through the self-administration of a set of questionnaire for chief executive offices, departmental heads and managers of the joint ventures banks.

The design of the study involves the measurement of the impact of quantitative and qualitativemeasures on organizational performance.

All together twenty seven respondents of three joint venture banks determined as the sample size of the study with 5 percent error margin. The design includes the test of relationship between organizational performance and various quantitative and qualitativeperformance measures. The dependent variable is in two different forms, return on assets and return on equity. Hence, the design constitutes both descriptive and exploratory research design.

3.2 Types and Sources of Data

Two types of data primary and secondary were collected. Primary data was collected through employee opinions survey while secondary data was gathered from the banks’ annual reports and financial reports including profit and loss accounts and balance sheets via the internet (Nepal Rastra Bank’s website), government papers and consultancy reports.

3.2.1 Population

The population of the research study is all commercial banks in Nepal of mid-2019. Basically, these banks are classified into three broad categories- government supported public banks, joint-ventures banks and private commercial banks. Only government owned and joint venture banks are the area of concern. The financial information of all the banks is considered for the fiscal year 2014/2015, 2015/2016, 2016/2017, 2017/2018 and 2018/2019.

3.2.2 Sample Size and Sampling

This study includes five commercial banks established as per the NRB records before 1993. Twenty seven respondents were selected from five different commercial banks on the basis of judgmental and convenience sampling method, which constitutes the sample size. Two governments owned and three joint venture banks were selected for study. The established year and selected banks are shown in the following table:

Table no 2

Sample bank and Size

S .N.	Name of bank	Type	Establishment year	Respondents
1.	Nepal Bank Limited	Government owned (Semi-government Owned)	1957	8
2.	Rastrya Banijya Bank	Government owned	1966	7
3.	NABIL	Joint venture	1984	4
4.	Himalayan Bank Ltd.	Joint venture	1993	5
5.	Standard Chartered Bank Nepal Limited	Joint venture	1987	3
	Total			27

Out of 27 respondents, the numbers of respondents from these banks are 15 and 12 respectively, which are shown in the following table:

Table no. 3

Classification of respondents on the basis of banks type

Form of bank	Number of Banks	Number of respondents	Percent
Government owned	2	15	55.56
Joint venture	3	12	44.44
Total	**5**	**27**	**100**

3.3 Different Forms of Dependent Variables

The primary focus of this research is the relationship between organizational performance and quantitative and qualitative measures. The study has used two measures while measuring the organizational performance of Nepalese Banks: the return on assets (ROA) and the return on equity (ROE). Return on assets is a ratio computed by dividing the net income over total assets. Return on equity is a ratio computed by dividing the net income over shareholders' equity. ROA and ROE have been used in most commercial banks' to evaluate the performance.

3.3.1 Return on Equity (ROE)

Return on Equity is one of the profitability ratios.It is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested. ROE is what the shareholders look in return for their investment.A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE the better the company is in terms of profit generation. ROE is the ratio of Net Income after Taxes divided by Total Equity Capital. Return on equity (ROE) measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners while net profit is focused on the profit earned by commercial banks.

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

The formula for return on equity is,

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

3.3.2 Return on Assets (ROA)

Return on assets (ROA) is also another major ratio that indicates the profitability of a bank. It is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings.It measures the ability of the bank management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of a company in generating net income from all the resources of the institution (Khrawish, 2011). A higher ROA shows that the company is more efficient in using its resources.

It is calculated by dividing a company's annual earnings by its total assets. ROA is displayed as a percentage. Sometimes this is referred to as "Return on Investment".

The formula for return on assets is,

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

The assets of the company are comprised of both debt and equity. Both of these types of financing are used to fund the operations of the company. The ROA figure gives investors an idea of how effectively the company is converting the money it has to invest into net income.

3.4 Independent Variables

Quantitative measures are used as dependent variables. In this study, the following are the quantitative measures which are included:

Operating Profit
Net Profit Margin
CAR (Capital Adequacy Ratio)
EPS (Earning per share)
DPS (Dividend per share)

Dividend Payout Ratio
Credit to Deposit Ratio (CD Ratio)
Level of Non-Performing Assets (NPA)
Cost of Fund

Similarly, some qualitative measures are selected as independent variables. These are enlisted as below:

Customers per employee
Market share growth
Employee skill levels
Number of ATMs
Number of branches
Number of employees

3.5 Reliability and Validity

Internal consistency is estimated by using Cronbach's alpha (Cronbach, 1951). Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. A "high" value of alpha is often used (along with substantive arguments and possibly other statistical measures) as evidence that the items measure an underlying (or latent) construct. It is known that a reliability coefficient of 0.50or higher is considered “acceptable" in most social science research situations. After tabulation of questionnaire, the values of Cronbach’s alpha were found 96 percent and 92 percent in financial questionnaire and non-financial questionnaire respectively.

3.6 Model Specification (Pooled Regression)

In this study, multiple regression equations were employed to estimate the relationship of organizational performance with quantitative and qualitative performance measures. Finally, the effects of all independent variables such as quantitative and qualitative measures on return on assets and return on equity were measured. Specifications of these equations with brief descriptions are given below:

3.6.1 Return on Assets with Quantitative and QualitativeMeasures

In the present study, the following equation has been taken as base to specify the equations showing linear relationship between commercial bank return on assets and quantitative and qualitative measures.

ROA= a+b1FM+b2NFM+…..+ et (1)

Where,

ROA= Return on assets, FM=quantitative measures, NFM= Qualitative measures, et=error term

3.6.2 Return on Equity with Quantitative and Qualitative Measures

Similarly, the following equation has been taken as base to specify the equations showing linear relationship between return on equity and quantitative and qualitativemeasures.

ROE= a+b1FM+b2NFM+…..+ et (2)

Where,

ROE= Return on equity, FM=Quantitative measures, NFM= Qualitative measures, et=error term

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter presents and analyzes the primary as well as secondary data collected from different sources. It provides insights into the predicted objectives of the study. Performance measurement practices in Nepalese banks have presented and analyzed. To attain the objectives set by this study the commercial banks are classified into government owned bank and joint venture bank. The existing practices of differentquantitative and qualitative measures in Nepalese banks and their impact on organizational performance have analyzed. The collected data are tabulated analyzed by using different financial and statistical tools such as SPSS, Ex-cell etc.

4.1 Gender Profile of Respondents

Nepalese women are involved in corporate and banking sector. In this respect this study has tried to minimize gender bias.

Table No.4

Gender Profile of Respondents

Gender	Frequency	Percent
Male	22	81.4
Female	5	18.6
Total	27	100

Noted From: Field Survey 2019

Table no 4 represents the gender profile of respondents. According to this table approximately nineteen percent of the respondents are women employees of concerned banks. But majority of the respondents are male because of their high representation in higher levels position in banks under study.

4.2 Position Profile of Respondents

The study is basically aimed to examine the performance measurement in Nepalese banks. This is the overall evaluation of the performance of an organization. It is policy and strategy related plan and action. Normally all these quantitative and qualitative measures are used to evaluate the performance of whole organization and in some extent of its branches. Therefore the respondents are selected from the top level authority of the concerned banks.

Table No. 5

Position Profile of Respondents

Respondents	Frequency	Percent
CEO/Executive Director	2	7.4
Departmental Head	15	55.60
Manager	10	37.00
Total	27	100

Noted From: Field Survey 2019

Out of the total respondents eight percent represents CEO/Executive director. Approximately fifty six are departmental head 37 percent from manager level. Normally performance related measures are established and evaluated against its achievement in these levels in the organization.

4.3 Experience of Respondents

The respondents are high level authority of the concerned banks. Table 4.3 indicates that majority of respondents, 74 percent, have above 10 years' experience. Due to the long experience in respective organization they are aware about their performance measurement practices. Therefore it is believed that the results of the study may represent the real picture of performance measurement.

Table No. 6

Experience of Respondents

Experience	Frequency	Percent
Up to 5 years	2	7.4
5-10 years	5	18.6
Above 10 years	20	74
Total	27	100

Noted From: Field Survey 2019

Manager level respondents are less than the departmental heads. Managers have less experience than other respondents.

4.4 Qualification of Respondents

Table 4.4 shows that 88.8 percent of the respondents are post graduate and above. Only 11.2 percent are graduate level. This qualification status indicates that they are aware about performance measurement indicators and their use and importance. Therefore respondents are able to provide the information related with performance measurement practices in their respective banks.

Table No. 7

Qualification of Respondents

Qualification	Frequency	Percent
Graduate	3	11.2
Post Graduate and above	24	88.8
Total	27	100.0

Noted From: Field Survey 2019

The above table 4.4 highlights the detail of the qualification status of the respondents taken under this study.

4.5 Significance of performance measurement in the bank

This is the focal area of the study. The question related with the significance of performance measurement was asked with the respondents to know the view that in what respect it has got importance in their organization. For this purpose respondents are grouped into two categories which are government owned and joint venture banks.

Table No. 8

Significance of performance measurement in the bank

	Types of Bank		Total
	Government Owned	Joint Venture Bank	Respondents
Limited Value	3	1	4
Highly Effective	2	4	6
A key Managerial Tool	10	7	17
Total	15	12	27

Noted From: Field Survey 2019

The above table no 8 states that most of the respondents of both type banks have expressed their opinion that performance measurement as a key managerial tool. Out of the 15 respondents of government owned bank 67 percent are in favor of a key managerial tool. In the same way 58 percent of joint venture banks have expressed its significance as a key managerial tool. Minorities have expressed it as limited value in organization. It indicates that performance measurement has got significant value in Nepalese commercial banks. Therefore the present study under this title is relevant in the context of Nepal.

4.6 Performance Measures are Modified when there is a Change in the Strategic Objectives of Banks

The performance measurement indicators for all organization, for all time and situation may not be same. These measures should be modified according to the need of the organization for its survival and long term success. According to table 4.6 performance measures are usually modified when there is a change in the strategic objectives of banks in both types of banks.

Table No. 9:

Performance measures are modified when there is a change in the strategic objectives of banks-

	Types of Bank		Total
	Government Owned	Joint Venture Bank	Respondents
Rarely	2	4	6
Usually	13	8	21
Total	15	2	27

Noted From: Field Survey 2019

It needs to modify the performance measures always for the alignment of measures with their strategic objectives.

4.7 Preparation of Quantitative Performance Measurement Reports

Quantitative performance measurement reports show the efficiency of the organization for that particular period in respect of earning, assets utilization, etc. Table 4.7 is concerned with this subject. In some joint venture banks quantitative performance measurement reports are prepared monthly and quarterly. But in government owned banks prepares these reports quarterly.

Table No. 10

The bank prepares quantitative performance measurement reports

	Types of Bank		Total
	Government Owned	Joint Venture Bank	Respondents
Monthly	0	4	4
Quarterly	15	8	23
Total	15	12	27

Noted From: Field Survey 2019

It indicates that some joint venture banks are measuring their operating efficiency in respect of financial parts faster than government banks.

4.8 Preparation of Qualitative Performance Measurement Reports

Qualitative measures are much more important for long term success and outward looking. Table 4.8 indicates the preparation of qualitative performance measurement reports in Nepalese commercial banks. Out of the 15 respondents of government owned bank 8 have expressed their view on not at all. It indicates that they are not preparing such type of reports formally. This is the weakness of that type of banks because of not getting strategic information.

Table No. 11

The bank prepares qualitative performance measurement reports

	Types of Bank		Total
	Government owned	Joint Venture Bank	Respondents
Monthly	2	3	5
Quarterly	5	8	13
Not at all	8	1	9

	Types of Bank		Total
	Government owned	Joint Venture Bank	Respondents
Monthly	2	3	5
Quarterly	5	8	13
Not at all	8	1	9
Total	15	12	27

Noted From: Field Survey 2019

But some of the government and joint venture banks have prepared it quarterly. Out of the three joint venture banks one prepares it monthly also. It shows that joint venture banks are aware about the significance of qualitative measures than government owned banks.

4.9 Quantitative Measures with Respect to their Significant Uses and Importance

There are certain quantitative measures which must be prepared by all commercial banks in Nepal to follow the rules and regulations administered by Nepal Rastra Bank. Out of them only some measures which are normally plasticized has been considered in this study. ROA and ROE are also important quantitative measures and significantly used by Nepalese commercial banks. But it is not presented in table 4.9 because ROA and ROE are taken as dependent variable to measure the organizational performance with independent variable of quantitative and qualitativemeasures.

Table No. 12

Opinions towards the following financial measures with respect to their significant uses and importance

	N	Minimum	Maximum	Mean	Std. Deviation
Operating Profit	27	4.00	5.00	4.9259	.26688
Net Profit Margin	27	4.00	5.00	4.9630	.19245
CAR	27	5.00	5.00	5.0000	.00000
EPS	27	4.00	5.00	4.4815	.50918
DPS	27	3.00	5.00	4.0370	.58714
Dividend pay-out ratio	27	3.00	5.00	3.9630	.51750
Credit to deposit ratio	27	4.00	5.00	4.8519	.36201
NPA	27	4.00	5.00	4.9630	.19245
Cost of fund	27	5.00	5.00	5.0000	.00000
Valid N (listwise)	27				

Noted From: Field Survey 2019

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

Table 13
Correlation Coefficients of Quantitative Measures

		Operating Profit	Net Profit Margin	CAR	EPS	DPS	Dividend pay-out ratio	Credit to deposit ratio	NPA	cost of fund
Operating Profit	Pearsn Correlation	1								
	Sig. (2-tailed)									
	N	27								
Net Profit Margin	Pearson Correlation	.548**	1							
	Sig. (2-tailed)	.003								
	N	27	27							
CAR	Pearson Correlation	.557**	.352	1						
	Sig. (2-tailed)	.003	.072							
	N	27	27	27						
EPS	Pearson Correlation	.548**	1.000**	.352	1					
	Sig. (2-tailed)	.003	.000	.072						
	N	27	27	27	27					
DPS	Pearson Correlation	.346	.158	.854**	.158	1				
	Sig. (2-tailed)	.077	.431	.000	.431					
	N	27	27	27	27	27				
Dividend pay-out ratio	Pearson Correlation	.548**	1.000**	.352	1.000**	.158	1			
	Sig. (2-tailed)	.003	.000	.072	.000	.431				
	N	27	27	27	27	27	27			
Credit to deposit ratio	Pearson Correlation	.557**	.352	1.000**	.352	.854**	.352	1		
	Sig. (2-tailed)	.003	.072	.000	.072	.000	.072			
	N	27	27	27	27	27	27	27		
NPA	Pearson Correlation	.360	.833**	.081	.833**	-.055	.833**	.081	1	
	Sig. (2-tailed)	.065	.000	.687	.000	.783	.000	.687		
	N	27	27	27	27	27	27	27	27	
cost of fund	Pearson Correlation	.557**	.352	1.000**	.352	.854**	.352	1.000**	.081	1
	Sig. (2-tailed)	.003	.072	.000	.072	.000	.072	.000	.687	
	N	27	27	27	27	27	27	27	27	27

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

The above table indicates that the financial measures are related with each other.

4.10 The Existing Practices of Qualitative Performance Measures

This is the main concern of the study. A total of 26 qualitative measures are provided to know the use of these measures by Nepalese banks. But the result shows that few of the qualitative measures are practisized. The below mentioned table 4.10 states that the mean value ofCustomer satisfaction index, Customer loyalty index, New customer acquisition rate, Cost per customer, Revenue per customer and Employee absenteeism are less than 3. It means that these indicators approximately not in use by Nepalese banks. Employee training programs, no. of ATMs, no. of branches, qualification growth of employee, employees training programs, number of employees and accuracy of handling transactions are moderately used. The other measures are highly nominal in use. This indicates that Nepalese commercial banks are moderately using a limited number of qualitative measures. The major customer related qualitative measures has not used. The nominal use of qualitativemeasures reveals that Nepalese commercial banks rely on quantitativemeasures. For long term success the use of qualitative measures in Nepalese commercial banks is essential.

Table No. 14.

The existing practices over Qualitative performance measures in banks

	N	Minimum	Maximum	Mean	Std. Deviation
Customers per employee	27	2.00	4.00	3.2593	.76423
Market share growth	27	3.00	5.00	3.5556	.57735
Employee skill levels	27	3.00	5.00	3.8148	.62247
Number of ATMs	27	3.00	5.00	4.1852	.62247
Number of branches	27	3.00	5.00	4.2222	.57735
Number of employees	27	3.00	5.00	3.9630	.58714
Valid N (listwise)	27				

Noted From: Field Survey 2019

4.11 The Existing Practices Over Qualitative Performance Measures By Types Of Bank

Table no 15

The Existing Practices over QualitativePerformance Measures by Types of Banks

Types of bank	Customers per employee	Market share growth	Employee skill levels	Number of ATMs	Number of branches	Number of employees
Government owned	3.3333	3.5333	3.7333	4.2000	4.1333	4.1333
Joint venture bank	3.1667	3.5833	3.9167	4.1667	4.3333	3.7500
Total	3.2593	3.5556	3.8148	4.1852	4.2222	3.9630

Noted From: Field Survey 2019

To find the real picture of the use of qualitativemeasures by types of bank table 4.11 is presented. It indicates that some of the measures are not normally in use in both types' banks but some measures are moderately in use. The table indicates that qualitativemeasures are more in use in joint venture banks than in government owned banks. It can be concluded that joint venture banks are little more aware than government owned banks in the use of qualitative measures while measuring their performance.

4.12 Opinions towards the Following QualitativeMeasures with Respect to their Significant Importance

The table 4.11 reveals that qualitativemeasures are nominally used by Nepalese commercial banks. But the table 4.12 shows the opinions of respondents towards the significance importance of qualitative measures in strategic performance measurement if it is used in their banks.

Table No. 16

Opinions towards the following qualitativemeasures with respect to their significant importance:

	Minimum	Maximum	Mean	Std. Deviation
New customer acquisition rate	3.00	5.00	4.1481	.45605
Customers per employee	4.00	5.00	4.4815	.50918
Market share growth	3.00	5.00	4.1481	.45605
Employee skill levels	3.00	5.00	4.2222	.50637
Number of ATMs	3.00	5.00	4.2593	.59437
Number of branches	3.00	5.00	4.2593	.59437
Number of employees	3.00	5.00	4.2593	.52569
Valid N (listwise)				

Noted From: Field Survey 2019

The mean value of above table states that the use of qualitativemeasure is significantly importance for the performance measurement in commercial banks if it used. There is positive attitude towards the importance of qualitativemeasures in both banks. Qualitative measures can be used in near future in Nepalese commercial banks due to the positive attitude towards the importance of it in performance measurement.

Regression Output

Regression equation of ROA on Quantitative and Qualitative Measures

ROA= a+b1FM+b2NFM

ROA= -0.31+0.033FM+0.012NFM

Sig. = 0.897 0.037 0.026

T = (0.13) 2.21 (3.47)

R^2 =0.38 F=2.8

Number of observation =27 d.f.= 25

It is observed that the explanatory power of the R^2 is 0.38 indicating that 38 percent variation in the return on assets of commercial banks is explained by variation of the independent variables included in the model. The F statistic of this model is also statistically significant at 5 percent. It is hypothesized that the signs of all independents variables are positive and significant.

Both predictors' quantitative and qualitativemeasures are found with positive sign as per expectation. It is found that other variables keeping constant, one percent point increase in FM leads to increase 0.033 percent on the return on assets. Similarly, it is noted that one percent point increase in NFM increases by 0.012 percent on the return on assets if other variables keeping constant.

Regression equation of ROE on Quantitative and QualitativeMeasures

ROE=a +b1FM+b2NFM

ROE=143.99+1.014*FM+0.37*NFM

Sig. = 0.783 0.024 0.016

T = 1.99 2.21 4.37

R^2 =0.42 F=6.8

Number of observation =27 d.f. = 25

It is observed that the explanatory power of the R^2 is 0.42 indicating that 42 percent variation in the return on equity of commercial banks is explained by variation of the independent variables included in the model. The F statistic of this model is also statistically significant at 5 percent. It is hypothesized that the signs of all independents variables are positive and significant.

Both predictors, quantitative and qualitative measures are found with positive sign as per expectation. It is found that other variables keeping constant, one percent point increase in FM leads to increase 1.014 percent on the return on equity. Similarly, it is noted that one percent point increase in NFM increases by 0.37 percent on the return on equity if other variables keeping constant.

Table No. 17

Comparison of ROA and ROE between government owned and joint venture commercial **banks**

Indicators	Types of Bank	
	Government owned	Joint venture
ROA	1.88	2.11
ROE	17.66	20.22

Noted from: Annual Report 2018/2019

The above table shows that ROA and ROE is greater in Joint Venture Commercial Banks than in Government Owned Banks.

Table No. 18

Return on Equity (ROE) of Joint Venture Banks

Fiscal Year	NABIL Bank Limited	Standard Chartered Bank Limited	Himalayan Bank Limited	Average (%)
	Return on Equity (%)	Return on Equity (%)	Return on Equity (%)	
2014/2015	27.97	26.27	15.79	**23.34**
2015/2016	22.73	21.69	15.95	**20.12**
2016/2017	25.61	17.18	22.00	**21.60**
2017/2018	22.41	14.31	18.62	**18.44**
2018/2019	20.94	18.66	13.15	**17.58**

Source: Annual Report 2018/2019

Table No. 19

Return on Equity (ROE) of Government Owned Banks

Fiscal Year	Nepal Bank Limited	Rastriya Banizya Bank Limited	Average (%)
	Return on Equity (%)	Return on Equity (%)	
2014/2015	7.48	44.21	**25.84**
2015/2016	4.59	27.38	**15.92**
2016/2017	10.00	19.43	**14.71**
2017/2018	13.00	19.19	**16.10**
2018/2019	8.87	22.63	**15.75**

Noted from: Annual Report 2018/2019

Table No. 20

Return on Assets (ROA) of Government Owned Banks

Fiscal Year	Nepal Bank Limited Return on Assets (%)	Rastriya Banizya Bank Limited Return on Assets (%)	Average (%)
2014/2015	0.54	3.22	**1.88**
2015/2016	2.79	1.38	**2.08**
2016/2017	1.46	1.30	**1.38**
2017/2018	2.47	1.85	**2.16**
2018/2019	1.51	2.31	**1.91**

Noted from: Annual Report 2018/2019

Table No. 21

Return on Assets (ROA) of Joint Venture Banks

Fiscal Year	NABIL Bank Limited Return on Assets (%)	Standard Chartered Bank Nepal Limited Return on Assets (%)	Himalayan Bank Limited Return on Assets (%)	Average (%)
2013/2014	2.89	2.51	1.28	**2.23**
2014/2015	2.06	1.99	1.31	**1.79**
2015/2016	2.32	1.98	1.92	**2.08**
2016/2017	2.69	1.84	2.01	**2.18**
2017/2018	2.61	2.61	1.57	**2.26**

Noted from: Annual Report 2018/2019

Table No. 22

Comparison of ROE between Government Owned and Joint Venture Commercial Banks

Fiscal Year	Joint Venture Banks (Three sample banks) Average Return on Equity (%)	Government Owned Banks (Two sample banks) Average Return on Equity (%)
2014/2015	23.34	**25.84**
2015/2016	20.12	**15.92**
2016/2017	21.60	**14.71**
2017/2018	18.44	**16.10**
2018/2019	17.58	**15.75**
Average	**20.22**	**17.66**

Source: Annual Report 2018/2019

The ROE of Government owned commercial banks is not calculated here due to the negative shareholders equity for the period of 2014/2015 to 2018/2019 in both banks. Furthermore shareholders equity also seems negative in Nepal Bank Limited for the period 2018/2019. Therefore only the return on equity of Rastriya Banijya Bank for the period of 2018/2019 is considered in this study and which is 102.96 percent.

The above table explores the average value ROE of government owned and joint venture banks of last five fiscal years 2014/2015 to 2018/2019. Table 4.17 indicates that organizational performance in respect of ROE is greater in joint venture banks.

Table No. 23

Comparison of ROA between Government Owned and Joint Venture Commercial Banks

Fiscal Year	Joint Venture Banks (Three sample banks) Average Return on Assets (%)	Government Owned Banks (Two sample banks) Average Return on Assets (%)
2014/2015	2.23	2.36
2015/2016	1.79	1.70
2016/2017	2.08	1.70
2017/2018	2.18	0.87
2018/2019	2.26	1.67
Average	**2.11**	**1.66**

Noted from: Annual Report 2018/2019

The above table highlights the average value ROA of government owned and joint venture banks of last five fiscal years 2014/2015 to 2018/2019. Table 4.18 indicates that organizational performance in respect of ROA is greater in joint venture banks.

CHAPTER-FIVE
SUMMARY, CONCLUSION AND RECOMENDATION

5.1 Summary

Banks serves as important sources of funds for businesses in an economy where the capital market is still a developing one. The successful operation of banking sector is essential to generate the capital for the economic development of developing countries like Nepal. Performance measurement plays a key role to attain the strategic objectives set by the business. Most banks and financial institutions are struggling to go further beyond the application of quantitative measures.

Performance measurement is the way to measure performance across a range of critical success factors that are derived from the competitive strategy. It is obvious that the traditional quantitative performance measures, such as profits and return on investment are under serious challenge due to its short-term rather than long-term focus. It is said that effective performance measurement benefits the individual, organization and the economy through increased efficiency, effectiveness and productive aggregates in terms of quality goods and services. Performance measurement provides a systematic link between organizational strategy, resources, and processes. A balanced performance measurement system adopts different perspectives which include quantitative and qualitativemeasures. Moreover performance measurement systems must be modified to adapt to the changes in circumstances.

Various liberalization measures have been implemented in order to widen the financial system through the removal of entry barriers to foreign investors in banking. In this perspective, the ability of banks, to mobilize and exploit its intangibles has become more decisive than investing in tangible assets. In this context a sound and profitable banking sector becomes able to withstand negative shocks and contribute to the stability of the financial system. They transfer funds from those who do not have productive use of it to those with productive venture. In addition to resource allocation good bank performance rewards the shareholders with sufficient return for their investment.

The designing of a balanced performance measurement system has become critical to the survival and long term success of companies as it plays an important role in leading the organization by providing crucial information. The study under "Performance Measurement in Nepalese Banks" has a great importance to examine both quantitative and qualitative measures in Nepalese commercial banks.

The quantitative and qualitativemeasurement practices in Nepalese commercial banks are examined and analyzed. To make study realistic, different quantitative and qualitativeindicators are used. Different models regarding the performance measurement are reviewed while formulating the research framework. Quantitative and qualitativemeasures are taken as independent variables and return on assets and return on equity are considered as dependent variables to measure the organizational performance.

Chapter one includes the general background of the study including statement of the problem, objectives of the study, significance and limitations of the study. Similarly, chapter two deals the review of literature related to the topic. It incorporates the conceptual issues regarding performance measurement systems and practices. This chapter also reviews various previous empirical studies on performance measurement in corporate sector. It also presents conceptual framework, theoretical framework, research gap and the statements of hypothesis.

The third chapter incorporates the research methodology employed under this study. Research design, population, nature and source of data, sampling methods with statistical techniques for analysis and variables are presented in this chapter.

Chapter four is related with the presentation and analysis of data. This section of the study makes the analyses of primary as well as secondary data and presents the results of them. It also provides the extent of the use of performance measures and organizational performance in Nepalese banks. This section also empirically examines the relationship between performance measurement practices and organizational performance of Nepalese banks by the use of linear models of regression analysis. Finally, chapter five is the final section of this study. This section summarizes the discussion of the study and provides the conclusions. This chapter highlights the major findings of the study and some recommendations for concerned organizations.

5.2 Conclusion

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

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

Joint venture commercial banks have prepared annual reports timely but it is not found in government owned banks. Banks have expressed that unstable management; lack of professionalism and lack of information technology are the factors that have affected to the change of performance measurement system. Similarly lack of research and study, lack of information and management information system are the main problems encountered during the use of non-financial measuresin commercial banks under this study.

The results also indicate that while short-term factors may necessitate focus on quantitative measures alone, firms cannot rely on quantitative measures alone for long-term strategy. Thus, the results of this study provide practical guidelines contributions to performance measurement at banks in Nepal.

5.3 Major Findings

This study examined performance measurement of two governments owned and three joint venture commercial banks. After the discussions and analysis of various aspects of performance measurement the research explored the following major findings:

- Performance measurement has been considered as a key managerial tool by the Nepalese commercial banks.
- Performance measures are usually modified when there is a change in strategic objectives of the commercial banks.
- Quantitative performance measurement reports are normally prepared quarterly by most of the commercial banks under this study but some joint venture commercial banks prepare monthly.
- Government owned commercial banks have no practice to prepare the qualitative performance reports whereas joint venture commercial banks have some practices to report the qualitative measurement reports quarterly.
- Government owned commercial banks have expressed their views that unstable management, lack of professionalism and lack of information technology are the factors that have affected to the change of performance measurement system over time.
- Difficult to quantify the qualitative information related with qualitative measures, lack of research and study, lack of information and management information system are the main problems encountered during qualitative measurement practices in both types of commercial banks under this study.
- Quantitative indicators have got significant importance while measuring the performance.
- Few of the qualitative measures are used in minimum scale in government owned banks but slightly little more practices in joint venture banks.
- Strategic qualitative measures like customer related measures have not used by both banks.
- The respondents of both types of banks have expressed their views towards the significant importance of qualitative performance measures in performance measurement system.

- The research indicates that quantitative measures are used in order to evaluate the performance of commercial banks in Nepal.
- During analysis, it is noted that qualitative measures are used in order to evaluate the performance of commercial banks in Nepal insignificantly.
- In Nepalese banks, the practices over quantitative measures have got more importance than qualitative measures.

5.4 Recommendations

After the analysis and findings of the study, the following recommendations are expressed as follows:

- Performance measures should be modified routinely when there is a change in strategic objectives of the commercial banks for obtaining long term success in this competitive market place.
- Qualitative performance measurement reports should be prepared quarterly by quantifying it to correct the deviations occurred during measurement.
- Qualitative measures must be used significantly for long term success.
- Stable management is necessary for use of qualitative measures.
- Information technology and management information system should be developed to facilitate in the use of balanced performance measures.
- Continuous research should be done to adopt the new models of performance measurement.

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Key Indicators

Particulars	Indicators	Erstwhile Local GAAP Based			NFRS based	
		FY 2014/2015	FY 2015/2016	FY 2016/2017	FY 2017/2018	FY 2018/2019
1. Net Profit/Gross Income	Percent	33.76	34.46	31.88	46.79	46.72
2. Earning Per Share	Rs.	57.38	45.96	35.49	27.33	30.39
3. Market Value Per Share	Rs.	1,943	3,600	2,295	755	682
4. Price Earning Ratio	Ratio	33.86	78.33	64.67	27.62	22.44
5. Dividend (including bonus) on Share Capital	Percent	44.21	35.09	105.26	17.50	22.50
6. Cash Dividend on Share Capital	Percent	19.21	1.75	5.26	17.50	22.50
7. Interest Income/Loan & Advances	Percent	8.68	6.86	6.80	11.14	12.31
8. Staff Expenses/Total Operating Expenses	Percent	32.13	32.52	28.50	62.83	65.89
9. Interest Expenses on Total Deposit and Borrowings	Percent	1.15	1.01	1.35	2.45	3.93
10. Exchange Fluctuation Income/Total Income	Percent	16.06	16.78	13.69	15.10	16.20
11. Staff (statutory) Bonus/ Total Staff Expenses	Percent	27.01	27.29	27.00	33.64	35.60
12. Net Profit/Loan and Advances	Percent	4.60	4.08	3.58	4.91	4.59
13. Net Profit/Total Assets	Ratio	1.99	1.98	1.84	2.61	2.61
14. Total Credit/Deposit	Percent	48.92	56.88	62.20	66.45	70.11
15. Total Operating Expenses/Total Assets	Percent	2.42	2.28	2.49	1.89	1.76
16. Adequacy of Capital Fund on Risk Weighted Assets						
a. Core Capital	Percent	11.67	14.08	19.58	21.41	18.31
b. Supplementary Capital	Percent	1.43	2.30	1.50	1.58	1.38
c. Total Capital Fund	Percent	13.10	16.38	21.08	22.99	19.69
17. Liquidity (CRR)	Ratio	24.03	7.98	19.71	18.91	7.52
18. Non-performing Credit/ Total Credit	Percent	0.34	0.32	0.19	0.18	0.15
19. Base Rate	Percent	4.92	4.47	6.47	7.87	7.63
20. Weighted Average Interest Rate Spread	Percent	5.27	4.64	5.01	5.06	4.45
21. Book Net-worth	Rs'000	5,948,555	7,524,175	11,864,025	13,925,502	14,927,075
22. Total Shares	No.	22,481,612	28,124,260	40,057,153	80,114,307	80,114,307
23. Total Staff	No.	433	435	495	485	531
24. Networth Per Share	Rs.	265	268	296	174	186
25. Return on Equity	Percent	21.69	17.18	11.98	18.66	19.49
26. Profit per Employee	Rs'000	2,979	2,971	2,872	4,515	4,585

5.32 Principal Indicators

Particulars	Indicators	FY 2070-71	FY 2071-72	FY 2072-73	FY 2073-74	FY 2074-75	FY 2075-76
1. Percent of net Profit/ Gross Income	Percent	23.21	39.22	24.60	33.95	25.97	30.43
2. Adjusted Earning Per Share	Rs.	21.38	57.07	27.42	32.32	30.26	56.04
3 Market Value per Share	Rs.	-	-	-	-		-
4. Price Earning Ratio	Ratio	-	-	-	-		-
5. Dividend (including Bonus) on Share capital	Percent	-	-	-	-		-
6. Cash Dividend on Share Capital	Percent	-	-	-	-		-
7. Interest Income/ Loan and Advances	Percent	9.10	8.23	8.32	7.78	9.20	8.97
8. Staff Expenses/ Total Operating Expense	Percent	44.98	50.95	52.88	46.96	31.48	30.57
9 Interest Expense on Total Deposit and Borrowings	Percent	2.04	1.53	1.27	1.24	1.76	2.59
10. Exchange Gain/Total Income	Percent	0.43	0.36	0.14	0.69	0.30	0.13
11. Staff Bonus/Total Staff expenses	Percent	6.22	14.89	7.70	12.62	9.50	11.27
12. Net Profit /Loans and Advances	Percent	3.02	6.12	2.76	2.61	2.25	3.41
13. Net Profit/ Total Assets	Percent	1.47	3.22	1.42	1.60	1.42	2.23
14. Total Credit/Deposits	Percent	56.73	61.05	58.46	69.30	71.38	77.15
15. Total Operating Expenses/ Total Assets	Percent	4.17	4.49	3.32	3.09	3.45	4.47
16. Adequacy of Capital Fund on Risk Weighted Assets							
a. Core Capital*	Percent	4.46	10.16	9.31	9.15	9.98	12.31
b. Supplementary Capital	Percent	0.16	-	1.14	1.24	1.48	1.08
c. Total Capital Fund	Percent	4.62	10.16	10.46	10.39	11.46	13.39
17. Liquidity (CRR)	Percent	19.38	14.48	14.09	9.60	5.29	6.44
18 Non Performing Credit/ Total Credit	Percent	6.38	5.35	4.25	3.77	4.75	4.79
19. Base Rate		6.32	6.70	6.36	5.95	6.20	5.50
20 Weighted Average Interest Rate Spread*		4.14	4.53	4.73	4.92	4.95	4.46
21. Book Net Worth	Rs.	2,386,572,749	6,675,764,788	8,606,249,451	10,484,033,174	19,070,771,410	21,585,803,588
22. Total Shares	No.	85,889,723	85,889,723	85,889,723	85,889,723	90,047,957	90,047,957
23. Total Staff	No.	2,523	2,545	2,470	2,248	1,945	2,096

Major Indicators

S.N	Particulars	Indicator	As per previous GAAP			As per NFRS	
			FY 2071/72	FY 2072/73	FY 2073/74	FY 2074/75	FY 2075/76
1	Net Profit / Total Income	%	7.33	30.54	30.81	30.57	21.51
2	Earnings Per Share						
3	Basic Earnings Per Share	Rs.	7.48	44.59	38.77	39.98	26.99
	Diluted Earnings Per Share	Rs.	7.48	44.59	38.77	39.98	26.99
4	Market Price Per Share	Rs.	305.00	470.00	364.00	281.00	336.00
5	Price / Earnings Ratio	Times	40.78	10.54	9.39	7.03	12.45
6	Dividend (Bonus Share) on share capital	%	-	-	-	-	15
7	Cash Dividend on share capital	%	-	-	-	-	10
8	Interest Income / Loans and Advances	%	9.59	9.86	9.73	12.22	11.23
9	Employee Expenses / Total Operating Expenses	%	50.13	49.09	49.77	37.86	27.85
10	Employee Expenses / Total deposit and borrowing	%	3.10	2.49	2.52	2.15	1.74
11	Exchange Income / Total Income	%	-	0.37	1.20	1.71	2.31
12	Staff Bonus / Total Employee Expenses	%	3.03	16.62	14.83	18.36	11.10
13	Net Profit / Loans and Advances	%	0.91	4.54	4.19	4.26	2.81
14	Net Profit / Total Assets	%	0.55	2.79	2.78	2.41	1.51
15	Total Loans and Advances / Total Deposit	%	68.45	71.05	79.17	75.68	78.14
16	Total Operating Expenses / Total Assets	%	5.47	4.38	4.24	4.25	4.35
17	Capital Adequacy Ratio						
	a) Common Equity Tier I Capital	%	6.32	9.01	13.37	10.29	15.87
	b) Core Capital	%	6.32	9.01	13.37	10.29	15.87
	c) Supplementary Capital	%	1.17	1.19	1.10	0.98	0.93
	d) Total Capital Fund	%	7.49	10.20	14.47	11.27	16.80
18	Cash Reserve ratio (CRR)	%	11.55	17.46	18.81	9.05	4.06
19	NPAs / Total Loans and Advances	%	3.98	3.11	3.32	3.37	2.64
20	Base Rate	%	7.21	6.13	6.29	7.03	7.98
21	Weighted Average Interest Rate Spread	%	5.18	4.96	4.80	4.99	4.45
22	Book Net Worth (Rs. In Lakh)	Rs.	38,309.36	67,139.14	114,517.54	229,719.94	292,813.37
23	Total Shares	No.	64,650,018	64,650,018	80,426,622	80,426,622	98,111,480
24	Total Employee	No.	2,623	2,356	2,112	2,142	2,317.00
25	Others						
	Per Employee Business (Rs. In Lakh)	Rs.	25.39	40.54	48.57	49.12	52.09
	Employee Expenses / Total income	%	36.29	23.29	23.07	20.43	17.21

४.४३ प्रमुख सूचकाङ्कहरु

विवरण	सूचकाङ्क	आर्थिक वर्ष				
		२०७१/७२	२०७२/७३	२०७३/७४	२०७४/७५	२०७५/७६
१. खुद नाफा/कुल आम्दानी	प्रतिशत	२९.९३	३७.३०	३९.२२	३१.१२	२४.२५
२. प्रति शेयर आम्दानी	रु.	५७.२४	५९.२७	५९.८६	५१.८४	५०.५७
३. प्रति शेयर बजार मूल्य	रु.	१,९१०	२,३४४	१,५२३	९२१	८००
४. मूल्य आम्दानी अनुपात (PE Ratio)	अनुपात	३३.३७	३९.५५	२५.४४	१८.६०	१७.०१
५. शेयर पूँजी लाभांश (बोनस सहित)	प्रतिशत	३६.८४	४५.००	४८.००	३४.००	३४.००
६. शेयर पूँजीमा नगद लाभांश भुक्तानी	प्रतिशत	६.८४	१५.००	१८.००	२२.००	२२.००
७. ब्याज आम्दानी/कर्जा तथा सापटी	प्रतिशत	८.५०	८.०८	९.४४	११.३६	११.४१
८. कर्मचारी खर्च/कुल सञ्चालन खर्च	प्रतिशत	२०.७०	२४.१५	३०.४०	२२.९६	१७.६५
९. ब्याज खर्च/कुल निक्षेप तथा सापटी	प्रतिशत	२.५६	१.६५	२.१५	४.०४	४.९६
१०. सटही घटबढ आम्दानी/कुल आम्दानी	प्रतिशत	७.३३	७.७५	६.८६	५.६९	४.६६
११. कर्मचारी बोनस/कुल कर्मचारी खर्च	प्रतिशत	४०.१०	५१.६९	३६.१३	३६.३८	३४.४३
१२. खुद नाफा/कर्जा तथा सापटी	प्रतिशत	३.३१	४.१३	४.२८	३.९९	३.३८
१३. खुद नाफा/कुल सम्पति	प्रतिशत	२.०६	२.३२	२.६९	२.६१	२.११
१४. कुल कर्जा/निक्षेप	प्रतिशत	६४.४३	७०.४९	६५.३८	८२.६६	८१.९६
१५. कुल सञ्चालन खर्च/कुल सम्पति	प्रतिशत	३.५३	२.६४	३.४०	४.९३	५.४९
१६. जोखिम भारित सम्पतिमा पूँजी कोषको पर्याप्तता						
क) प्राथमिक पूँजी	प्रतिशत	१०.१८	१०.५१	११.७०	११.८१	११.४०
ख) पूरक पूँजी	प्रतिशत	१.३९	१.२२	१.२०	१.१९	१.१०
ग) कुल पूँजी कोष	प्रतिशत	११.५७	११.७३	१२.९०	१३.००	१२.५०
१७. तरलता (CRR)	प्रतिशत	१४.१५	६.७७	१०.०२	१०.०५	४.७८
१८. निष्क्रिय कर्जा/कुल कर्जा	प्रतिशत	१.८२	१.१४	०.८०	०.५५	०.७४
१९. आधार ब्याज दर	प्रतिशत	५.७८	४.१७	६.६१	७.७८	८.०९
२०. ब्याज दर अन्तर	प्रतिशत	३.९७	३.७४	४.३२	४.४८	४.१९
२१. वुक नेटवर्थ प्रति शेयर	रु.	२५९	२४४	२७०	२५६	२५७
२२. कुल शेयर	संख्या	३,६५,७६,५४०	४,७५,६५,६९६	६,१८,५५,०७०	८,०४,३२,२१०	९,०१,१८,४५४
२३. कुल स्थायी कर्मचारी	संख्या	७०६	७९२	८४८	१,००५	१,०८०
२४. जेथामा प्रतिफल	प्रतिशत	२२.७३	२५.६१	२२.४१	२०.९४	१७.७६
२५. सम्पतिमा प्रतिफल	प्रतिशत	२.०६	२.३२	२.६९	२.६१	२.११
२६. लाभांश वितरण अनुपात	प्रतिशत	६४.३६	७५.९३	८०.१९	६८.६८	७२.२८
२७. आम्दानी दर	प्रतिशत	३.००	२.५३	३.९३	५.३८	५.८८
२८. लाभांश दर	प्रतिशत	१.९३	१.९२	३.१५	३.६९	४.२५
२९. खर्च/आम्दानी अनुपात	प्रतिशत	५१.३५	४२.४६	४७.१६	५६.३५	६३.२०
३०. कुल सम्पति/जेथा अनुपात	गुणा	११.९१	१०.३४	८.२४	७.४१	८.६७
३१. पूँजीकोष/दायित्व अुनपात (भैपरी आउने दायित्व सहित)	प्रतिशत	६.६४	७.७३	१०.५७	११.२६	९.८०
३२. कार्यालय संख्या	संख्या	५५	५५	५५	७४	८२
३३. ए. टि. एम. संख्या	संख्या	८९	९०	१००	११६	१३६

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PRINCIPAL INDICATORS

Particulars	Unit	FY 2014/15 2071/72	FY 2015/16 2072/73	FY 2016/17 2072/73	FY 2016/17 2073/74 Restated	FY 2017/18 2074/75	FY 2018/19 2075/76
Profit before Bonus and Tax/Total Income	Percent	23.08	42.89	36.48	40.93	26.15	32.64
Per Share Income	Rs.	33.37	43.03	33.55	35.15	23.11	32.44
Per Share Market Value	Rs.	813	1500	886	886	551	552
Price Earning Ratio	Ratio	24.36	34.86	26.40	25.21	23.84	17.02
Dividend on Share Capital (Including Bonus)	Percent	42.11	31.58	26.32	26.32	15.79	22.00
Cash Dividend on Share Capital	Percent	7.11	1.58	1.32	1.32	10.79	12.00
Interest Income/Loan and Advances	Percent	8.35	7.26	8.94	9.52	11.64	11.67
Staff Expenses/Total Operating Expenses	Percent	45.66	52.96	56.01	56.34	53.02	53.79
Interest Expenses on Total Deposit	Percent	2.66	1.79	3.42	3.52	5.61	6.13
FX Fluctuation Gain/Total Income	Percent	6.84	8.55	6.52	7.00	5.81	5.50
Net Profit after Tax/Total Assets (ROA)	Ratio	1.34	1.94	2.03	2.19	1.67	2.21
Net Profit after Tax/Total Equity (ROE)	Percent	17.06	24.53	21.22	21.58	14.17	18.34
Total Loan/Deposits	Percent	75.37	79.12	83.59	85.10	88.31	87.37
Total Operating Expenses/Total Income	Percent	30.44	28.23	23.97	22.36	16.96	16.68
Capital Adequacy Ratio:							
A. Core Capital	Percent	9.48	9.43	10.93	10.93	11.40	11.63
B. Supplementary Capital	Percent	1.66	1.41	1.22	1.22	1.06	0.97
C. Total Capital Fund	Percent	11.14	10.84	12.15	12.15	12.46	12.60
Liquidity	Percent	30.32	28.74	26.64	26.64	23.05	26.25
Non-performing Loan/Total Loan	Percent	3.22	1.23	0.85	0.85	1.40	1.12
Weighted Average Interest Rate Spread	Percent	4.35	4.59	4.44	4.44	4.70	4.47
Book Networth per share	Rs.	208.81	196.12	180.31	189.91	174.24	187.73
Total Share	Number	33,327,000	44,991,450	64,916,235	64,916,235	81,145,294	85,202,558
Total Staff	Number	856	857	835	835	834	910
Number of Branches	Number	42	42	47	47	55	59
Number of ATMs	Number	80	84	93	93	105	122

ANNEX II

To……………..

RE: QUESTIONNAIRE ON **PERFORMANCE MEASUREMENT IN NEPALESE COMMERCIAL BANKS**

Dear Sir/ Madam,

I am, pleased to inform you that I am conducting research on '**Performance Measurement In Nepalese Commercial Bank**, as a student of Master in Management at Tribhuvan University towards the partial fulfillment of my thesis work. The main objective of this study is to examine the performance measurement in Nepalese Joint Venture Commercial Banks.

I would highly appreciate if you could help me by completing the attached questionnaire so that I can complete my research work which in return will sure provide important feedback to Nepalese joint venture banking industry. Your response and information you supplied would be treated as highly confidential.

Thank you for your time and cooperation.

Yours Sincerely

Puskar Silwal

Faculty of Management,

Peoples Campus

1. Name…………………………………… (Optional)
2. Position
   a) Manager
   b) Departmental head
   c) CEO/ Executive directors
3. Experience in years
   a) Up to 5 years
   b) 5 to 10 years
   c) Above 10 years
4. Qualification
   a) Graduates
   b) Post graduates and above
5. Significance of performance measurement in the bank-
   a) Insignificant b) Limited value
   c) Highly effective d) A key managerial control tool
6. Performance measures are modified when there is a change in the strategic objectives of banks-
   a) Never b) Rarely c) Usually d) Always
7. The bank prepares quantitative performance measurement reports-
   a) Monthly b) Quarterly c) Twice a year d) Annually
8. The bank prepares qualitative performance measurement reports-
   a) Monthly b) Quarterly c) Twice a year
   d) Annually e) Not at All

9. The factors affect the change of performance measurement system over the time-

………………………………..

10. The problems encountered during qualitative performance measurement practices- ……………………………..

11. Put your opinions towards the following quantitative measures with respect to their significant uses and importance: (Strongly disagree=1 Strongly agree=5)

Quantitative Measures	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Operating Profit	1	2	3	4	5
Net Profit Margin	1	2	3	4	5
CAR (Capital Adequacy Ratio)	1	2	3	4	5
EPS (Earning per share)	1	2	3	4	5
DPS (Dividend per share)	1	2	3	4	5
Dividend Payout Ratio	1	2	3	4	5
Credit to Deposit Ratio (CD Ratio)	1	2	3	4	5
Level of Non-Performing Assets (NPA)	1	2	3	4	5
Cost of Fund	1	2	3	4	5

12. Put your opinions towards the following qualitative measures with respect to their significant importance: (Strongly disagree=1 Strongly agree=5)

Qualitative measures	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Customers per employee	1	2	3	4	5
Market share growth	1	2	3	4	5
Employee skill levels	1	2	3	4	5
Number of ATMs	1	2	3	4	5
Number of branches	1	2	3	4	5
Number of employees	1	2	3	4	5

Thank you for your kind cooperation

PERFORMANCE MEASUREMENT IN NEPALESE BANKS

A Thesis Proposal

By

Puskar Silwal

Central Department of Management

Tribhuvan University, Nepal

Roll. No 3493/17

Registration No.

Submitted in Partial Fulfilment of the Requirement of Degree of

Masters of Business Studies (MBS)

in the

Faculty of Management

Tribhuvan University

Peoples College
August, 2020

1. INTRODUCTION

1.1 General Background

Banks are a core of the financial sector especially when it comes to developing economies where the capital market is not strong enough. It plays a vital role in the economic resource allocation of countries and serves as important sources of funds for businesses. For this reason, the survival and consistently good performance of banks is an issue of concern to all. The expansion of financial globalization and intense competition in the banking industry has made to rethink on better ways of measuring performance. Competition within this sector, as well as customer awareness of different services offered by the banks, stimulates most banks to adopt non-financial measures in order to acquire competitive ability. Most banks and financial institutions are struggling to go further beyond the application of financial measures.

The only thing that really matters, in the business world, is organization's performance. However, it has been considered that, the traditional financial performance measures, such as profits and return on investment are under serious challenge due to its short-term rather than long-term focus, measuring the past rather than future and inward looking rather than out-ward looking. At these circumstances, the ability of banks, to mobilize and exploit its intangibles has become more decisive than investing in physical, tangible assets. Moreover an organization's emphasis on traditional performance measures such as return on investment distracts from non-financial factors such as market share, customer satisfaction, efficiency and productivity, product quality and employee satisfaction.

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

Performance measurement is the process of quantifying the efficiency and effectiveness of past action (Neely et al., 1995). In general, performance measurement can be viewed as the process of quantifying the efficiency and effectiveness of purposeful action and decision-making (Waggoner et al., 1999). According to Neely, et al., (1997), it is the way to measure performance across a range of critical success factors that are derived from the competitive strategy and critical to the survival of the business. Neely, et al., (2000), explained that the process of deciding which measures of business performance to adopt is a valuable one, not least because it forces management teams to be very explicit about their performance priorities and the relationship between them, thereby exposing, and offering an opportunity to resolve, any hidden differences of opinion. Moullin, (2002), defines performance measurement in terms of its purpose emphasizing the assessment of how well organizations are managed and the value they deliver for stakeholders.

Nani et al., (1990), expressed that, historically performance measurement systems were developed as a means of monitoring and maintaining organizational control, which ensures that an organization pursues strategies that lead to the achievement of overall goals and objectives of the organization. It can be used to improve an organizational process by focusing on business processes that deliver value to the customers (Neely et al, 1996, Bititci et al, 1997; Neely et al, 2002).

It is noted that, performance measurement has significant positive link with organizational performance and organizational excellence (Moullin, 2007, Fleming et al, 2009; Joiner et al., 2009). Effective performance measurement benefits the individual, organization and the economy through increased efficiency, effectiveness and productive aggregates in terms of quality goods and services (Mullins, 2010).

A performance measurement system is the information system which is at the heart of the performance management process and it is of critical importance to the effective and efficient functioning of the performance management system (Bititci, Carrie & Mcdevitt 1997). According to Bourne, et al. (2003), a business performance measurement system refers to the use of a multi-dimensional set of performance measures for the planning and management of a business.

Litman, et al. (1999) defined some key concepts on performance measurement system in the following way:

- Performance measure is quantitative or qualitative characteristic of performance.
- Performance measurement is the process of assessing progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services, the quality of those outputs and outcomes,

and the effectiveness of companies' operations in terms of their specific contributions to program objectives.

- Performance objective is a critical success factor in achieving the organization's mission, vision, and strategy, which if not achieved would likely result in a significant decrease in customer satisfaction, system performance, employee satisfaction or retention, or effective financial management.
- Performance goal is a target level of activity expressed as a tangible measure, against which actual achievement can be compared.
- Performance management is the use of performance measurement information to effect positive change in organizational culture, systems and processes, by helping to set agreed-upon performance goals, allocating and prioritizing resources, informing managers to either confirm or change current policy or program directions to meet those goals, and sharing results of performance in pursuing those goals.

In management accounting literature, performance is associated with performance measurement and performance management issues (Laats, et.al 2011). Effective management depends on the effective measurement of performance and results (Kanji, 2002). According to Dixon et al., (1990), performance measures provides a set of mutually reinforcing signals that direct managers attention to strategically important areas that translate to organizational performance outcomes and guides managers behavior toward key organizational outcomes.

According to Simons (2000) performance measurement is the tool for balancing five major tensions within a firm. Balancing those tensions leads to effective strategy implementation and achievement of planned performance. Balancing five major tensions within a firm are as follows:

- balancing profit, growth and control;
- balancing short-term results against long-term capabilities and growth opportunities;
- balancing performance expectation of different constituencies;
- balancing opportunities and attention;
- And balancing the motive of human behaviour.

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

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

There are some relationships between strategy and performance measures in various dimensions (Maltz et al., 2003; Gosselin, 2005; Pongatichat and Johnson, 2008). According to Kaplan and Norton (1996), a performance measurement system has a critical role in translating strategy into action.

Kennerley and Neely (2002), characterized performance measurement system as, the measures used by an organization have to provide a 'balanced' picture and sufficient overview of an organization's performance. Moreover the performance measures should be:

- multi-dimensional,
- And integrated across the organization's functions and through its hierarchy.

In this view, performance measurement system can provide data for monitoring past performance and planning future performance.

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

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

Alzoubi, (2014), the process of measuring the performance of financial and non-financial information systems are used to assess individual and organizational performance of the banks. Norreklit (2000) has criticized some organizations for their adoption of the financial performance measures only and for the fact that the process of determining financial performance measures is a simple matter because it is subject to the followed rules and guidelines that are given, and these rules and principles cannot be used for the non-financial performance measures (Speckbacher et al. 2003).

Bitici et al. (2000), a dynamic performance measurement system monitors the developments and changes in external and internal environments. As business environments and organizations change, performance measurement systems also need to change so as to retain their relevance and usefulness, and must adapt their performance management practices, in order to survive. The changes in performance measurement systems refer to the methods and key performance indicators used as well as to the ways performance management information are used (Ferreira and Otley 2009).

As stated by (Garengo et al., 2005), a balanced performance measurement system (also called a multidimensional performance measurement system) adopts different analysis perspectives and manages these in a coordinated way. Namazi & Abhari (2010), pointed that prior to 1980's, organizations adopted financial measures (Net profit, return on equity, ROI, etc.) to appraise their performance. According to Johnson and Kaplan (1987), performance measurement based on traditional cost or management accounting system that was introduced in early 1900s is no longer suitable and less useful in today's business environment. The main criticism of traditional performance measurement is basically centered on its over-reliance on cost information and other financial data which are short-term in nature, while no or less emphasis is given on long-term value creation activities which are intangible in nature that generate future growth to the organization.

Kaplan and Norton (2001) have argued that many organizations nowadays focus on managing intangible assets (e.g. customer relationships, innovative products and services, high-quality and responsive operating processes), which are non-financial in nature, rather than managing tangible assets (e.g. fixed assets and inventory), which are financial in nature. Therefore, the changing nature of value creation complicates the performance measurement process when the performance measurement systems are not kept abreast with this latest phenomenon.

Meanwhile, Ghalayini and Noble (1996) highlighted that traditional performance measures are outdated and lagging metrics that are a result of past decision, not related to corporate strategy, not relevant to practice and difficult to understand by the factory shop-floor people, conflict with continuous improvement, inability to meet customer requirements, and emphasis too much on cost reduction efforts.

Traditional financial measures are criticized (Banks and Wheelwright, 1979; Hayes and Abernathy, 1980; Goldratt and Cox, 1986; Schmenner, 1988; Turney and Andersen, 1989; and Camp, 1989; Kaplan and Norton, 1992) because they:

- Encourage short-termism,
- Lack strategic focus and fail to provide data on quality, responsiveness and flexibility,
- Encourage local optimization, for example "manufacturing" inventory to keep people and machines busy,
- Encourage managers to minimize the variances from standard rather than seek to improve continually,
- And fail to provide information on what customers want and how competitors are performing.

It is stated that, performance measurement systems must be modified to adapt to the changes in circumstances (Kennerly and Neely, 2003). Bjornenak and Olson (1999) argue that there has been ongoing innovation within the management accounting field and, specifically, remarkable improvements in system scope dimensions during the past decades. Several scholars have noted the emergence of non-financial metrics and suggest that various performance dimensions – such as the customers, internal processes, growth, and innovation-related tools – should be integrated (Kaplan and Norton, 1996; Bitici et al., 2000; Laitinen, 2002; Neely et al., 2002; Henri, 2006). Said et al. (2003) revealed that the use of non-financial measures is associated with future accounting and market-based returns.

Bryant et al. (2004) reported that when firms implements a performance measurement system that contain both financial and non-financial measures, they will benefit more than the firms that rely solely on financial measures.

1.2 Statement of the Problem

A sound financial system is crucial for an indispensable and vibrant economy. Thus, the performance of any economy to a large extent depends on the performance of the banking sector as it being the predominant component of the financial service industry. Like most developing countries, the banking sector in Nepal is characterized by the co-existence of different ownership groups, public and private, and within private domestic and foreign. The Nepalese public sector banks came into existence in several phases.

The financial sector reform of Nepal begins from mid 1980s with deregulation of interest rates on deposits and lending, phasing out of margin rates, statutory reserve requirements, and targeted credit programs, opening up of financial industry to private sector (domestic and foreign), permission to open foreign currency accounts to commercial banks and current account convertibility. Since then, various liberalization measures have been implemented in order to widen the financial system through the removal of entry barriers to foreign investors in banking.

In recent years the environment that banking sector have to face has brought changes and challenges. These challenges are compounded by deregulation in reaction to the increasing global competition and the shortened product life cycle stemming from technical innovations (Abdel-Kader & Luther, 2008). The global market and its rapid pace of change have increased the demand on measurement systems. According to Kaplan and Norton (1992) “What you measure is what you get”. In this respect an organization's measurement system strongly affects the behavior of management and employees. Furthermore performance measurement provides a systematic link between organizational strategy, resources, and processes. It is a comprehensive management process framing the continuous improvement journey, by ensuring that everyone understands where the organization is and where it needs to go to meet stakeholder needs.

Traditional approaches to performance measurement which include financial accounting measures fail and give a misleading results and signals for continuous improvement and innovation. Singh & Kumar, (2007), stated that financial measures of performance were criticized by many authors for: being short term oriented, considering past performance, being non consistent with current business's environment, focusing on tangible assets, lacking predictive power and being irrelevant for all levels in the organizations.

It was believed that traditional financial indicators worked well for industrial era. Traditional methods of measuring a company’s performance by financial indices alone have virtually disappeared from large organizations (Basu, 2001). In this respect, the information era demanded to change the strategies of the business. Kaplan and Norton, (1992), (1996), Frigo, (2002), expressed that non-financial measures are at the heart of describing strategy and of developing a unique set of performance measures that clearly communicate strategy and help in its execution. It means that strategies had to change from managing tangible assets to those that leveraged the company intangible assets which measured by non-financial strategic measures. Moreover, such as customer relationships, innovative products and services, high-quality and responsive operating processes, skills and knowledge of the workforce, the information technology that supports the workforce and links the firm to its customers and suppliers, and the organizational climate that encourages innovation, problem solving, and improvement has got more emphasis.

Several studies have emphasized the need to pay attention to performance evaluation measures (Ewert &Wagenhofer, 2006; Adelegan, 2000; Carmona, 2006; Abdel-Kader & Luther, 2006; Islam & Kantor, 2005). In the same way many studies were undertaken in order to trace the history development of management accounting particularly, performance evaluation measures (Spraakman, 1999; Fleischman & Tyson, 2006; Okano & Suzuki, 2006; Näsi & Rohde 2006; Ahmad B. Abdel- Maksoud, 2004); Strauss 1992; Spraakman & Margret, 2005).

There are a limited number of studies focusing on performance evaluation measures in developing countries, (Adelegan, 2000; Sulaiman et al, 2004; Ismail, 2007; Triest & Elshahat, 2007; Kattan et al., 2007; Billings & Capie, 2004). Previous studies conducted in banking sector shows that, the competition has been forcing to rethink on better ways of measuring performance and struggling to go further beyond the application of financial measures. Performance measurement of financial institutions, particularly commercial banks, has received increased attention over the past several years (Seiford and Zhu, 1999). But at present there is a lack of knowledge and research into management accounting practices specifically, performance measurement in Nepalese banks. In this perspective the performance measurement in Nepalese banks has been considered an importance issue and area to be investigated. In this context, this study has raised the following questions:

1. Which financial performance measures have been used by Nepalese commercial banks?
2. Which non-financial performance measures are used in commercial banks?
3. In what extent financial and non-financial performance measure is used in order to evaluate the performance?

4. Which financial and non-financial measures have got more or less importance in commercial banks?
5. What are the problems encountered during performance measurement practices?
6. What is the relationship between utilization of financial & non-financial performance measures in Nepalese banks?
7. Is the performance measurement system effective in Nepalese banks?
8. In what extent balanced or multidimensional performance measures are used?
9. Under what circumstances does the use of performance measurement systems have a significant influence on organizational performance?
10. What factors affect the way in which measurement systems change over time?
11. How can organizations manage their measurement systems so that they continually remain relevant?

1.3 Objectives of the Study

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

i. To examine the extent use of quantitative and qualitative measures in order to evaluate the performance in banks.
ii. To assess the relationship between the quantitative performance and qualitative measures.
iii. To evaluate the relationship between performance measurement systems and organizational performance.
iv. To identify the problems encountered during performance measurement.

2. LITERATURE REVIEW

The study of Nayebzadeh, S (2013), on "The Relationship between Customer Satisfaction and Loyalty with the Bank Performance in IRAN" was aimed to examine the relationship between customers' satisfaction and loyalty with the financial performance. Correlation study which used structural equation modeling was used. 400 questionnaires were randomly distributed among customers and finally 324 of them were returned back. Cronbach's alpha coefficient of reliability in internal consistency method 0.88 was obtained. The findings demonstrate that there was a strong positive relationship between customer's satisfaction and loyalty at 95 percent. Any of the satisfaction and loyalty variables were significantly related to the bank performance at 90 percent.

'Devising a Balanced Scorecard to determine Standard Chartered Bank's Performance: A Case Study' was studied by Panicker and Seshadri, (2013), and was published in International Journal of Business Research and Development. It was aimed to contribute to the BSC literature, to encourage further research on application of BSC concept to foreign banks in India. A case study made. The cause-effect relationships between the non-financial, and the financial dimensions of the BSC were found. The use of the BSC developed here was limited to the bank studied.

3. RESEARCH METHODOLOGY

This chapter gives detail about research design, nature and sources of data, data collecting procedures, survey of respondents and expected relationships of different variables used in the research. Similarly, it also describes the statistical tools and models applied to draw logical conclusions about performance measurement in Nepalese banks.

3.1 Research Design

By following the research questions and the objectives, the present study is based on primary and secondary data. Primary data is collected through the self-administration of a set of questionnaire for chief executive offices, departmental heads and managers of the commercial banks.

The design of the study involves the measurement of the impact of financial and non-financial measures on organizational performance.

All together twenty eight respondents of five commercial banks determined as the sample size of the study with 5 percent error margin. The design includes the test of relationship between organizational performance and various financial and non-financial performance measures. The dependent variable is in two different forms, return on assets and return on equity. Hence, the design constitutes both descriptive and exploratory research design.

3.2 Types and Sources of Data

Two types of data primary and secondary were collected. Primary data was collected through employee opinions survey while secondary data was gathered from the banks' annual reports and financial reports including profit and loss accounts and balance sheets via the internet (Nepal Rastra Bank's website), government papers and consultancy reports.

3.2.1 Population

The population of the research study is all commercial banks in Nepal. Basically, these banks are classified into three broad categories- government supported public banks, joint-ventures banks and private commercial banks. Only government owned and joint venture banks are the area of concern.

3.2.2 Sample Size and Sampling

This study includes five commercial banks established as per the NRB records before 1990. Twenty eight respondents were selected from five different commercial banks on the basis of judgmental and convenience sampling method, which constitutes the sample size. Two governments owned and three joint venture banks were selected for study.

4. Organization of the Study

The structure of this study has been organized into five chapters. Chapter one deals the general background of the study including statement of the problem, objectives of the study, significance and limitations of the study.

Chapter two provides the review of literature related to the topic. It incorporates the conceptual issues regarding performance measurement systems and practices. This chapter also reviews various previous empirical studies on performance measurement in corporate sector. It also presents conceptual framework, theoretical framework, research gap and the statements of hypothesis.

Chapter three deals the research methodology employed under this study. Research design, population, nature and source of data, sampling methods with statistical techniques for analysis and variables are presented in this chapter.

Chapter four provides the presentation and analysis of data. This section of the study makes the analyses of primary as well as secondary data and presents the results of them. It also provides the extent of the use of performance measures and organizational performance in Nepalese banks. This section also empirically examines the relationship between performance measurement practices and organizational performance of Nepalese banks by the use of linear models of regression analysis.

Chapter five is the final section of this study. This section summarizes the discussion of the study and provides the conclusions. This chapter highlights the major findings of the study, and some recommendations for future research under this area.

References

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