

**CORPORATE GOVERNANCE AND PERFORMANCE OF
NEPALESE COMMERCIAL BANKS**

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master of Business Studies (MBS) degree

by

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Corporate Governance and Performance of 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 purposes.

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 this dissertation.

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June 2023

REPORT OF RESEARCH COMMITTEE

Miss Jyoti Sigdel has defended research proposal entitled “**Corporate Governance and Performance of Nepalese Commercial Banks**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Kiran Thapa and submit the thesis for evaluation and viva-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled “**Corporate Governance and Performance of Nepalese Commercial Banks**” presented by Jyoti Sigdel, a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATION

BFI	Bank and Financial Institutions
CAR	Capital Adequacy Ratio
LEV	Leverage
FD	Female Directors
BM	Board Member Size
BS	Bank Size
OECD	Organization for Economic Cooperation Development
NRB	Nepal Rastra Bank
NFRS	Nepal Financial Reporting Standards
ROE	Return On Equity
ROA	Return On Assets
SEBON	Security Board Of Nepal
NEPSE	Nepal Stock Exchange
NIM	Net Interest Margin

ABSTRACT

Corporate governance has become one of most talked about issues around the world to make financial and non-financial institution to become more accountable and transparent. Financial institutions have major role in country's economy. The central banks are responsible to make banking sector more reliable and governed. For survival of banks it's equally important to have good performance. So this study is mainly concerned to know the relationship between the corporate governance variables and financial performance variables. Board member size, number of female directors, bank size, capital adequacy ratio and leverage were taken as independent variables whereas return on equity and return on assets were taken as dependent variables. The study was conducted among 4 commercial banks of Nepal. The data were collected from the annual reports of the banks and NRB Banking and Financial Statistics Report. Correlation and regression analysis was used to determine the relationship and level of significance.

Larger banks generally achieve higher ROA and ROE, indicating better profitability with increased size. Conversely, a higher capital adequacy ratio is associated with lower ROA and ROE, suggesting that a stronger capital base reduces profitability. Additionally, the presence of female directors correlates negatively with ROA and ROE, reflecting potential challenges in profitability. While larger banks positively impact ROE, higher leverage negatively affects it, indicating that increased debt reduces returns on equity.

Keywords: Board Size, Bank Size, Capital adequacy ratio, Female director, leverage ratio, Return on Assets & Return on Equity

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Financial performance alludes to the assessment of organization's monetary wellbeing and benefit. It includes examining different monetary measurements, for example, income, overall gain, income, net revenues, profit from speculation (return on initial capital investment), and obligation to-value proportion, among others. Financial performance is pivotal for an organization's drawn out progress, as it empowers the executives to pursue informed choices in regards to ventures, development, and funding. Financial backers and partners likewise utilize financial performance measurements to decide an organization's valuation and to pursue speculation choices.

Financial performance can be assessed through different monetary proportions that examine an organization's fiscal summaries. One such proportion is the profit from value (ROE), which estimates how much benefit an organization produces with the cash investors have contributed.

One more monetary proportion that is normally used to assess financial performance is the obligation to-value proportion, which estimates how much obligation an organization has comparative with its value. A high obligation to value proportion can show that an organization is intensely dependent on obligation funding, which can increment monetary gamble.

The exhibition of a business bank can be assessed through different monetary proportions that break down its budget summaries. One such proportion is the profit from resources (ROA), which estimates a bank's productivity comparative with its all-out resources. Another significant proportion is the net revenue edge (NIM), which estimates the distinction between a bank's revenue pay and premium costs. A higher NIM demonstrates that the bank is procuring more from its loaning exercises.

Notwithstanding monetary proportions, different variables that can influence the presentation of a business bank incorporate its credit portfolio quality, capital sufficiency, and liquidity. Saves money with excellent credit portfolios will generally have lower levels of advance defaults and discounts, which can work on their Financial performance. Also, saves money with more significant levels of capital and

liquidity are better situated to climate monetary slumps and keep up with their monetary strength.

Corporate governance refers to the way organizations are structured and managed. Without it, companies cannot be accountable to their various stakeholders. Researchers define corporate governance as a crucial component in the oversight of firms. It serves as a mechanism to direct and control organizations (Amarneh, 2014).

Corporate governance can be described as the relationship among shareholders, the board of directors, and top management in determining the direction and performance of the company (Wheelen and Craving, 2006). It also involves the interactions among stakeholders and the goals that guide the company's administration. The primary stakeholders include shareholders, management, and the board of directors, while other stakeholders encompass employees, suppliers, customers, regulators, the environment, and the broader community.

Governance is about the effectiveness, transparency, and accountability of an institution's affairs, safeguarding stakeholder interests. Modern corporate governance practices have evolved, and various best practice codes have been established by different organizations. The OECD and Basel codes of corporate governance are standards for good governance. These guidelines generally address the responsibilities of the board, directors, executives, CEOs, senior management, auditors, shareholders, and regulators. Key areas covered include accountability, internal control, related party transactions, conflicts of interest, and information disclosure (Cabraal, 2014).

Corporate governance combines corporate policies and best practices adopted by corporate bodies to achieve their objectives concerning stakeholders. It also pertains to the field of economics, studying issues arising from the separation of ownership and control. The corporate governance structure outlines the distribution of responsibilities among different participants in the organization, such as the board of directors, shareholders, and other stakeholders, and defines the rules and procedures for decision-making on corporate matters (Pradhan & Adhikari, 2011).

Corporate governance, as a term, signifies excellence in both ethical and non-ethical contexts. Its non-ethical applications include efficient decision-making, appropriate resource allocation, strategic planning, etc. (Priests & Minow, 2011). However, in its

ethical sense, good corporate governance is seen as fostering a moral environment that is inherently ethical and beneficial, as moral conduct in business leads to positive business outcomes (Francis, 2003). This involves due diligence, directors' responsibilities, and overall corporate accountability.

Corporate performance is a crucial concept related to how financial, material, and human resources are wisely utilized to achieve an organization's overall corporate objectives. It ensures the organization remains in business and opens up future opportunities. Effective corporate governance should strengthen investor confidence in a country's economy. It builds credibility, ensures transparency and accountability, and maintains an effective information disclosure channel, all of which promote good corporate performance. Hence, it is essential for every service and industrial sector to adhere to strong governance principles.

Corporate governance is now recognized as a critical tool for building trust and confidence in institutions. It is particularly crucial for banks since they manage public funds, and failure to recover investments can lead to bank failures and impact the national economy. Bernanke (2003) and Grossman (2005) provide evidence that bank failures can affect future economic activity, leading to lower income, income growth, higher poverty rates, and lower employment. Good corporate governance is not an end but a means to support economic efficiency, sustainable growth, and financial stability, and good performance can be achieved with good governance.

Corporate governance is vital for all economic sectors but is especially crucial for the financial sector. According to Hambrick et al. (2008), the constituents of the financial sector stand to gain or lose based on the quality of corporate governance, which can also affect the entire public system. Katrodia (2016) state that the health of the economy is closely linked to the robustness of its financial sectors. The global financial crisis of 2008 was triggered by the collapse of large US banks, affecting almost all sectors, including the income security of pension holders. The failures in the US financial system were due to poor governance, leading to a significant crisis that impacted the world economy. Mareinkowska (2017) stated that any global crisis is related to poor governance in financial institutions.

Corporate governance in the financial area needs extraordinary consideration utilizing novel apparatuses to screen, administer and assess its working. Bank for Global

Settlement expresses that powerful corporate governance is fundamental to accomplish and keep up with public trust and trust in the financial area. Trust and certainty of the overall population are the most for store activation.

1.2 Statement of Problem

Corporate governance and financial performance have recently garnered significant attention from academics, researchers, policymakers, and regulatory bodies. The focus on corporate governance intensified after the 1990s due to several high-profile corporate scandals in the USA (such as AIG, Arthur Andersen, Enron, Lehman Brothers, Tyco, WorldCom, and Xerox), the Asian Financial Crisis (1997/98), and similar events globally. These incidents triggered a deep reflection on the government's regulatory role in protecting shareholders' interests. Corporate governance is defined as the system by which business corporations are directed, managed, monitored, and controlled to promote corporate fairness, transparency, and accountability (World Bank, 1999).

Barrett (2002) describes corporate governance as encompassing how an organization is managed, its corporate structures, culture, policies, procedures, and how it engages with its stakeholders. It deals with the structures, policies, and procedures employed by businesses to achieve the objectives, missions, and visions of shareholders, suppliers, customers, employees, and regulatory agencies. Corporate governance sets the framework for setting organizational goals, achieving targets, and monitoring performance (OECD, 2004).

Effective corporate governance is believed to be essential for maintaining investor confidence and promoting good performance, addressing issues of corporate misconduct. The rising number of scandals and subsequent widespread public and media outcry have led to the development of numerous governance 'principles,' 'codes,' 'best practices,' and 'regulations' worldwide. Notable examples include the Sarbanes-Oxley Act in the USA, the Cadbury Committee's recommendations for European Union companies, and the OECD principles of corporate governance. Corporate governance aims to ensure a return on investment for shareholders, control management, and prevent the misuse of financial resources in business firms. Thus, corporate governance and financial performance are influenced by internal factors

(such as executives, stakeholders, company conditions) and external factors (such as customers, government regulations) affecting businesses.

In today's globalized business environment, corporate governance and financial performance have become increasingly challenging and critical issues in both developed and developing countries. In Nepal, the liquidation of several institutions (e.g., Nepal Development Bank, Gurkha Development Bank, Shreeram Sugar Mills, Bansbari Leather and Shoes) and the poor performance of various public enterprises highlight the importance of corporate governance and financial performance issues.

For a developing country like Nepal, improving corporate governance can serve several important public policy objectives. Good corporate governance reduces market vulnerability to financial crises, supports property rights, lowers transaction costs and capital costs, and fosters capital market development. Conversely, weak corporate governance structures erode investor confidence and deter external investment.

The National Bank of Nepal, Nepal Rastra Bank (NRB), has consistently sought to improve the governance of banks by revising and updating policies and directives. Recent comprehensive mandates, stress testing guidelines, and CEO compensation rules are some measures implemented to ensure better governance in banks. Despite these regulations, corporate governance remains challenging as individuals with malicious intent devise new ways to misuse public funds. Nepalese organizations have yet to adopt a robust governance culture that adequately considers public interests. The distinction between ownership and management remains unclear, and the involvement of directors and staff in fraudulent activities poses a serious challenge in Nepal (Khatiwada, 2015).

These issues have created an environment of distrust, making the public reluctant to deposit their money in banks (Khatiwada, 2015). To foster a better environment of trust and safety among the general populace, banks must emphasize good governance. Implementing strong governance practices can increase customer deposits and enhance the profitability of banks.

Most previous empirical studies on corporate governance and financial performance focus on developed countries, particularly firms in the US and UK. The literature on

corporate governance in the United States of America and UK centers on the role of the board as a bridge between owners and management (Cadbury, 1992; Ward, 1997). In environments where ownership and management are largely separate, owners cannot exercise effective control over governance or the board. Minimal research has been conducted on developing countries, and these studies mainly focus on the corporate governance environment, legal measures, and their implementation. Due to the dynamic and globalized business environment, Nepalese firms face significant challenges for survival, growth, and profitability. While numerous empirical studies on corporate governance and financial performance have been conducted in developed and developing countries, few studies have been carried out in underdeveloped countries like Nepal. Therefore, this study attempts to analyze factors affecting corporate governance and financial performance in Nepalese banks.

Subsequently, this exploration tries to respond to the inquiries and issues of

- I. Which component of corporate governance essentially affects bank execution?
- II. What is the effect of aspects of corporate governance on financial performance?

1.3 Objective of the Study

The general objective of this study is to analyze the impact of corporate governance and banks performance in Nepal. The specific objectives of this study are as follows:

- I. To assess the corporate governance practice in Nepal.
- II. To examine the relationship of corporate governance with ROA and ROE.
- III. To analyze the impact of corporate governance practices on ROA and ROE

1.4 Rationale of study

The primary aim of this study was to investigate the practice of corporate governance in Nepal, explore the relationship between corporate governance and financial performance, specifically Return on Assets (ROA) and Return on Equity (ROE), and assess the impact of corporate governance on financial performance in Nepalese institutions. Corporate governance has emerged as a critical and timely issue, drawing significant attention from various sectors.

This study seeks to provide valuable insights to researchers, academicians, and practitioners about the current state of corporate governance in Nepal. By offering comprehensive information, the study aims to serve as a useful guideline for all stakeholders involved in the corporate governance system in Nepal, including policymakers, regulatory bodies, business leaders, and investors.

The findings of this research are expected to be particularly beneficial for organizations, helping them operate more efficiently and systematically. By identifying best practices and highlighting areas for improvement, the study aims to enhance the overall performance of corporate governance within organizations. Improved corporate governance practices can lead to better financial performance, increased transparency, accountability, and ultimately, a more robust and trustworthy corporate sector.

Moreover, this research underscores the importance of corporate governance in achieving sustainable growth and stability in the financial sector. By establishing a clear connection between good governance and improved financial metrics such as ROA and ROE, the study provides empirical evidence that can be used to advocate for stronger governance frameworks.

In summary, this study not only contributes to the academic literature on corporate governance but also offers practical recommendations for improving governance practices in Nepal. It highlights the significance of adopting robust governance structures to enhance financial performance and build investor confidence, which is crucial for the long-term success and sustainability of Nepalese businesses. The insights gained from this research can guide future policies and strategies aimed at strengthening corporate governance in Nepal, ensuring that organizations can navigate the complexities of the modern business environment effectively.

1.5 Limitation of the study

The research was conducted with a sufficient sample size of banks over a specified time period. However, several limitations were identified in this study:

- a. The study only included 4 banks, which may limit the generalizability of the results. Including a broader range of firms could have yielded more robust findings.

- b. The study utilized board member size, female directors, capital adequacy ratio, leverage, and bank size as independent variables. However, it did not consider other potentially influential variables such as ownership structure, organizational age, and management team composition.
- c. Data collection spanned from 2013/14 to 2022/23. A longer data period might have provided a more comprehensive understanding of trends and patterns.
- d. The study relied solely on secondary data from annual reports of the sample banks. The absence of primary survey data may have limited the depth and flexibility of the study's findings, restricting analysis to available information.
- e. Given its reliance on secondary data, the study's findings and conclusions are contingent upon the reliability and consistency of the secondary data sources.

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical Review

The various theories of corporate governance have been developed

Agency Theory

Agency Theory, rooted in economic theory, was first formulated by Alchian and Demsetz (1972) and subsequently expanded upon by Jensen and Meckling (1976). It focuses on the relationship between principals (such as shareholders) and agents (such as company executives and managers). In this framework, shareholders, as the owners of the company, delegate operational responsibilities to agents who act on their behalf (Clarke, 2004). Daily et al. (2003) argue that agency theory has gained prominence due to its straightforward depiction of the corporation as a dynamic between managers and shareholders, as well as its recognition of potential self-interest among managers.

According to agency theory, shareholders expect agents to make decisions that serve the best interests of the shareholders. However, agents may not always prioritize these interests (Padilla, 2000). This principal-agent problem was initially identified by Adam Smith and later developed by Ross (1973) and detailed by Jensen and Meckling (1976). Davis, Schoorman, and Donaldson (1997) further confirm the challenges arising from the separation of ownership and control inherent in agency theory.

Agents in agency theory are depicted as potentially acting in self-interest, engaging in opportunistic behaviors, or pursuing objectives that diverge from those of the shareholders. Despite addressing the issue of separating ownership and control (Bhimani, 2008), Holmstrom and Milgrom (1994) argue that providing fixed wages without variable incentives may lead agents to prioritize projects with high returns, potentially neglecting broader corporate responsibilities. Despite its limitations, agency theory adopts a positivist approach, where agents are governed by rules set by principals aimed at maximizing shareholder value (Clarke, 2004).

Agency theory is frequently utilized to examine the relationship between ownership structures and management practices. It suggests that in family-owned enterprises, where management consists of family members, the costs associated with agency

problems may be lower because management interests closely align with those of ownership (Eisenhardt, 1989). Jensen and Meckling (1976) portray employees within agency theory as self-interested individuals with bounded rationality, making decisions based on incentives and penalties.

In summary, agency theory underscores the importance of accountability and effective governance structures that align the interests of agents with those of principals. It provides a framework for understanding how individuals within organizations are motivated and held accountable for their actions, highlighting the governance challenges involved in balancing shareholder interests with managerial decision-making

The Stewardship Theory

The stewardship theory contends that administrators are not persuaded by individual objectives but rather they are stewards, whose spurs are lined up with goals of their investors or directors (James, Schoorman, and Donaldson, 1997). This theory contends that investors' revenue can be expanded by relegating same individual to the post of board seat and CEO to give greater obligation and independence to the Chief as a steward (specialist) in the organization (Donaldson, and Davis, 1991).

Stewardship theory has its underlying foundations from brain research and human science and is characterized by Davis, Schoorman and Donaldson (1997) as "a steward safeguards and boosts investors abundance through firm execution, on the grounds that thusly, the steward's utility capabilities are expanded". In this viewpoint, stewards are organization leaders and supervisors working for the investors, safeguards and create gains for the investors. Dissimilar to office theory, stewardship theory stresses not on the point of view of independence (Donaldson and Davis, 1991), yet rather on the job of top administration being as stewards, coordinating their objectives as a feature of the association. The stewardship viewpoint recommends that stewards are fulfilled and propelled when hierarchical achievement is accomplished.

Agyris (1973) contends office theory views at a worker or individuals as a financial being, which stifles a person's own yearnings. Notwithstanding, stewardship theory perceives the significance of designs that engage the steward and offers greatest independence based on trust (Donaldson and Davis, 1991). It weights on the place of

representatives or leaders to act more independently so the investors' profits are amplified. For sure, this can limit the expenses pointed toward observing and controlling ways of behaving (Davis, Schoorman and Donaldson, 1997).

On the opposite end, Daly et al. (2003) contended that to safeguard their notorieties as chiefs in associations, leaders and chiefs are leaned to work the firm to augment monetary execution as well as investors' benefits. In this sense, it is accepted that the company's presentation can straightforwardly affect impression of their singular exhibition. For sure, Fama (1980) battle that leaders and chiefs are likewise dealing with their professions to be viewed as compelling stewards of their association, while, Shleifer and Vishny (1997) demands that directors return money to financial backers to lay out a decent standing so that can reemerge the market for future money. Stewardship model can have connecting or similarity in nations like Japan, where the Japanese specialist expects the job of stewards and takes responsibility for occupations and work at them steadily.

Besides, stewardship theory recommends bringing together the job of the President and the executive in order to lessen organization costs and to play larger part as stewards in the association. It was clear that there would be better shielding of the interest of the investors. It was observationally found that the profits have improved by having both these hypotheses consolidated as opposed to isolated (Donaldson and Davis, 1991).

Stewardship Theory

Stewardship theory has its hidden establishments from cerebrum exploration and human science and is portrayed by Davis, Schoorman and Donaldson (1997) as "a steward protects and helps financial backers overflow through firm execution, in light of the fact that hence, the steward's utility capacities are extended". In this perspective, stewards are association pioneers and managers working for the financial backers, defends and make gains for the financial backers. Not at all like office theory, stewardship theory emphasizes not on the perspective of freedom (Donaldson and Davis, 1991), yet rather at work of top organization being as stewards, planning their goals as an element of the affiliation. The stewardship perspective suggests that stewards are satisfied and pushed when progressive accomplishment is achieved.

Agyris (1973) battles office theory sees at a specialist or people as a monetary being, which smothers an individual's own desires. Regardless, stewardship theory sees the meaning of plans that draw in the steward and offers most noteworthy freedom in light of trust (Donaldson and Davis, 1991). It loads on the spot of delegates or pioneers to act all the more freely so the financial backers' benefits are intensified. Without a doubt, this can restrict the costs highlighted noticing and controlling approaches to acting (Davis, Schoorman and Donaldson, 1997).

On the far edge, Daly et al. (2003) battled that to protect their reputations as bosses in affiliations, pioneers and bosses are inclined to work the firm to expand money related execution as well as financial backers' advantages. In this sense, it is acknowledged that the organization's show can clearly influence impression of their particular presentation. Without a doubt, Fama (1980) fight that pioneers and bosses are similarly managing their callings to be seen as convincing stewards of their relationship, while, Shleifer and Vishny (1997) requests that chiefs return cash to monetary supporters to spread out a respectable standing so that can reappear the market for future cash. Stewardship model can have associating or closeness in countries like Japan, where the Japanese expert expects the occupation of stewards and gets a sense of ownership with occupations and work at them consistently.

Also, stewardship theory suggests uniting the occupation of the President and the chief to decrease association costs and to have bigger impact as stewards in the affiliation. Obviously there would be better safeguarding of the premium of the financial backers. It was observationally found that the benefits have improved by having these theory solidified rather than segregated (Donaldson and Davis, 1991).

The stakeholders Theory

The Stakeholders theory of corporate administration manages the executives discipline and step by step created to incorporate corporate responsibility to board scope of stakeholders (Abdullah, and Valentine, 2009). This theory contends that chiefs are liable for the interest of investors as well as for an organization of connections to serve which incorporates providers, representatives and colleagues. Corporate administration shows the approaches and strategies applied by firms to accomplish specific arrangements of goals, corporate missions and dreams about investors, workers, clients, providers and different administrative organizations and

local area at large. The job of administration is to amplify investor's abundance. Stakeholder's theory was implanted in the administration discipline in 1970 and bit by bit created by Freeman (1984) consolidating corporate responsibility to a wide scope of stakeholders. Wheeler et al, (2002) contended that stakeholder's theory got from a mix of the humanistic and hierarchical disciplines. For sure, stakeholders theory is to a lesser degree a formal brought together theory and all the more an expansive examination custom, consolidating reasoning, morals, political theory, financial matters, regulation and hierarchical science.

Stakeholder's theory can be characterized as any gathering or person who can influence or is impacted by the accomplishment of the association's targets. Not at all like office theory in which the directors are working and serving for the stakeholders, stakeholders scholars propose that supervisors in associations have an organization of connections to serve - this incorporates the providers, representatives and colleagues. Furthermore, it was contended that this gathering of organization is significant other than proprietor director worker relationship as in organization theory (Freeman, 1999). On the opposite end, Sundaram and Inkpen (2004) fight that stakeholders' theory endeavors to address the gathering of stakeholders meriting and requiring the executives' consideration. While, Donaldson and Preston (1995) guaranteed that all gatherings partake in a business to get benefits. By and by, Clarkson (1995) recommended that the firm is a framework, where there are stakeholders and the reason for the association is to make abundance for its stakeholders.

Freeman (1984) fights that the organization of associations with many gatherings can influence dynamic cycles as stakeholders theory is worried about the idea of these connections concerning the two cycles and results for the firm and its stakeholders. Donaldson and Preston (1995) contended that this theory centers around administrative navigation and interests of all stakeholders have natural worth, and no arrangements of interests is expected to rule.

Resource Dependency Theory

The stakeholder theory emphasizes cultivating relationships with various groups for individual benefits, whereas resource dependency theory centers on the role of board directors in facilitating access to critical resources for the firm. According to Hillman, Canella, and Paetzold (2000), resource dependency theory highlights how directors

facilitate or secure vital resources essential for organizational success through their connections in the external environment. Similarly, Johnson et al. (1996) agree that resource dependency theorists emphasize the appointment of representatives from independent organizations to gain access to crucial resources necessary for firm performance. For instance, outside directors who are affiliated with a law firm may offer legal advice during board meetings or through private consultations with firm executives, which could otherwise be costly for the firm.

The provision of resources is argued to enhance organizational functioning, firm performance, and survival (Daily et al., 2003). Hillman, Canella, and Paetzold (2000) further argue that directors bring valuable resources to the firm, including information, skills, and access to key stakeholders such as suppliers, customers, policymakers, social groups, and legitimacy. Directors can be categorized into four groups: insiders, business experts, support specialists, and community influencers. Insiders include current and former executives of the firm who offer expertise in areas like finance and law related to the firm's operations and overall strategic direction. Business experts, comprising current or former senior executives and directors from other large firms, contribute insights into business strategy, decision-making, and problem-solving. Support specialists, such as lawyers, bankers, insurance representatives, and public relations experts, provide specialized support in their respective fields. Lastly, community influencers encompass political leaders, university faculty, clergy members, and leaders of social or community organizations, who bring their respective networks and influence to benefit the firm.

Transaction cost theory

Transaction cost theory, pioneered by Cyert and March (1963) and extensively developed by Williamson (1996), represents an interdisciplinary approach blending law, economics, and organizational theory. This theory seeks to understand firms as organizations composed of individuals with varying perspectives and goals. At its core, transaction cost theory posits that as firms grow larger, they often replace market mechanisms in resource allocation. This organizational structure and design within firms can significantly influence pricing and production decisions. The fundamental premise of transaction cost theory revolves around the concept of transactions themselves, where the interactions among individuals within firms are

shaped by opportunistic behavior, as managers align transactions to serve their own interests (Williamson, 1996).

In essence, transaction cost theory views firms not just as economic entities but as complex organizations where internal dynamics and transactional arrangements play a crucial role in shaping economic outcomes. Williamson's work underscores the idea that firms exist not merely to produce goods and services but also to mitigate transaction costs that would otherwise arise in market exchanges. This perspective highlights the importance of understanding how organizational structures and decision-making processes within firms can impact efficiency, pricing strategies, and overall economic performance.

Furthermore, the application of transaction cost theory extends beyond traditional economic analysis to encompass organizational behavior and strategic management. It emphasizes the role of governance structures, contractual arrangements, and the internal organization of firms in reducing transaction costs and improving economic efficiency (Williamson, 1996). By examining transactions as the unit of analysis, this theory provides insights into how firms can strategically organize themselves to minimize costs associated with market transactions and enhance their competitive advantage in the marketplace.

In summary, transaction cost theory offers a comprehensive framework for studying how firms organize their internal operations to manage transactional complexities and optimize economic outcomes. It underscores the interplay between organizational structure, decision-making processes, and economic performance, making it a valuable tool for understanding the dynamics of modern businesses and organizations.

Political Theory

Political theory introduces the concept of garnering shareholder support through political means rather than solely through acquiring voting power, thereby influencing corporate governance practices within organizations. The involvement of government in corporate decision-making processes introduces considerations for public interest and cultural challenges (Pound, 1993). This political approach emphasizes how the

distribution of corporate power, profits, and privileges can be influenced by governmental favor.

The political model of corporate governance holds significant sway over governance developments. In recent decades, governments worldwide have increasingly exerted political influence over firms, leading to the integration of political factors into corporate governance structures and mechanisms (Hawley and Williams, 1996). This trend underscores how governmental policies and regulations shape corporate behavior and decision-making processes, impacting not only economic outcomes but also broader societal interests.

Furthermore, the political model highlights how regulatory frameworks and government interventions can shape corporate strategies, governance practices, and accountability mechanisms. By acknowledging the role of political influence in corporate governance, stakeholders can better understand the dynamics of power and influence within organizations, as well as the broader implications for stakeholders and society at large.

In summary, the political model of corporate governance underscores the intersection of government policies, corporate behavior, and societal outcomes. It emphasizes the need for a nuanced understanding of how political dynamics shape corporate governance practices and influence organizational behavior in the contemporary business environment. This study is based on the agency, stewardship, stakeholder, resource dependency theory and transaction cost theory.

2.2 Review of journal articles

Numerous scholars have conducted studies to explore the relationship between corporate governance variables and financial performance. The literature review of these articles aided in the selection of variables and the formulation of hypothesis. The board of directors, being the top executive body of a company, is tasked with creating policies, devising strategies, and overseeing the company's operations. Determining the optimal number of board members has been a challenge, as various studies yield different conclusions on the ideal number of directors.

Kenya, with a significant population and notable inter-censual growth, is a crucial financial hub in East Africa (KNBS, 2023). The financial sector faces challenges related to inadequate corporate governance due to limited expertise and misaligned financial structures. Kenyan banks are categorized into three tiers based on market share, assets, and customer deposits. Their performance is evaluated based on asset size, capital, reserves, profitability, liquidity, and deposits (CBK, 2023). In 2022, nine major banks held the majority market share, followed by medium and small banks (CBK, 2023). Of the 38 commercial banks, twenty-one are Tier-3 with a small combined market share (Bank Supervision & Banking Sector Reports, 2022).

Kenyan financial institutions follow the Capital Market's Authority (CMA) Corporate Governance Code, which mandates full compliance or an explanation for non-compliance, along with a timeframe and strategies for achieving compliance (CBK, 2023). For instance, Consolidated Bank of Kenya consistently reported losses over several years, and Spire Bank also experienced significant losses during the same period (CBK, 2023), reflecting negative financial performance among Tier-3 banks.

Zenith Bank Plc of Nigeria reported a significant increase in gross earnings in the third quarter of 2022 compared to the previous year (Zenith Bank, 2022). South Africa, a G20 member, adheres to international best practices in financial and market regulation. The Absa Group's corporate governance is guided by its Memorandum of Incorporation (MOI), which incorporates regulations and codes applicable in countries where it operates outside South Africa. Absa Group saw a substantial rise in headline earnings in 2021 compared to previous years due to increased pre-provision profit and reduced impairment charges (ABSA, 2023).

The Industrial and Commercial Bank of China reported varying revenues over recent years (Macrotrends, 2023). The UK's corporate governance framework is supported by legislation, market regulations, governance codes, investor expectations, and best practice guidance. The UK operates on a code established in 2018, requiring companies to either comply with regulatory provisions or explain any non-compliance.

Yermack (1998), in a survey of the prior work of Lipton and Lorsch (1995), contends those enormous board individuals would in general be delayed in deciding, and

consequently could be a hindrance to changed. A second contemplated for the help for little board size was that chiefs seldom censure the strategies of top supervisors and this issue will in general increment with the quantity of board individuals (Yermack, 1998; Lipton and Lorsch, 1995). Yermack (1998) inspects the connection between board size and firm execution, presuming that the more modest the board measures, the better will be the presentation, and proposing an ideal board size of ten or less, carried out investigated on the association of the UK, France, Netherland, Denmark, and Italy found a negative connection between board size and execution. Be that as it may, Adams and Mehran (2010) and Kiel and Nicholson (2005) found a positive connection between board size and execution for example greater the board size higher will be execution. Adams and Mehran (2010) found a positive relationship in USA banking firms. Bennedsenet. al (2013) likewise found a negative connection between board size and execution in Denmark.

The audits of writing on monetary influence give various perspectives on the connection between monetary influence and monetary execution. While certain hypotheses foresee a positive connection among influence and company's presentation, others foresee negative connections and some suggestion foresee there is unimportance of obligation value decision on the worth of a firm.

Laurent (2002) concentrated on the connection among influence and corporate execution in France, Germany, and Italy. The different relapse methods were embraced on the concentrated on factors (influence, substantial quality, transient liabilities, stock, and size). The concentrated on found blended proof contingent upon the country; while a negative relationship was accounted for in Italy, the connection among influence and corporate execution was essentially certain in France and Germany. Likewise, Berger and Patti (2006) investigated made on the USA banking industry showed a positive relationship. Tian and Zeitun (2007) explored on corporate execution of enterprises in Jordan involving a board information drew closer of 167 organizations for a time of a long time from 1989 to 2003, results show that a company's capital design affected the organizations' exhibition utilizing both the bookkeeping and market estimations. Similarly, Makau and Kosimbei (2014) and Maria and Kondongo (2013) inspected the impact of influence and execution of firms in Kenya and tracked down a negative relationship. Eboid (2009) researched the

effect of capital design on the exhibition of firms in Egypt and reasoned that there was no effect of influence on the company's presentation.

There had likewise been a contemplated done to know the connection between the company's size and firm execution. Different researchers had tracked down different outcomes. The accompanying table shows the name of the scientist and their outcomes with respect to the connection.

Researchers in 1996 discovered that large banks were not efficient in terms of productivity, with medium-sized banks outperforming both small and large banks. Allen and Rai (1996) studied banks in 15 countries and concluded that larger size did not enhance performance. However, post-2000 research indicated a positive relationship between bank size and performance. For instance, Feng and Serlitis (2010) examined 1,270 European banks and found a positive correlation between bank size and performance.

Adequate capital is essential for preventing bank failures by absorbing losses associated with the risks inherent in banking operations. These risks arise from banks' efforts to meet the genuine credit needs of the community. Adequate capital provides critical protection against insolvency and liquidation due to financial risks. Banks with insufficient capital face significant constraints, often spending considerable management time defensively, either raising capital or preventing takeovers. Researchers have also explored the relationship between bank performance and capital adequacy ratios, highlighting the importance of sufficient capital.

A previous study by Goddard, Molyneux, and Wilson (2004) revealed that banks with a high Capital Adequacy Ratio (CAR) were overly cautious, ignoring potentially profitable trading opportunities, leading to a negative relationship. Conversely, Ngo (2006) found no relationship between these two variables. However, recent research by Olalakon and Adeyinka (2013) on Nigerian banks showed a significant positive relationship.

Similarly, George and Dimitrios (2004) applied a non-parametric analytic technique, Data Envelopment Analysis (DEA), to measure the performance of the Greek banking sector concerning capital adequacy. They demonstrated that DEA could be used as an

alternative or complement to ratio analysis for evaluating an organization's performance, considering macroeconomic indicators.

The growing number of female executives globally underscores the increasing significance of female leadership. Research into the performance of female executives often highlights traits such as risk aversion, conservative decision-making, lower self-confidence, and effective monitoring. The presence of women in leadership roles is positively viewed by investors as a sign of gender equality, which enhances the company's market value, external legitimacy, and reputation (Valls & Rambaud, 2019).

Studies have demonstrated that a higher percentage of women on management boards positively influences company performance, leading to higher returns and return on assets (ROA) (Liu, Wei, & Xie, 2014). Similarly, Khan and Vieito (2013) found that female CEOs have a significant and positive effect on ROA. Improved ROA enhances the company's position, leading to increased share prices and corporate value, which benefits both the company and its shareholders (Aluy, Tulung, & Tasik, 2017).

The impact of female leaders in top management roles is more pronounced when there is a higher representation of women on the board. This is due to two main factors: First, a greater presence of women fosters a more inclusive corporate culture and improves communication in decision-making, as women often leverage their expertise and favorable traits to enhance performance. Second, psychological research indicates that women are generally more cooperative than men, which can further contribute to improved organizational performance (Gomez et al., 2018).

2.3 Review of previous thesis

The literature review above highlights the relationships between corporate governance and performance as studied in various foreign countries. The results indicate that findings can differ across countries and even within the same country over different time periods. The significance of governance in the banking sector and its relationship with performance has also been explored in Nepal. Numerous researchers have examined the connection between corporate governance and performance in the context of Nepalese banks. For the current study, previous research conducted in Nepal was particularly useful. These studies provided a

foundation for confidently building hypotheses and facilitated a comparison with the current findings. The scholar's results were shown in the following table.

Table 1

Study on Corporate Governance and Performance of commercial banks In Nepal

Study	Year	Findings
Pokhrel	2007	The study's results indicate that ensuring good corporate governance in Nepal requires a collaborative effort. Investors (promoters) need to be more transparent, responsible, and socially accountable. Shareholders must actively participate in corporate affairs to help prevent fraudulent activities and insider practices.
Ghimire	2010	The results supported a positive relationship between firm-specific corporate governance and firm value.
Shrestha	2011	The results showed that corporate governance played a negligible role in the financial institutions of Nepal.
Poudel and Hovey	2013	The results showed that bank efficiency was influenced by both macroeconomic factors and internal bank-specific factors.
Thapa	2014	Governance aims to safeguard shareholders' rights, improve disclosure and transparency, promote the effective operation of the board, and provide a robust legal and regulatory enforcement framework.
Niraula	2015	The positive relationship of board size, review panel size with bank effectiveness while the negative relationship of executive gatherings and brought down extent of institutional possession with bank productivity was recorded
Sapkota	2016	Administration guarantees to accomplish the essential goals of the organization, and that implies the organization accomplishes the monetary Execution.

Lamichhane	2018	The outcome uncover that net revenue and return on resources of firms are decidedly related with age, market to book proportion and generally corporate administration increment monetary execution of Nepalese firm. Further, the aftereffect of the review shows that size of resources and obligation proportion make negative difference and proprietorship fixation has no relationship with firms' monetary presentation.
Pradhan, Jaishi,Sethi, Devkota and Paudyal	2020	The review shows board size is adversely related to ROA. Comparatively executive gathering, number of female chief, board autonomy, bank size and review advisory group altogether affect the productivity.
Dongol	2021	The consequences of the review showed that there are blended discoveries with respect to the board size on monetary execution and a negative connection between board orientation variety on return on value and return on resources.
Sapkota and Poudel	2022	This investigation discovered that influence, proprietorship, profitability and capital amplenness have huge positive impact on execution. Proof recommends that corporate administration essentially impacts the market base monetary execution of Nepalese business banks estimated by Tobin's Q.

The monetary area change was started by the national bank the public authority with a perspective on improving the corporate administration and execution of the financial area particularly the state-claimed banks (Sapkota, 2016). The example of the considered comprised of 20 business banks. Utilizing a clear explored plan, the concentrated on underlined the connection between corporate administration and execution.

In the background of the 1997-1998 monetary emergencies in the Asian nations, Niraula (2015) featured the significance of non-industrial nations like Nepal. The concentrated on contended that great administration of banks was vital for the endurance of its economy. The concentrated on examined the effect of corporate administration on the productivity of Nepalese business banks. Auxiliary information for test 29 business banks worked in Nepal out of 31 business banks for the new time of 2005 to 2011 were dissected when the greater part of the administrative choices

were taken by the national bank of Nepal for corporate government impromptu creation. Corporate administration factors were addressed by the board, freedom and determination, review panel size, autonomy and tirelessness, and possession structure.

The worry over corporate administration was soaring in created economies as well as in unfortunate economies like Nepal where late issues of awful corporate administration in the monetary area had arisen (Shrestha, 2011). The concentrated on zeroed in on the impact of corporate administration on bank execution. The outcomes displayed there was an irrelevant job of administration in banks. Likewise, Ghimire did a considered with the significant target to look at the impact of essential factors on corporate administration in Nepal and the particular goal was to examine the connection between corporate administration factors like institutional proprietorship, public capital, and public chief, and so on with the presentation of the firm. Pooled sectional information for 14 ventures other than the monetary foundations were concentrated on utilizing a sum of 98 perceptions. Proof from Nepalese recorded firms resolves whether or "bad" corporate administration decidedly affected the company's valuation. The examined had been directed by utilizing a board test of recorded Nepalese firms. To give a thorough examination, the concentrated on utilized on board the corporate administration record and two extra administration systems: possession focus and influence. The outcome upheld the inescapable guess - a positive connection between firm-explicit corporate administration and firm worth (Ghimire, 2010).

To guarantee great corporate administration in Nepal requires a cooperative exertion of the financial backers (advertisers) who should be more straightforward, mindful and socially responsible; the investors who should effectively partake in their corporate undertakings to assist with forestalling any false and insider rehearses and; the administrative power that ought to really uphold rules and guideline in arranged to safeguards the privileges of all partners and establish positive climate to upgrade great corporate administration culture (Pokhrel, 2007).

The speculations had been created with respect to the connection between the free factors and ward factors. The speculation had been created based on the explored done by different researchers previously Board size and performance

Board structure and composition effect how effectively a board functions. It

comprise of board size, diversity, diligence, independence and responsibilities. Board size is a key mechanism that influences how well a board performs. Large board brings more resources, skill set and network that benefit the corporation. By providing policy direction and strategic guidance, the board of directors plays an important role in an institutions. According to Pfeffer J and Pfeffer's (1992) an institution can gain enormous and valuable resources from its board of directors, reducing its reliance on the environment. Resource dependency theory states that companies with large board of directors can access more resources from the outside world. Similarly, Niraula (2015) investigated the impact of corporate governance practices in banks financial performance in Nepal and found that there is positive relationship of board size with bank efficiency. Influence and execution influence costs were at the focal point of the administrative approach reactions to the ongoing monetary emergency, as on the G-20 and Basel board of trustees on bank. Management needed to modify on another influence proportion. It was contended that a base influence proportion could assist with controlling the bank's motivations for administrative exchange. A higher level of leverage often leads to increased costs due to the divergent interests between shareholders and debt holders (Jensen & Meckling, 2001). Research by Majundar and Chinner (2003), examining Indian firms, revealed a significant negative relationship between leverage and corporate governance. Similarly, Brother and Newman (1999) found a negative association between leverage and performance in U.S. firms.

On the other hand, Nickbell and Nicolotsas (1999) observed a positive, though weak, relationship between leverage and performance. Furthermore, Laurent Weill (2002) conducted a study showing a negative relationship between leverage and performance in Italy, while finding a significant positive relationship in Germany and France. These findings suggest that the impact of leverage on performance can vary depending on the country and context.

Bank size and bank execution in this concentrated on the bank size was viewed as by the size of capital. Keeps money with high capital was viewed as an enormous bank size as well as the other way around. Saves money with enormous sizes could extend their item, administration, area, and so forth effectively because of

which they could perform better in the climate. Nepal Rastra bank (NRB) which was laid out with the planned to keep up with the monetary strength and protect banks had additionally made obligatory for banks to raise their settled up capital till mid-July 2017. This means that the keep money with higher capital was safer and ready to perform better. Likewise, a review performed Byamelet al.,(2004) in the USA showed keeps money with higher capital performed better.

The capital adequacy ratio (CAR) is a critical indicator of a bank's financial health, reflecting the proportion of its capital to risk-weighted assets. This ratio plays a vital role in assessing a bank's long-term stability and ability to manage risk, helping prevent insolvency and negative externalities by ensuring sufficient capital to absorb losses. A robust CAR supports a bank's resilience and operational efficiency by reducing the likelihood of costly liquidation and enhancing its capacity to absorb losses without compromising financial stability (Akintoye & Somoye, 2008).

Research conducted by Olaken and Adeyinke (2013) in Kenya found a positive correlation between capital adequacy and profitability, suggesting that a higher capital adequacy ratio contributes to improved bank performance. This indicates that adequate capital not only strengthens a bank's financial position but also enhances its profitability and operational effectiveness.

The impact of female directors on firm performance has been the subject of varying studies. Lukerath-Rovers (2013) identified a positive link between the presence of female board members and financial performance, suggesting that female directors can effectively engage and inspire women within the company, potentially leading to better overall performance. The Davies report (2012) similarly found a positive relationship between female directors and firm performance.

Conversely, Adams and Ferreira (2009) reported a negative association between female directors and firm performance. Additionally, Haslam et al. (2010) found no significant relationship between female executives and firm performance, and Gregory-Smith et al. (2013) did not find evidence that the presence of women on boards is associated with higher firm performance. These mixed results indicate that the impact of female directors on firm performance may vary based on contextual factors and organizational characteristics.

2.4 Findings of the Review of Literature

In the modern competitive and globalized business age, economic activities are growing up. The success of firms depends on their corporate governance and financial performance. Developing business sector nations like Nepal further developing corporate administration can serve various significant public approach goals. Great corporate administration decreases developing business sector weakness to monetary emergencies, supports property privileges, lessens exchange costs and the expense of capital, and prompts capital market improvement. Feeble corporate administration systems, then again, diminish financial backer certainty and can beat outside venture down. Throughout the course of recent years, the significance of corporate administration has been featured by a rising assemblage of scholarly exploration. Administration means to safeguard investor's privileges, to improve exposure and straightforwardness, to work with powerful working of the board and to give a proficient legitimate and administrative authorization system. To guarantee great corporate administration in Nepal requires a cooperative exertion of the financial backers (advertisers) who should be more straightforward, mindful and socially responsible; the investors who should effectively take part in their corporate issues to assist with forestalling any deceitful and insider rehearses and; the administrative power that ought to successfully implement leads a guideline in arranged to safeguards the privileges of all partners and establish positive climate to improve great corporate administration culture.

Board size has an adverse effect on performance, suggesting that banks with larger boards tend to perform poorly compared to banks with smaller boards. Adverse effect may be due to fact that boards with too many directors could be unproductive, with ineffective communication among directors in the board. This lead to director free riding problem i.e. directors consume more resources than they contribute to the bank, and thereby reducing bank performance.

Leverage ratio had a significant relation to the bank performance. A higher leverage ratio indicates that a company has a greater proportion of debt compared to equity, which can amplify both positive and negative effects on financial performance. When the economy is doing well, higher leverage ratio can lead to increased profitability and returns on equity, as debt financing allows companies to benefit from leverage. This is because borrowing at lower cost than the return on investment

can generate higher profits for shareholders. However, a high leverage ratio can also pose risk to financial performance, especially during economic downturns or adverse market conditions. When the economy faces challenges, highly leveraged companies may struggle to meet their debt obligations, leading to financial distress. Leverage ratio on financial performance can vary across industries, company sizes and economic cycles. Each company's optimal leverage ratio depends on its specific circumstances, risk tolerance, and growth objectives. Striking a balance between debt and equity is crucial to maintain a healthy financial position and maximize long-term performance.

Save money with enormous sizes could extend their item, administration, area, and so forth effectively because of which they could perform better in the climate? Thus, bank size had a critical positive connection to the bank execution.

Capital sufficiency proportion assumes a vital part in the drawn out supporting and dissolvability position of banks, particularly in aiding banks to keep away from liquidation and negative externalities. Sufficient capital was viewed as how much capital that could effectively release the essential capability of forestalling banking ventures' disappointment by engrossing the misfortune without being constrained into expensive liquidation and empowers banking businesses to made the most of its productive learning experience. The considered showed that there was a constructive outcome between capital sufficiency and productivity. Since productivity was achieved by great execution, it very well may be said there was a positive connection among Vehicle and bank execution. Blended outcome is found between ladies chief and bank execution. Some specialist found positive, some negative and some of them tracked down no connection.

2.5 Research Gap

While numerous studies have been conducted on corporate governance and performance in Nepalese commercial banks, significant areas remain underexplored. Previous research has primarily focused on broad aspects of corporate governance without delving deeply into specific factors that might influence governance practices (Shrestha & Adhikari, 2018; Thapa, 2016). Notably, only a handful of studies have considered the impact of the number of female directors, leverage, and the capital

adequacy ratio as integral components of corporate governance (Adhikari et al., 2020; Shrestha, 2019).

Additionally, there exists a temporal research gap. Much of the existing literature is outdated, failing to account for recent developments and shifts in the economic landscape, particularly those brought about by the COVID-19 pandemic (Basnet & Pant, 2021). The pandemic has induced unprecedented changes in the economic environment, which likely affect corporate governance and performance dynamics in ways that earlier studies could not have anticipated (Poudel & Subedi, 2022).

This study aims to address these gaps by providing a comprehensive analysis of corporate governance in Nepalese commercial banks over the period from 2013/14 to 2022/23. By examining a more extended timeframe, this research can capture the evolving nature of corporate governance practices and their impacts over time, offering insights into both pre-pandemic and post-pandemic periods.

Moreover, whereas most previous research has used only return on equity (ROE) or return on assets (ROA) as the sole dependent variables, this study uniquely employs both ROE and ROA as dependent variables. This dual approach allows for a more nuanced understanding of the relationship between corporate governance factors and bank performance (Gurung, 2020; Koirala, 2018).

In summary, this study fills a critical gap in the literature by considering underexplored factors such as female directors, leverage, and capital adequacy ratio, addressing the temporal gap by including recent data up to 2022/23, and employing a more robust methodological approach with dual dependent variables. Through these contributions, the study aims to present a more accurate and current depiction of corporate governance in Nepalese commercial banks.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology refers to the various methods that are used for performing research operation in the entire aspect of the study. It helped to solve the research problem in a systematic way. This chapter has designed or planned for the achievement of the objective which is described in the first chapter. The research methodology outlines the comprehensive plan for the study, serving as the foundational framework on which the entire research is built. This chapter details the methodology used in the study, covering various critical aspects. It includes an overview of the research plan and design, the nature and sources of data, the criteria for selecting enterprises, the methods of analysis, and the empirical models employed.

3.1 Research Design and Plan

To address the research questions and objectives, this study employs a comprehensive research design. A causal research design is used to investigate the cause-and-effect relationships between the variables. Descriptive research methods are applied to summarize and understand the nature of the variables through various statistical measures, such as mean, median, standard deviation, and the range of minimum and maximum values. These measures provide insights into the central tendencies and dispersion of the data. Correlation analysis is also conducted to examine the strength and direction of the relationships between corporate governance and performance variables. This analysis helps to determine how changes in one variable are associated with changes in another. Finally, the causal research design enables a deeper exploration of how different explanatory variables impact the dependent variable, providing a clearer understanding of the causal dynamics at play.

3.2 Population and Sample Size Determination

The main source of data for this study is the Banking and Financial Statistics published by Nepal Rastra Bank, supplemented by NRB directives, legal provisions in the Companies Act of 2063, relevant by-laws regarding corporate governance, and provisions in the Bank and Financial Institutions Act of 2073. Additional data sources

include supervision reports from Nepal Rastra Bank. Currently, some banks are in the process of merging, which may reduce the number of banks in the future. For this research, a sample of 4 banks has been selected through purposive sampling. This sample represents the total of 20 commercial banks in Nepal as of February 31, 2024.

3.3 Data Collection Procedure

This study uses secondary data, collected from periodical reports and statements published by Nepal Rastra Bank (NRB), the Securities Board of Nepal (SEBON), the Nepal Stock Exchange (NEPSE), and the financial statements of the individual banks. The data spans a ten-year period, from the fiscal year 2013/14 to 2022/23.

3.4 Instrumentation of Data

The data is to be collected from various sources such as the website of the banks, their various publications, intense review of books, articles, academic journals, and another report. This information would give due attention and present them in a suitable format so that it can be analyzed using various analytical tools. The obtained data will be coded; tabulated and normalized using MS excel program and SPSS software.

3.5 Reliability and Validity of Data

The reliability of a measure indicates the stability and consistency with which the instrument is measuring the concept and helps to assess the goodness of a measure. The reliability of the secondary data is high, as they are to be retrieved from the reliable database of Nepal Stock Exchange. The data for this study are obtained from secondary sources. The primary sources include the annual reports published by the banks for auditors, Nepal Rastra Bank, and the public. Because the data are sourced from these annual reports, the likelihood of errors in data collection is minimal. Moreover, since the data are verified by auditors and the central bank, the accuracy of the information obtained from these sources is assured. Additionally, the data have been refined from the information provided in the annual reports to fit the study's requirements

Validity is the extent to which a test measures the accuracy of the data. Proper consultations will be done with the concerned supervisors and experts to maintain reliability and validity of data. The literature review stands as the basis for argument of results obtained from the research. The articles, journal published by well-known

digital library are used for literature review.

3.6 Data Analysis Methods

The primary objective of this research is to investigate the impact of corporate governance on the performance of banks in Nepal. To elucidate the connection between corporate governance and bank performance, several models have been employed.

Model 1

In this model, the return on equity serves as the dependent variable, while the independent variables include board size, the number of female directors on the board, leverage ratio, bank size, earnings per share, and capital adequacy ratio. The model is presented below

$$ROE = \beta_0 + \beta_1 BM + \beta_2 LEV + \beta_3 BS + \beta_4 CAR + \beta_5 FD$$

Model 2

In this model, the dependent variable is the return of assets and independent variables are board size, leverage ratio, bank size, number of female directors in board size and capital adequacy ratio. The model is presented below:

$$ROA = \beta_0 + \beta_1 BM + \beta_2 LEV + \beta_3 BS + \beta_4 CAR + \beta_5 FD + e$$

Where, $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ are the regression coefficient

ROE= return on equity

ROA=return on assets

BM= board member size

LEV= leverage

BS= bank size (Natural log value of paid up capital)

CAR= capital adequacy ratio

FD= number of female directors

Here,

Return on equity (ROE) is the amount of net income returned as a percentage of shareholder equity and calculated as

$$ROE = \frac{\text{Net Income}}{\text{Shareholder equity}} \times 100$$

Return on assets is the amount of net income returned as a percentage of total assets. It is calculated as

$$ROA = \frac{\text{Net Income}}{\text{Total s assets}} \times 100$$

The leverage ratio portrays the proportion of a bank asset financed by the equity. It is calculated as

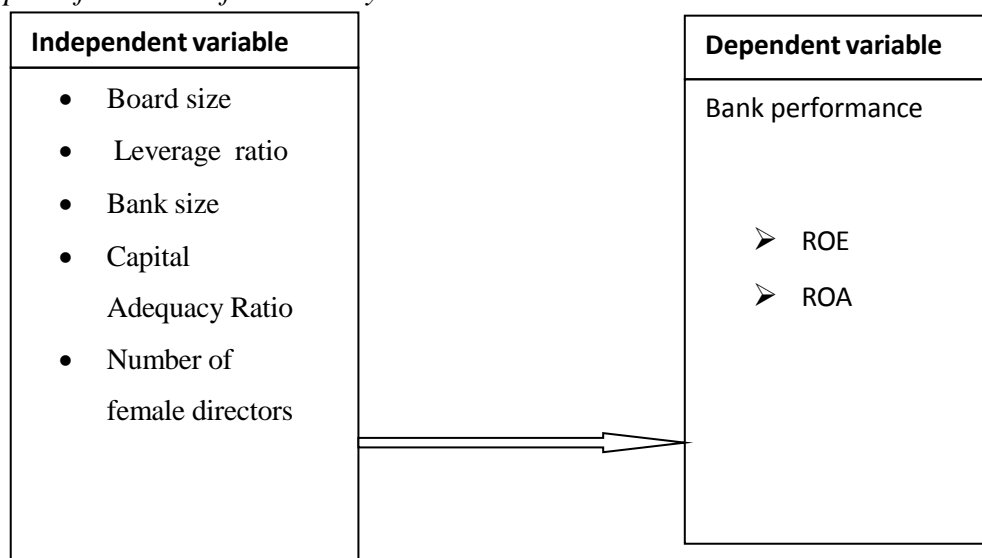
$$LEV = \frac{\text{Total long-term debt}}{\text{Average shareholders equity}}$$

Capital adequacy ratio (CAR) is the measure of bank capital to its risk assets. It is calculated as

$$CAR = \frac{\text{Tier I capital} + \text{Tier II capital}}{\text{Risk-weighted assets}} \times 100$$

3.7 Research Framework:

Based on the literature review and research objectives, this study develops a conceptual framework. The framework systematically explains the relationship between dependent and independent variables, helping to focus on the research problem and achieve the research objectives. Describing the framework benefits the research report in two ways: it identifies the research variables and clarifies their relationships. Tied to the problem statement, the conceptual framework establishes the foundation for presenting the specific research questions that drive the study. The conceptual framework for this research is illustrated in the diagram below:

Figure 1*Conceptual framework for the study**Source: Lukerath-Rovers (2013)*

3.8 Operational Definition of variables

Return on Equity

ROE (Return on Equity) is a financial metric that measures a company's profitability by calculating the net income generated as a percentage of its shareholders' equity. It indicates how effectively a company utilizes its equity investment to generate profits.

Return on assets

ROA (Return on Assets) is a financial ratio that evaluates a company's profitability by measuring its net income as a percentage of its total assets. It demonstrates how efficiently a company utilizes its assets to generate profits.

Capital adequacy ratio

Capital Adequacy Ratio is a regulatory measure that assesses a bank's financial strength and stability. It compares a bank's capital (including both equity and reserves) to its risk-weighted assets. The ratio indicates the bank's ability to absorb losses and withstand financial shocks.

Leverage Ratio

A leverage ratio is a financial metric that measures the extent to which a company relies on debt to finance its operations and investments. It compares a company's total

debt to its equity capital, typically expressed as a percentage. The leverage ratio helps assess the financial risk and solvency of a company by examining its ability to repay its debt obligations. A higher leverage ratio indicates a greater reliance on debt financing, which can amplify both profits and losses. It is commonly used by investors, creditors, and regulators to evaluate a company's financial health and risk profile.

Board of Directors

The Board of Directors refers to a group of individuals elected or appointed by shareholders or stakeholders to represent their interests and oversee the management of a company or organization. The board acts as a governing body responsible for making key decisions and providing strategic guidance to ensure the company's success and long-term sustainability.

The board typically consists of a mix of executive directors (company executives) and non-executive directors (independent individuals with relevant expertise and experience). Their primary responsibilities include setting the company's strategic direction, appointing and evaluating the CEO and senior management, overseeing financial performance, ensuring compliance with laws and regulations, and safeguarding the interests of shareholders and stakeholders.

The board of directors acts as a fiduciary to shareholders, making decisions in the best interest of the company and its stakeholders. They play a crucial role in corporate governance, accountability, and risk management, providing oversight and guidance to executive management while ensuring transparency and adherence to ethical and legal standards.

Tier I and Tier II Capital

Tier I and Tier II capital, along with risk-weighted assets, are key components of a bank's capital adequacy framework used to assess its financial strength and stability.

Tier I Capital refers to a bank's core capital that consists of equity capital, retained earnings, and other instruments that are considered the highest quality and most readily available to absorb losses. It represents the bank's highest level of financial strength and is used to support its ongoing operations.

Tier II Capital refers to supplementary capital that provides additional protection to the bank's depositors and creditors. It includes subordinated debt, hybrid instruments, and revaluation reserves. Tier II capital is considered less secure than Tier I capital but still contributes to a bank's overall financial resilience.

Risk-Weighted Assets

Risk-weighted assets (RWA) is a measure of a bank's assets that reflects their credit risk. Different types of assets are assigned specific risk weights based on their perceived riskiness. For example, loans to individuals or businesses with high creditworthiness may have a lower risk weight than loans to riskier borrowers or investments in certain securities. By assigning risk weights, the bank calculates the amount of capital it needs to hold to cover potential losses associated with its assets.

The capital adequacy framework, such as Basel III, mandates that banks maintain a minimum level of Tier I and Tier II capital in proportion to their risk-weighted assets. This ensures that banks have sufficient capital to absorb potential losses and withstand adverse financial conditions. The risk-weighted assets provide a standardized way to measure the credit risk in a bank's portfolio and determine the appropriate amount of capital required for a given level of risk.

CHAPTER IV

RESULT AND DISCUSSION

Data analysis plays a crucial role in the research process, aimed at converting unprocessed data into a comprehensible format. It involves examining and interpreting data to develop answers to research questions. Chapter four systematically presents, interprets, and analyzes secondary data to understand the relationships between dependent and independent variables.

4.1 Descriptive Statistics

Table 3 presents an extensive summary of the descriptive statistics for the variables examined in this study. It includes key statistical measures for all analyzed variables, such as the mean, median, maximum, minimum, standard deviation, skewness, and kurtosis. The descriptive statistics for selected financial variables are detailed across a dataset of 40 observations, which are individually described as follows:

Table 3

Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Observations
ROA	17.97	16.97	27.97	12.08	4.38	0.62	2.39	40
ROE	1.60	1.50	2.89	0.97	0.50	1.05	3.26	40
BOS	7.58	7.00	11.00	5.00	1.60	0.57	2.72	40
BS	8718.07	8649.31	18685.43	1450.00	5013.13	0.45	2.42	40
CAR	12.73	12.68	15.75	10.98	1.21	0.60	3.09	40
FD	0.40	0.00	2.00	0.00	0.55	0.88	2.68	40
LR	9.76	9.07	29.89	4.94	4.18	3.01	14.94	39

Source: Appendix II

Return on Assets (ROA) measures the profitability of mutual funds in Nepal based on their ability to generate earnings from their assets. The average ROA for the dataset is 17.97%, indicating that, on average, the funds earn approximately 17.97% return on their assets. The median ROA, which represents the midpoint value, is slightly lower at 16.97%, suggesting a distribution skewed slightly to the right (skewness of 0.62). The range of ROA spans from a minimum of 12.08% to a maximum of 27.97%, reflecting substantial variability in profitability across the funds. The standard deviation of 4.38% quantifies this variability, indicating that ROA values typically

deviate by approximately 4.38% from the mean. The kurtosis of 2.39 indicates a distribution close to normal, with a moderate peak compared to a normal distribution.

Return on Equity (ROE) measures the profitability of mutual funds in Nepal based on their ability to generate profit from shareholders' equity. The average ROE in the dataset is 1.60%, indicating that, on average, funds generate a return of approximately 1.60% on shareholders' equity. The median ROE, at 1.50%, suggests a slightly lower midpoint value, indicating a distribution skewed to the right (skewness of 1.05). ROE ranges from a minimum of 0.97% to a maximum of 2.89%, showcasing variability in profitability across funds. The standard deviation of 0.50% reflects relatively low variability around the mean ROE. The kurtosis of 3.26 indicates a distribution with a sharper peak and heavier tails than a normal distribution, suggesting a concentration of values around the mean with some extreme values.

Board Size (BOS) represents the number of members serving on the board of directors of mutual funds in Nepal. The average board size is 7.58 members, with a median of 7.00 members. The range of board sizes varies from a minimum of 5 members to a maximum of 11 members, indicating some variability in board compositions across the funds. The standard deviation of 1.60 suggests moderate variability around the mean board size. The skewness of 0.57 indicates a slight right skew, meaning there are slightly more funds with larger boards than smaller ones. The kurtosis of 2.72 suggests a distribution that is slightly more peaked than a normal distribution, indicating a tendency towards a typical board size with some variability.

Bank Size (BS) refers to the total assets under management by mutual funds in Nepal, reflecting their scale and financial capacity. The average bank size is Rs 8718.07 million, with a median of Rs 8649.31 million. The range of bank sizes varies widely, from a minimum of Rs 1450.00 million to a maximum of Rs 18685.43 million, indicating significant disparities in the sizes of funds. The standard deviation of Rs 5013.13 million underscores the substantial variability in bank sizes among mutual funds. The skewness of 0.45 suggests a slight right skew, indicating a tendency for more funds to have larger sizes relative to the mean. The kurtosis of 2.42 indicates a distribution slightly more peaked than a normal distribution, reflecting a concentration of values around the mean with some outliers. These statistics provide insights into the financial capacity and scale diversity among commercial banks operating in Nepal

The Capital Adequacy Ratio (CAR) measures the financial health and stability of mutual funds in Nepal by assessing their capital adequacy relative to their risk-weighted assets. The average CAR in the dataset is 12.73%, with a median of 12.68%. CAR ranges from a minimum of 10.98% to a maximum of 15.75%, indicating a relatively narrow spread in capital adequacy levels among the funds. The standard deviation of 1.21% suggests moderate variability around the mean CAR. The skewness of 0.60 indicates a slight right skew, suggesting that more funds have higher CAR values compared to lower ones. The kurtosis of 3.09 indicates a distribution with a sharper peak and heavier tails than a normal distribution, suggesting some concentration of values around the mean with potential outliers. These statistics provide insights into the financial stability and risk management practices of commercial banks in Nepal based on their capital adequacy ratios.

The Number of Female Directors (FD) represents the count of female directors serving on the boards of mutual funds in Nepal. On average, mutual funds in the dataset have 0.40 female directors, with a median of 0.00. The range varies from a minimum of 0 to a maximum of 2 female directors, indicating limited representation of women on boards across the funds. The standard deviation of 0.55 suggests variability in the number of female directors among mutual funds. The skewness of 0.88 indicates a moderate right skew, meaning that more funds tend to have fewer or no female directors. The kurtosis of 2.68 suggests a distribution with a sharper peak and heavier tails than a normal distribution, indicating some concentration around lower values with potential outliers. These statistics highlight the current gender diversity landscape on boards of commercial banks in Nepal.

The Leverage Ratio (LR) measures the extent to which mutual funds in Nepal finance their operations through debt relative to their equity. The average LR in the dataset is 9.76%, with a median of 9.07%. LR ranges from a minimum of 4.94% to a maximum of 29.89%, indicating significant variability in leverage levels among the funds. The standard deviation of 4.18% underscores this variability. The skewness of 3.01 suggests a significant right skew, indicating that a few funds have higher leverage ratios compared to the majority. The kurtosis of 14.94 indicates a distribution with a very sharp peak and heavy tails, suggesting a concentration of values around the mean with extreme values. These statistics provide insights into the financial risk and

capital structure management practices of commercial banks in Nepal based on their leverage ratios.

4.2 Correlation analysis

Correlation analysis is a statistical method used to assess the strength and direction of relationships between variables, both dependent and independent. It helps evaluate how changes in one variable may influence changes in another. It's important to clarify that correlation does not establish causation; instead, it indicates whether variables tend to move together or in opposite directions. A strong correlation suggests a significant relationship between variables, while a weak correlation implies a less pronounced or negligible relationship. In this study, the Pearson correlation coefficient has been computed to quantify these relationships among selected financial variables (such as Return on Assets (ROA), Return on Equity (ROE), Board Size (BOS), Bank Size (BS), Capital Adequacy Ratio (CAR), Number of Female Directors (FD), and Leverage Ratio (LR)) across a dataset of 40 observations from four different commercial banks over the period 2013/14 to 2023. The correlation results are summarized in the following table.

Table 4

Correlation Coefficient

Correlation Probability	ROA	ROE	BOS	BS	CAR	FD	LR
ROA	1						
ROE	0.66 (0.00)	1					
BOS	-0.09 (0.61)	0.00 (1.00)	1				
BS	0.41 (0.01)	0.32 (0.05)	-0.17 (0.31)	1			
CAR	-0.46 (0.00)	-0.22 (0.17)	0.07 (0.68)	0.49 (0.00)	1		
FD	-0.46 (0.00)	-0.37 (0.02)	-0.28 (0.08)	0.72 (0.00)	0.25 (0.12)	1	
LR	-0.06 (0.72)	-0.33 (0.04)	-0.13 (0.42)	-0.11 (0.51)	-0.23 (0.15)	-0.01 (0.94)	1

Source: Appendix III

The analysis reveals several significant relationships between Return on Assets (ROA) and independent variables among mutual funds in Nepal. Firstly, ROA shows

a statistically significant positive correlation with Bank Size (BS) ($r = 0.41, p = 0.01$), indicating that larger commercial banks funds tend to achieve higher returns on their assets. Conversely, ROA exhibits statistically significant negative correlations with both Capital Adequacy Ratio (CAR) ($r = -0.46, p < 0.01$) and Number of Female Directors (FD) ($r = -0.46, p < 0.01$). This suggests that commercial bank with higher capital adequacy ratios and a greater proportion of female directors on their boards tend to experience lower returns on assets. These findings underscore the critical roles of financial robustness and board diversity in influencing the financial performance of commercial banks in Nepal.

On the other hand, ROA shows no statistically significant linear relationship with Board Size (BOS) ($r = -0.09, p = 0.61$) or Leverage Ratio (LR) ($r = -0.06, p = 0.72$) among mutual funds in Nepal. This implies that the size of the board and the leverage ratio do not significantly correlated the return on assets in this dataset at 5% percent level of significance.

The correlation analysis of Return on Equity (ROE) and independent variables among commercial banks in Nepal reveals significant correlations. Firstly, ROE shows a moderate positive correlation with Bank Size (BS) ($r = 0.32, p = 0.05$), indicating that larger banks tend to achieve higher returns on equity. Conversely, there are significant negative correlations between ROE and both Number of Female Directors (FD) ($r = -0.37, p = 0.02$) and Leverage Ratio (LR) ($r = -0.33, p = 0.04$). This suggests that banks with a greater representation of female directors on their boards and lower leverage ratios tend to have lower returns on equity. These findings highlight the influence of bank size, board diversity, and financial leverage on the profitability of commercial banks in Nepal. In contrast, there are no statistically significant linear relationships observed between ROE and Board Size (BOS) ($r = 0.00, p = 1.00$) or Capital Adequacy Ratio (CAR) ($r = -0.22, p = 0.17$) among commercial banks in Nepal. This indicates that the size of the board and capital adequacy ratio do not significantly impact the return on equity in this dataset. Despite variations in these variables across banks, their influence on ROE appears to be negligible based on the correlation analysis at 5% level of significance.

In conclusion, the analysis reveals that Bank Size (BS) positively influences both Return on Assets (ROA) and Return on Equity (ROE) among commercial banks in

Nepal. However, Capital Adequacy Ratio (CAR) and Number of Female Directors (FD) show negative correlations with ROA, while Number of Female Directors (FD) and Leverage Ratio (LR) exhibit negative correlations with ROE. These findings emphasize the significant roles of bank size, capital adequacy, board diversity, and leverage management in shaping the financial performance metrics of commercial banks in Nepal.

4.3 Regression analysis

The study employs secondary data analysis to assess the statistical significance and reliability of findings, focusing on regression models outlined in chapter 3. These models explore the effects of independent variables—such as board size, female directors, capital adequacy ratio, bank size, and leverage—on the dependent variables, return on equity and return on assets. The regression tables below present various model specifications, offering insights into the estimated impacts of these independent variables on financial performance metrics.

Table 5

OLS regression output (ROA) as Dependent Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOS	-0.54	0.39	-1.39	0.17
BS	0.00	0.00	0.36	0.72
CAR	-1.47	0.59	-2.51	0.02
FD	-3.80	1.64	-2.32	0.03
LR	-0.19	0.15	-1.27	0.21
C	43.60	7.71	5.65	0.00
R-squared				0.3970
Adjusted R-squared				0.305
F-statistic				4.345
Prob(F-statistic)				0.003

Source: Appendix IV

The Ordinary Least Squares (OLS) regression analysis on the impact of independent variables on Return on Assets (ROA) for commercial banks in Nepal reveals significant findings. The Capital Adequacy Ratio (CAR) has a significant negative impact on ROA, with a beta coefficient of -1.47 ($p = 0.02$). This indicates that for every one-unit increase in CAR, ROA decreases by 1.47 units, suggesting that higher

capital adequacy requirements, while ensuring stability and risk management, can limit profitability. Similarly, the Number of Female Directors (FD) also shows a significant negative impact on ROA, with a beta coefficient of -3.80 ($p = 0.03$). This means that for every additional female director on the board, ROA decreases by 3.80 units, which could be influenced by various factors such as board dynamics and decision-making processes. However the variables—Board Size (BOS), Bank Size (BS), and Leverage Ratio (LR) do not show a significant impact on ROA because its p values are greater than 0.05 at 5% level of significance. The model's R-squared value of 0.3970 suggests that about 39.7% of the variation in ROA is explained by these variables, while the adjusted R-squared of 0.305 accounts for the number of predictors, indicating that approximately 30.5% of the variation is explained when adjusted. The F-statistic of 4.345 and its p -value of 0.003 confirm that the overall regression model is statistically significant, indicating a good fit and robustness of the results.

Table 6

Fixed effect regression output (ROA) as Dependent Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOS	-0.466	0.568609	-0.81947	0.4217
BS	0.00	0.00	-0.758013	0.4569
CAR	-0.90	0.99	-0.908759	0.3738
FD	-5.72	2.22	-2.580491	0.0174
LR	0.07	0.21	0.340915	0.7366
C	37.48	16.90	2.218177	0.0377
R-squared				0.615415
Adjusted R-squared				0.304085
F-statistic				1.976728
Prob(F-statistic)				0.0097

Source: Appendix V

The fixed effect regression analysis presented in Table 6 highlights the impact of various independent variables on the Return on Assets (ROA) for commercial banks in Nepal. The results show that the Number of Female Directors (FD) has a significant negative impact on ROA, with a beta coefficient of -5.72 ($p = 0.0174$). This suggests that for each additional female director, the ROA decreases by 5.72 units. This significant negative relationship may reflect challenges related to board

dynamics and decision-making processes, indicating an area for further investigation and potential policy intervention. The model's R-squared value of 0.615415 indicates that approximately 61.54% of the variation in ROA can be explained by the independent variables, suggesting strong explanatory power. However, the adjusted R-squared value of 0.304085 indicates that about 30.41% of the variation in ROA is explained when adjusting for the number of predictors. The F-statistic of 1.976728 with a p-value of 0.0097 suggests that the overall regression model is being statistically significant, indicating that the independent variables collectively have a significant impact on ROA.

Table 7

Test result of Likelihood Ratio (Pooled OLS VS Fixed effect)

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.86	(3,30)	0.1572
Cross-section Chi-square	6.66	3	0.0835

Source: Appendix VI

The Likelihood Ratio test results comparing the Pooled Ordinary Least Squares (OLS) model with the Fixed Effects model for analyzing Return on Assets (ROA) in Nepalese commercial banks indicate that the Fixed Effects model does not significantly outperform the Pooled OLS model. Both the Cross-section F test ($p = 0.1572$) and the Cross-section Chi-square test ($p = 0.0835$) show probabilities above the typical 0.05 significance level, suggesting that incorporating fixed effects—accounting for individual bank-specific characteristics—does not substantially improve the model fit compared to the simpler Pooled OLS approach. Therefore, based on these test outcomes, the Pooled OLS model is deemed more suitable for this analysis, as it adequately captures the relationship between the independent variables and ROA across the banks in Nepal without the need for additional complexity from fixed effects.

Table 8

OLS regression output (ROE) as Dependent Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOS	-0.04	0.05	-0.89	0.38
BS	3.05	0.00	-0.30	0.77
CAR	-0.08	0.07	-1.11	0.27
FD	-0.28	0.20	-1.42	0.16
LR	-0.05	0.02	-2.68	0.01
C	3.58	0.94	3.82	0.00
R-squared				0.3092
Adjusted R-squared				0.2045
F-statistic				2.954
Prob(F-statistic)				0.0259

Source: Appendix VII

The OLS regression analysis in Table 8 explores the relationship between independent variables and Return on Equity (ROE) for commercial banks in Nepal. Among the variables examined, only the Leverage Ratio (LR) demonstrates a statistically significant impact on ROE, with a coefficient of -0.05 ($p = 0.01$). This finding indicates that higher leverage ratios are associated with lower returns on equity, implying that increased financial risk and costs related to debt financing may diminish profitability for banks. The model's R-squared value of 0.3092 suggests that approximately 30.92% of the variation in ROE can be explained by the included independent variables, reflecting a moderate level of explanatory power. Adjusted R-squared, at 0.2045, considers the model's complexity and indicates that about 20.45% of the variation in ROE is explained. The F-statistic of 2.954, with a corresponding p-value of 0.0259, confirms the model's overall statistical significance, suggesting that the collective influence of the independent variables on ROE is statistically meaningful. These results underscore the importance of managing leverage carefully, as it significantly impacts banks' profitability, while also highlighting the potential for further exploration of additional factors influencing ROE in the banking sector context. Other variables such as Board Size (BOS), Bank Size (BS), Capital Adequacy Ratio (CAR), and Number of Female Directors (FD) do not exhibit significant impacts on ROE at 5 % level of significance.

Table 9

Fixed effect regression output (ROE) as Dependent Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOS	-0.01	0.04	-0.20	0.84
BS	3.05	0.00	-1.95	0.006
CAR	0.07	0.06	1.16	0.25
FD	-0.21	0.15	-1.43	0.16
LR	-0.013	0.015434	-0.84384	0.004
C	1.2836	0.911134	1.40879	0.1692
R-squared				0.672063
Adjusted R-squared				0.584613
F-statistic				7.685108
Prob(F-statistic)				0.000015

Source: Appendix VIII

The fixed effects regression analysis presented in Table 9 examines how various independent variables impact Return on equity (ROE) for commercial banks in Nepal, while accounting for individual bank-specific effects. Among the variables studied, Bank Size (BS) demonstrates a statistically significant positive influence on ROE, with a coefficient of 3.05 ($p = 0.006$), indicating that larger banks tend to achieve higher returns on assets, possibly due to economies of scale or enhanced operational efficiency. Conversely, the Leverage Ratio (LR) exhibits a significant negative impact on ROE, with a coefficient of -0.013 ($p = 0.004$), suggesting that higher leverage ratios are associated with lower returns on assets, reflecting increased financial risk and potentially higher costs of debt financing. In contrast, Board Size (BOS), Capital Adequacy Ratio (CAR), and Number of Female Directors (FD) do not show statistically significant effects on ROE, as their respective p-values exceed the 0.05 threshold. The model overall explains a substantial proportion of the variation in ROE, with an R-squared of 0.672063, indicating strong explanatory power. The Adjusted R-squared value of 0.584613 adjusts for model complexity, indicating that about 58.46% of the variation in ROE is explained by the included variables. The model's F-statistic of 7.685108, with a p-value of 0.000015, confirms its overall statistical significance, suggesting that the collective influence of the independent variables and fixed effects on ROE is significant. These findings underscore the critical role of bank size and leverage management in determining financial

performance, while suggesting potential avenues for further exploration into additional factors influencing ROE within the banking sector context.

Table 10

Test result of Likelihood Ratio (Pooled OLS VS Fixed effect)

Effects Test	Statistic	d.f.	Prob.
Cross-section F	11.063885	(3,30)	0
Cross-section Chi-square	29.05402	3	0

Source: Appendix VIII

The Likelihood Ratio test in Table 10 compares the suitability of Pooled OLS and Fixed Effects models for analyzing the financial performance of commercial banks in Nepal. The results show significant differences between the models, as indicated by the Cross-section F Statistic of 11.063885 and a corresponding probability (Prob.) of 0.000, along with a Cross-section Chi-square Statistic of 29.05402 with a probability of 0.000. These findings strongly reject the null hypothesis that both models perform equally well, suggesting that the Fixed Effects model is superior. This model's ability to account for individual bank-specific effects likely contributes to its better fit, whereas the Pooled OLS model, which assumes all observations are independent, may overlook important heterogeneities among banks. Therefore, the Fixed Effects model is recommended for more accurate assessments of factors influencing Return on Assets (ROA) in Nepal's banking sector, providing a nuanced understanding of financial performance across different banks.

4.4 Discussion

In conclusion, the analysis reveals that Bank Size (BS) positively influences both Return on Assets (ROA) and Return on Equity (ROE) among commercial banks in Nepal. However, Capital Adequacy Ratio (CAR) and Number of Female Directors (FD) show negative correlations with ROA, while Number of Female Directors (FD)

and Leverage Ratio (LR) exhibit negative correlations with ROE. These findings emphasize the significant roles of bank size, capital adequacy, board diversity, and leverage management in shaping the financial performance metrics of commercial banks in Nepal. A study conducted by Adams and Ferreira in 2009, titled "Women in Boardroom and Their impact on Governance and Performance," found evidence of negative relationship between the presence of female directors and firm performance. The researchers analyzed data from over 2000 firms across a range of countries and industries. They found that the negative impact of female directors on financial performance was primarily driven by firms with weaker governance mechanisms and where female directors were in minority on the board.

Commercial banks in Nepal reveal significant impacts of the Capital Adequacy Ratio (CAR) and Number of Female Directors (FD) on Return on Assets (ROA). A higher CAR is associated with reduced ROA, emphasizing the balance between regulatory capital requirements and profitability. Additionally, more female directors on boards correlate with lower ROA, possibly indicating diverse impacts on decision-making dynamics. Conversely, Board Size (BOS), Bank Size (BS), and Leverage Ratio (LR) show non-significant effects on ROA. The fixed effects regression analysis provides valuable insights into the determinants of Return on Equity (ROE) among commercial banks in Nepal. The results indicate that Bank Size (BS) significantly enhances ROE, suggesting that larger banks benefit from economies of scale or operational efficiencies. In regression analysis, Bank Size (BS) significantly enhances ROE, emphasizing its pivotal role in optimizing financial outcomes through economies of scale. Conversely, higher Leverage Ratios (LR) diminishes ROE, reflecting increased financial risks and costs associated with debt financing. The findings also indicate that Board Size (BOS), CAR, and FD do not exert significant impacts on ROE, underscoring the complexity and context-dependence of governance variables in influencing bank profitability in Nepal. Which is inconsistent with Berger, A.N., and Deyoung,R.(1997). Conversely, the Leverage Ratio (LR) negatively impacts ROE, indicating that higher leverage contributes to reduced profitability due to increased financial risk and potentially higher debt costs. This finding is consistent with the finding of Gweiji and Karanja (2014) .Leverage, when used appropriately, can have a positive impact on Return on Equity (ROE). Leverage can contribute to improving ROE. Leverage allows a company to finance its operations and growth by utilizing

debt capital alongside equity capital. By leveraging debt, a company can amplify its ability to generate profits. If the company's return on assets (ROA) is higher than the cost of borrowing, the additional earnings generated from leveraging the business can enhance the overall profitability of the company. As a result, the company's net income increases, which positively impacts ROE.

However, Board Size (BOS), Capital Adequacy Ratio (CAR), and Number of Female Directors (FD) do not exhibit significant effects on ROE at the 5% significance level. One study that supports this notion is conducted by Daily, Johnson, Ellstrand, and Dalton (1998) titled "Boards of Directors, Control, and Performance in Venture Capital-Backed Firms." The researchers examined the impact of board size on the financial performance of 197 venture capital-firms. They found a positive relationship between board size and both return on assets and return on equity, indicating that larger boards were associated with higher financial performance. Additionally, research by Hermalin and Weisbach (2003) titled "Boards of Directors as an Endogenously Determined Institution: A survey of the Economic Literature" supports the positive impact of board size on financial performance. They concluded that larger boards are more likely to possess a broader range of skills and knowledge, leading to better monitoring and decision-making capabilities, which in turn positively affect firm performance.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter provides a concise summary of the entire study, focusing on the key findings from four Nepalese commercial banks examined in the research. Additionally, it discusses the major conclusions drawn from the study in a dedicated section and offers recommendations for enhancing the profitability of commercial banks in Nepal. The chapter concludes by outlining potential areas for future research on this topic.

5.1 Summary

This study investigated the relationship between corporate governance and the financial performance of Nepalese commercial banks from 2014 to 2022. The hypothesized independent variables included board size, leverage, bank size, capital adequacy ratio, and the number of female directors. The dependent variables, used as indicators of financial performance, were ROE and ROA. The research encompassed 4 out of the 20 commercial banks in Nepal as of 31 May. The primary aim of the study was to assess the impact of corporate governance on the financial performance of commercial banks in Nepal. The specific objectives were as follows:

- I. To assess corporate governance practice in Nepal.
- II. To examine the relationship of corporate governance with ROA and ROE.
- III. To analyze the impact of corporate governance practices on ROA and ROE.

To address the research questions and objectives, this study utilized both descriptive and causal research designs. The descriptive research design involved using measures such as mean and standard deviation to understand and explain the nature of the variables. Correlation analysis was employed to determine the strength and direction of the relationship between corporate governance and performance variables. For the causal research design, a regression model was used to examine the cause-and-effect relationship between the dependent and explanatory variables.

The major findings from the study were as follows:

The analysis of Nepalese commercial banks reveals nuanced relationships between key financial metrics and various governance and operational variables. Bank Size (BS) positively influences both Return on Assets (ROA) and Return on Equity (ROE), highlighting the benefits of scale. Conversely, the Capital Adequacy Ratio (CAR) and Number of Female Directors (FD) negatively correlate with ROA and ROE, suggesting trade-offs between regulatory requirements, board diversity, and financial performance. Additionally, the Leverage Ratio (LR) negatively impacts ROE, indicating the adverse effects of higher financial leverage. These insights underscore the importance of strategic management in bank size, leverage ratios, capital adequacy, and board composition to enhance profitability within Nepal's banking sector.

5.2 Conclusion

Overall, the analysis of commercial banks in Nepal reveals nuanced relationships between key financial metrics and various governance and operational variables. Bank Size (BS) emerges as a consistent positive influencer of both Return on Assets (ROA) and Return on Equity (ROE), underscoring the benefits of scale and efficiency in enhancing profitability. Conversely, the Capital Adequacy Ratio (CAR) shows a negative correlation with ROA, highlighting the trade-off between regulatory capital requirements and financial performance. Similarly, the Number of Female Directors (FD) correlates negatively with both ROA and ROE, suggesting potential impacts of board diversity on decision-making dynamics. Meanwhile, the Leverage Ratio (LR) negatively affects ROE, indicating the detrimental effects of higher financial leverage on bank profitability. These insights highlight the critical importance of strategic management of bank size and leverage ratios in enhancing financial performance within Nepal's banking sector. They also underscore the need for balanced capital adequacy and board composition to navigate regulatory requirements while maintaining competitive profitability. Future research could delve deeper into specific governance mechanisms and external economic factors to provide a comprehensive understanding of factors shaping bank performance in Nepal's evolving financial landscape.

5.3 Implications

Based on above finding following implication are forwarded:

- I. **Implications for Managers:** Managers of commercial banks in Nepal should prioritize strategies that capitalize on Bank Size (BS) to maximize Return on Equity (ROE) and Return on Assets (ROA). Emphasizing operational efficiencies and scaling up operations could lead to improved profitability. Additionally, managing Leverage Ratios (LR) prudently is crucial to mitigate financial risks and maintain sustainable profitability. Understanding the negative impacts of Capital Adequacy Ratio (CAR) and Number of Female Directors (FD) on financial metrics calls for strategic adjustments in governance and operational practices to optimize performance.
- II. **Implications for Depositors and Investors:** Depositors and investors should consider Bank Size (BS) as a positive indicator of financial stability and potential returns. Larger banks tend to benefit from economies of scale, which can translate into more stable returns and lower risk profiles. However, awareness of the negative impacts of higher Leverage Ratios (LR) on Return on Equity (ROE) underscores the importance of evaluating a bank's leverage management practices to assess potential risks and returns accurately.
- III. **Implications for Competitors:** Competitors in Nepal's banking sector can glean insights from the study by understanding the positive influence of Bank Size (BS) on financial performance metrics. Competing banks may consider strategies to scale operations effectively to enhance competitiveness and profitability. Moreover, recognizing the detrimental effects of high Leverage Ratios (LR) on profitability can inform competitors' decisions on capital structure and risk management strategies to maintain sustainable growth.
- IV. **Implications for Regulators:** Regulators should consider the study's findings on the impacts of Capital Adequacy Ratio (CAR) and governance variables like Number of Female Directors (FD) on bank profitability. Striking a balance between regulatory capital requirements and financial performance is crucial to ensure banks remain stable and competitive. Regulators may also explore policies that encourage effective governance practices and prudent leverage management to foster a healthy banking environment.

- V. **Implications for Further Research:** Further researcher can build upon this study by exploring additional governance mechanisms and external economic factors that influence bank performance in Nepal. Investigating how specific governance practices, technological advancements, and market conditions affect financial metrics could provide deeper insights into optimizing bank performance. Additionally, longitudinal studies could track the evolving impacts of regulatory changes and economic shifts on bank profitability, offering valuable guidance for future policy-making and strategic planning within Nepal's banking sector.

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APPENDIX

Pannel data

Year	Symbol	BOS	FD	CAR	LR	BS	ROA	ROE
2013/14	NBL	5	0	11.1	9.68	3613.4	27.54	2.64
2014/15	NBL	5	0	11.24	9.91	3657.65	27.97	2.89
2015/16	NBL	7	0	11.57	11.02	6183.54	22.73	2.06
2016/17	NBL	7	0	11.73	7.78	6185.51	25.61	2.32
2017/18	NBL	7	0	12.42	7.32	8043.22	22.41	2.69
2018/19	NBL	11	0	13	6.612	9011.85	20.94	2.61
2019/20	NBL	7	1	12.5	7.452	10097.5	17.76	2.11
2020/21	NBL	7	1	13.07	7.96	13480.2	13.61	1.58
2021/22	NBL	7	1	12.77	7.33	18496.2	15.19	1.17
2022/23	NBL	7	2	12.65	7.32	18685.4	15.04	1.24
2013/14	NMB	10	0	11.64	10.89	2380	18.65	1.17
2014/15	NMB	10	0	11.13	10.86	2400	16.4	1.21
2015/16	NMB	11	0	10.98	9.69	5430.06	19.28	1.49
2016/17	NMB	9	0	13.61	7.05	6461.77	20.52	1.97
2017/18	NMB	11	0	15.75	5.68	6461.77	13.54	1.96
2018/19	NMB	8	1	15.43	6.67	9618.16	13.32	1.83
2019/20	NMB	8	0	15.08	6.67	13951	24.46	1.09
2020/21	NMB	7	0	15.08	7.42	16326	12.08	1.32
2021/22	NMB	9	1	13.59	7.45	18366.7	14.32	1.35
2022/23	NMB	9	1	12.65	7.54	18566.9	14.54	1.65
2013/14	NICAB	8	0	12.94	9.03	1450	13.06	1.23
2014/15	NICAB	8	0	12.49	9.09	1470	13.05	1.21
2015/16	NICAB	9	0	12.44	6.77	5819.65	16.5	1.51
2016/17	NICAB	6	0	13.83	4.94	5819.65	16.84	1.64
2017/18	NICAB	7	0	12.24	29.89	8031.12	12.09	0.97
2018/19	NICAB	7	0	13.32	13.65	8834.23	22.73	1.56
2019/20	NICAB	7	0	13.5		9717.65	19.26	1.53
2020/21	NICAB	7	1	12.47	13.53	11564	17.09	1.09
2021/22	NICAB	7	1	13.38	15.55	11564	18.43	1.2
2022/23	NICAB	7	1	13.54	15.64	11545.1	17.54	1.12
2013/14	SB	9	0	11.09	11.87	1970.86	23.76	1.98
2014/15	SB	9	0	11.39	11.75	2031.18	23.41	1.74
2015/16	SB	8	0	11.1	10.58	3022.08	20.74	1.6
2016/17	SB	5	0	11.25	7.11	5250.86	20.35	1.53
2017/18	SB	7	0	12.12	7.58	8464.39	15.34	1.47
2018/19	SB	6	1	12.7	9.07	8887.6	15.71	1.49
2019/20	SB	6	1	13.17	10.4	9787.77	13.81	1.26
2020/21	SB	6	1	13.36	11.23	10962.3	15.68	1.25

2021/22	SB	6	1	13	10.23	12524.4	13.82	1.1
2022/23	SB	6	1	12.98	10.32	12589.3	13.87	1.08

APPENDIX II

Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Observations
ROA	17.97	16.97	27.97	12.08	4.38	0.62	2.39	40
ROE	1.60	1.50	2.89	0.97	0.50	1.05	3.26	40
BOS	7.58	7.00	11.00	5.00	1.60	0.57	2.72	40
BS	8718.07	8649.31	18685.43	1450.00	5013.13	0.45	2.42	40
CAR	12.73	12.68	15.75	10.98	1.21	0.60	3.09	40
FD	0.40	0.00	2.00	0.00	0.55	0.88	2.68	40
LR	9.76	9.07	29.89	4.94	4.18	3.01	14.94	39

APPENDIX III

Correlation Coefficient

Correlation Probability	ROA	ROE	BOS	BS	CAR	FD	LR
ROA	1						
ROE	0.66 (0.00)	1					
BOS	-0.09 (0.61)	0.00 (1.00)	1				
BS	0.41 (0.01)	0.32 (0.05)	-0.17 (0.31)	1			
CAR	-0.46 (0.00)	-0.22 (0.17)	0.07 (0.68)	0.49 (0.00)	1		
FD	-0.46 (0.00)	-0.37 (0.02)	-0.28 (0.08)	0.72 (0.00)	0.25 (0.12)	1	
LR	-0.06 (0.72)	-0.33 (0.04)	-0.13 (0.42)	-0.11 (0.51)	-0.23 (0.15)	-0.01 (0.94)	1

APPENDIX IV

OLS regression output (ROA) as Dependent Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOS	-0.54	0.39	-1.39	0.17
BS	0.00	0.00	0.36	0.72
CAR	-1.47	0.59	-2.51	0.02
FD	-3.80	1.64	-2.32	0.03
LR	-0.19	0.15	-1.27	0.21
C	43.60	7.71	5.65	0.00
R-squared				0.3970
Adjusted R-squared				0.305
F-statistic				4.345
Prob(F-statistic)				0.003

APPENDIX V

Fixed effect regression output (ROA) as Dependent Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOS	-0.466	0.568609	-0.81947	0.4217
BS	0.00	0.00	-0.758013	0.4569
CAR	-0.90	0.99	-0.908759	0.3738
FD	-5.72	2.22	-2.580491	0.0174
LR	0.07	0.21	0.340915	0.7366
C	37.48	16.90	2.218177	0.0377
R-squared				0.615415
Adjusted R-squared				0.304085
F-statistic				1.976728
Prob(F-statistic)				0.0097

APPENDIX VI

Test result of Likelihood Ratio (Pooled OLS VS Fixed effect)

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.86	(3,30)	0.1572
Cross-section Chi-square	6.66	3	0.0835

APPENDIX VII

OLS regression output (ROE) as Dependent Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOS	-0.04	0.05	-0.89	0.38
BS	0.00	0.00	-0.30	0.77
CAR	-0.08	0.07	-1.11	0.27
FD	-0.28	0.20	-1.42	0.16
LR	-0.05	0.02	-2.68	0.01
C	3.58	0.94	3.82	0.00
R-squared				0.3092
Adjusted R-squared				0.2045
F-statistic				2.954
Prob(F-statistic)				0.0259

APPENDIX VIII

Fixed effect regression output (ROE) as Dependent Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOS	-0.01	0.04	-0.20	0.84
BS	0.00	0.00	-1.95	0.006
CAR	0.07	0.06	1.16	0.25
FD	-0.21	0.15	-1.43	0.16
LR	-0.013	0.015434	-0.84384	0.004
C	1.2836	0.911134	1.40879	0.1692
R-squared				0.672063
Adjusted R-squared				0.584613
F-statistic				7.685108
Prob(F-statistic)				0.000015

APPENDIX IX

Test result of Likelihood Ratio (Pooled OLS VS Fixed effect)

Effects Test	Statistic	d.f.	Prob.
Cross-section F	11.063885	(3,30)	0
Cross-section Chi-square	29.05402	3	0

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ABSTRACT Corporate governance has become one of most talked about issues around the world to make financial and non-financial institution to become more accountable and transparent. Financial institutions have major role in country's economy. The central banks are responsible to make banking sector more reliable and governed. For survival of banks it's equally important to have good performance. So this study is mainly concerned to know the relationship between the corporate governance variables and financial performance variables. Board member size, number of female directors, bank size, capital adequacy ratio and leverage were taken as independent variables whereas return on equity and return on assets were taken as dependent variables. The study was conducted among 4 commercial banks of Nepal. The data were collected from the annual reports of the banks and

NRB Banking and Financial Statistics Report.

Correlation and regression analysis was used to determine the relationship and level of significance

. Larger banks generally achieve higher ROA and ROE, indicating better profitability with increased size. Conversely, a higher capital adequacy ratio is associated with lower ROA and ROE, suggesting that a stronger capital base reduces profitability. Additionally, the presence of female directors correlates negatively with ROA and ROE, reflecting potential challenges in profitability. While larger banks positively impact ROE, higher leverage negatively affects it, indicating that increased debt reduces returns on equity. Keywords: