

CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT

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By

Susmita Sigdel

Exam Roll Number: 36302/21

T.U. Registration Number: 7-2-324-222-2015

Campus Roll Number: 552/077

Shanker Dev Campus

Group: Finance

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final of my dissertation entitled "**CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT**". The work of this dissertation has not been submitted previously for 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 informations sources and literature use are cited in the reference section of this dissertation.

.....

Susmita Sigdel

Date:

REPORT OF RESEARCH COMMITTEE

Ms. Susmita Sigdel has defended research proposal entitled “**CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Dr. Pitri Raj Adhikari and submit the dissertation for evaluation and viva voce examination.

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Dr. Pitri Raj Adhikari
Dissertation Supervisor

Dissertation Proposal Defended Date:

.....

Dissertation Submitted Date:

.....

.....

Associate Prof. Dr. Sajeeb Kumar Shrestha
Research Department

Dissertation Viva Voce Date:

.....

APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled “**CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT**” presented by Susmita Sigdel 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 dissertation is worthy of acceptance.

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Dr. Pitri Raj Adhikari
Dissertation Supervisor

.....

Internal Examiner

.....

Internal Expert

.....

External Expert

.....

Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairperson. Research Committee

.....

Joginder Goet
Acting Campus chief

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Student

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ABBREVIATIONS

AD	- Anno Domini
AQ	- Asset Quality
ANOVA	- Analysis of Variance
BOD	- Number of Board of Directors
EPS	- Earnings Per Share
FY	-Fiscal Year
IBM	- Independent Board of Directors
LBSM	- Banks Size Measure
NPL	- Non-Performing Loans
SPSS	-Statistical Package for Social Science
TTM	- Twelve Months

ABSTRACT

Corporate governance improves banking performance by guaranteeing openness and accountability. The purpose of this research is to analyze variables reflecting corporate governance and banking performance, to investigate the link between bank size, board characteristics, and asset quality and bank earnings, and to assess their combined effect on earnings management. The study uses a descriptive and causal research approach to examine corporate governance and its impact on earnings management in Nepalese commercial banks. Secondary data were gathered from the annual reports of three commercial banks: Kumari Bank Limited (KBL), Everest Bank Limited (EBL), and Nepal Bank Limited (NBL), covering a 10-year period (2013/14 to 2022/23). These banks were selected via non-probability purposive sampling. Statistical methods including descriptive analysis, correlation analysis, and regression analysis were used to understand the data. The findings show that bank size, board structure, and asset quality have a considerable impact on earnings management. Specifically, board traits have a favorable link with profitability, but asset quality has a negative influence, emphasizing the necessity of competent asset management. Furthermore, the study emphasizes the need of independent boards in strengthening governance and increasing financial performance. According to the findings, Nepalese commercial banks should emphasize asset quality management and improve corporate governance processes in order to achieve long-term financial performance. Future research might increase the sample size to include additional banks, providing more thorough information.

Keywords: Asset Quality, Bank Size, Board Characteristics, Corporate Governance, Earnings Management, Financial Performance, Nepalese Banks

Chapter I

Introduction

1.1 Background of the study

The banking industry in Nepal is unique because of the country's socioeconomic structure and rules and regulations. Banking in Nepal has been going through ups and downs in terms of corporate governance and financial performance. This has made people wonder about the sector's ability to change to new problems and keep going even when things get tough. People generally agree on how important corporate governance is, but there is a big research gap when it comes to studying how it affects commercial banks in Nepal. This is true even though most people agree that good company governance is important.

Corporate governance is the process by which corporations are directed and governed. Companies may suffer as a result of poor corporate governance. Setting a good corporate governance policy has resulted in numerous benefits for various levels of management, including preventing management-level corruption and enhancing firm values, shareholder value creation, and reducing investment and financial risks (Alabdullah et al., 2022). A solid, sound, and healthy corporate governance policy is a key consideration when investing in a firm (Shen et al., 2006). Corporate governance is described as the connection between shareholders, the board of directors, and senior management in defining the corporation's direction and performance (Wheelen and Hunger, 2006). It also contains stakeholder relationships and the goals that guide the organisation. The primary stakeholders are shareholders, management, and the board of directors. Employees, suppliers, consumers, regulators, the environment, and the general public are also stakeholders. Corporate governance, defined as the system by which firms are directed and governed, has lately gained global attention as a key component influencing the dependability and efficacy of financial institutions. This interest stems from the fact that corporate governance is a relatively new notion. A large amount of research has been conducted in a variety of regions (Mohammed, 2012). Because corporate governance has such a significant impact on economic development, investor confidence, and financial stability, the banking sector must place a high priority on it.

Transparency within an organisation, disclosure of financial information, autonomy, the size and makeup of the board, the establishment of board committees, diversity within the board, and the fiduciary responsibilities of directors are all seen as fundamental elements

of effective governance in modern society. The World Bank, the International Monetary Fund (IMF), and the Organisation for Economic Co-operation and Development (OECD) prioritise these factors in their core objectives (Shungu, 2014). Moreover, these organizations assert that well-informed corporate governance standards play a crucial role in helping developing countries regain their competitive edge, restore investor confidence, and foster sustained economic advancement. The corporate governance of banks is crucial for both the banks themselves and the financial regulators. In the past decade, both listed banks and non-listed organisations worldwide have started to explicitly prioritise the need of strong corporate governance. Some have even implemented tailored corporate governance codes. A study conducted on Sri Lankan companies (Lakshan & Wijekoon, 2012) discovered that the proportion of outside directors, the existence of an audit committee, and the compensation of board members have adverse impacts on the probability of corporate failure. On the other hand, the size of the board, the opinion of the auditor, and the level of outside ownership do not seem to be associated with the likelihood of failure. CEO dualism is significantly correlated with an increased likelihood of business failure. Empirical research indicates that increased shareholder rights lead to elevated growth rates, enhanced profitability, and a reduced cost of capital. The evaluation of shareholders' rights is often conducted after the establishment of a company's legal framework and rules (Gompers et al., 2009).

Governance may be defined as the process of ensuring that the individuals in positions of authority within an organisation are competent, transparent, and accountable for their decisions and actions, while also prioritising the welfare of all stakeholders. The landscape of corporate governance has evolved throughout time, leading to the emergence of many groups that have formulated their own sets of guidelines for optimal corporate governance. Good governance is founded upon the principles outlined in the OECD code of corporate governance and the Basel code of corporate governance concept. These principles primarily pertain to the actions and responsibilities of the board, directors, chairman, CEOs, senior management, auditors, shareholders, and regulators. The individuals responsible for formulating these governance regulations gave considerable consideration to accountability, internal control, related party transactions, conflicts of interest, and the dissemination of information (Cabraal, 2014).

Corporate governance is the set of rules and best practices that corporations use to reach their goals in relation to the people who have a stake in the company. The corporate

governance structure spells out the rules and steps for making decisions about the company's business (Pradhan & Adhikari, 2011). It also describes the roles and rights of the different people who have a stake in the company, like the board managers, shareholders, and other stakeholders. People now use the word "corporate governance" to mean "good" in both a moral and a non-moral sense. Some of its non-moral uses are making good decisions, allocating resources correctly, planning strategically, and so on (Monks & Minow, 2011). Still, good corporate governance is seen as creating an ethical environment that is both ethically right in and of itself, because ethical behavior in business leads to good business results (Francis, 2003). This has to do with due research, the duties of directors, and making corporations more responsible in general.

Corporate performance is an important idea that refers to how well a company uses its money, materials, and people to reach its main goal (Nega, 2022). It not only makes sure that the company continues to be successful, but it also opens up more opportunities for the future. If there is good corporate governance, investors should have more faith in the economy of our country. This is what should happen generally. When it comes to corporate governance, the ideas of building trust, making sure that things are open and accountable, and keeping an open line of communication for information are all important parts of making a business do well. Because of this, it is very important for every industry and service field to follow a strong corporate governance philosophy.

Corporate governance is now identified and acknowledged as a powerful tool to generate trust and confidence in an institution. It is importantly important for banks because such institutions deal with fund raised from the public and failure to recover the investment can lead to bank failure along with affecting the national economy. Bernanke (2003) and Grossman (2005) present evidence that bank failures can have significant deleterious effects on future economic activity. The bank's failure leads to the lower-income, compensation growth, higher poverty rates, and lower employment. Good corporate governance is not end in itself. It is a means in support of economic efficiency, sustainable growth and financial stability. Corporate governance is important to all sectors of the economy, however important to banking sector. According to Hambrick et al., (2008) not only do the constituents of the banking sector stand to gain or lose due to the quality and nature of corporate governance therein, but the entire national system can be propelled or stymied as well.

Katrodia (2016) indicates that the health of an economy is closely linked to how strong its banking sector is. When big banks in the US failed in 2008, it was the first thing that caused the global financial meltdown. The result was that it had an effect on almost every business, including the safety of pensioners' income. Mareinkowska (2017) concluded that, global problem is linked to bad management in all financial institutions. Governance in the banking sector needs special attention using unique tools to monitor, supervise and evaluate the functioning of it (Biswas et al., 2022). Bank for International Settlement states that effective corporate governance is important to achieve and maintain public trust and confidence in the banking sector. Trust and confidence of the general public are the most for deposit mobilization. In order for Nepal to accelerate economic development, the role of the banking sector is important. Nepal's banking sector has been passing through an uncomfortable phase for the last few years. With the Covid-19 impacts, worldwide economic crises and the subsequent aftershocks, the banks are facing many problems. There are liquidity crises in banks for last FY, while fund didn't rise at the same pace as credit demanded. Many obstacles and voices are raised against banks. Due to high inflation banks are forced to increase interest rate.

Many A class commercial banks are merging since the as per the regulation from Nepal Rastra Bank (NRB). Some companies have merged to continue in business, while others were founded to maintain their market reputation. Merging is a desirable thing, but if it happens to a institution to institution (Khatiwada, 2015). Nepalese banks have had a number of ups and downs. As a result, banks might require improved corporate governance in order to remain in business in a changing environment. The study is important for corporate governance and profits management filed of the banks and financial institution's, also this study has major role for policymakers and academicians. Hence, this study examines the corporate governance dimension and earnings of commercial banks in Nepal.

1.1 Problem statement

Considerable focus has been directed into the correlation between important financial indicators and the procedures governing company management. As a result, there has been increased scrutiny about the impact of these connections on the performance of banks (Mansour et al., 2022). The objective of this study is to get a deeper understanding of the various elements that influence corporate governance, as well as two key indicators of financial performance: earnings per share (EPS) and return on equity (ROE). The study specifically examines the impact of the number of board of directors (BOD), the number

of independent board members (IBM), and the quality of banks' assets (AQ) on their financial well-being. The Log of Total Bank Assets (LBSM) is employed to determine the magnitude of a bank. Additionally, it demonstrates the interconnectedness of these elements. Extensive research has consistently demonstrated the significant role of corporate governance in many sectors and industries (Mohammed, 2012; Rahman and Islam, 2018). Corporate governance has emerged as a crucial determinant of the financial institutions' performance and stability. The banking business in Nepal, however, has a distinct environment characterized by shifts in corporate governance indices and financial performance. This indicates that further investigation is required to examine the matter thoroughly. Despite the widespread consensus on the significance of corporate governance, there is a dearth of empirical evidence examining its impact on the banking industry.

Mohammed (2012) emphasized the connection between corporate governance and the performance of banks. This study also highlights the positive influence that effective governance has on the accomplishment of banks' goals. In a similar vein, Rahman and Islam (2018) showed the favorable association that exists between corporate governance procedures and the performance of banks. However, the extent to which these conclusions may be applied to the banking industry in Nepal, which is characterized by its distinct socio-economic and regulatory environment, is still a subject that has not been well investigated. El-Chaarani et al. (2022) during the COVID-19 pandemic in the Middle Eastern and North African (MENA) region highlights the significant significance that particular governance measures play in improving the financial performance of banks during times of crisis. This brings up questions about how the Nepalese banking industry handles the changing connection between good corporate governance and good financial performance, especially when faced with problems that came up out of the blue. There aren't many in-depth studies on the complicated issues of corporate governance in Nepalese commercial banks, which is another sign of the lack of research in this area. Given that the country is still going through major changes in its economy and regulations, it is very important to look into how these changes affect the country's government and, in turn, its financial health. There are a lot of things we don't know about how the Nepalese banking sector works because most of the study that has been done so far has been on economies with bigger economies and better-established financial systems.

Many studies on the subject show how important corporate governance is for controlling risk management and guiding long-term decisions of financial organisations. A complete knowledge of how certain governance components influence ROE and EPS is still elusive

even with consideration of the moderating effect of bank size. The number of board members (Alab Abdullah et al., 2022) is a fundamental component of governance; scholars argue on how this influences processes of oversight and decision-making. Independent Board Members' involvement helps to increase responsibility and openness, hence maybe affecting financial performance. A bank's asset quality (Abebe Zelalem et al., 2022) determines yet another crucial determinant of its capacity to keep profitability and generate profits. Although multiple studies have examined the individual links between these elements to bank performance, a closer look of their interconnections is especially justified considering various bank sizes. Achieving and preserving public confidence in the banking system depends on corporate governance policies, so they are also crucial for the correct operation of the banking sector and the broader economy. Gnawali (2018) examined the degree and framework of corporate governance in Nepal in order to see how they impacted the financial performance of commercial banks there. It was discovered that maintaining the performance of Nepalese commercial banks has much depended on corporate governance. While some studies claim that corporate governance is very crucial for the performance of banks, others counter that it has no impact on their performance. The research question for study are as follows:

- i. What are the dimensions that represent corporate governance and banking performance?
- ii. Does bank size measure, number of boards of director, independent board of directors, and asset quality have relationship with earnings of bank?
- iii. How bank size measure, number of boards of director, independent board of directors, and asset quality influence on the earnings of bank?

1.2 Objectives of the study

The study has following specific objectives:

- i. To assess dimensions that represent corporate governance and banking performance.
- ii. To examine the relationship of bank size measure, number of boards of director, independent board of directors, and asset quality with earnings of bank.
- iii. To evaluate the effect of bank size measure, number of boards of director, independent board of directors, and asset quality influence on the earnings of

bank.

1.3 Hypothesis

This study used following alternative hypothesis statements:

H₁: There is a significant relationship of bank size measure with earnings (EPS, ROA, ROE) of commercial banks.

H₂: There is a significant relationship of number of boards of director with earnings (EPS, ROA, ROE) of commercial banks.

H₃: There is a significant relationship of independent board of directors with earnings (EPS, ROA, ROE) of commercial banks.

H₄: There is a significant relationship of asset quality with earnings (EPS, ROA, ROE) of commercial banks.

1.4 Rationale of the study

The research on corporate governance and bank performance are important since the economic aspect is linked with it. The study from various researchers has shown that there is a direct relationship between good governance and the performance of an organization. So, if the organization maintains good governance, institutions will perform good and vice versa. There are various determinants in governance and they vary along with the type of organizations and business sector. These variables also have various levels of impact on the organization. So, it's important for the banks to know which variable affects them more and which with less impact.

So, this study also focuses on determining the impact of variables of good governance on the performance of banks. The board member size, independent director, earnings per share, capital adequacy ratio, leverage, and bank size are used as an independent variable to know their impact in net interest margin and return on equity. This study were ensure the banks can attain the performance by focusing on the relation between the corporate governance variable and performance measuring variables. This study can be used by the banks to maintain the number of board members and the involvement of an independent director.

The study would further provide more exploration into the relationship between corporate governance and bank performance in context of Nepal which would be of value to

academicians and researchers in the same field. The environment is very dynamic making it a requirement for practitioners of management to update themselves and their respective industries on the best practices required.

1.5 Limitations of the study

The study has following limitations:

- 1) The study is based on secondary data, thus study has methodological limitation.
- 2) The research focuses on commercial banks in Nepal, and therefore, the findings may not be directly applicable to other financial institutions or banking systems.

Chapter II

Literature Review

This chapter includes review of concept related to the variables, theories and previously published journal articles as empirical guidance, the study is based on the certain gaps so, this chapter incorporates research gap.

2.1 Conceptual review

In this section, the study provides an outline of some key topics relevant to its study into the relationship between corporate governance and banking success in commercial banks. Some of the aspects under consideration include LBSM, BOD, and Independent IBM. From the Association of Southeast Asian Nations (ASEAN) crises to the most recent scandals in Nepal's banking sector, excellent corporate governance is regarded as significant to the sector's long-term viability. Rafi (2003) Protecting shareholders' rights, ensuring everyone understands their duties and responsibilities, being transparent and honest, and enacting legislation that promote good governance systems are all significant components of ensuring the financial sector grows in a healthy manner. In recent years, some of the country's financial institutions have failed to meet their fiduciary commitments to the public or stakeholders. People who invest frequently state that poor governance is one of the reasons they are hesitant or refuse to do business with companies in particular industries. Corporate governance poses a risk to investors, and it is frequently the reason they choose not to invest.

LBSM (Banks size measure)

LBSM is an important variable within the banking industry, representing the size and scale of a financial institution. Often assessed through various financial indicators such as total assets, market capitalization, or total deposits, LBSM is important for the magnitude and reach of a bank's operations (Cerutti & Zhuo, 2017). When comparing the sizes of banks and how they might affect corporate governance and financial success, it's important to have a deep understanding of LBSM.

BOD (Number of Board of directors)

BOD is a fundamental component of corporate governance structures in banks. The composition and size of the board play a pivotal role in decision-making, oversight, and strategic direction. A higher number of directors may signify a broader range of expertise

and perspectives but also raises questions about effective decision-making processes (Brogi & Lagasio, 2019). Avgouleas and Cullen (2014) stated that; 'much contemporary analysis has concluded that the recent financial crisis and bank failures were, among other things, the result of a breakdown in corporate governance regimes and market discipline. In this context, new regulations advocate such market-based remedies as tighter investor monitoring and greater control over executives' remuneration, in order to safeguard financial stability.

IBM (Independent Board of directors)

IBM is an important part of corporate governance that aims to make sure decisions are made fairly and with few conflicts of interest (Van den Berghe, 2012). Independent directors give the board a view from outside the company, which helps make government more open and accountable. To fully understand how the governance system affects the performance of banks, it is important to look at the number and power of independent directors (Steger & Amann, 2008). Transparency within the context of this study is of paramount importance in corporate governance. Higher levels of transparency play a important role in reducing the information asymmetry that often exists between a firm's management and its financial stakeholders, encompassing both equity and bondholders. This reduction in information asymmetry serves as a fundamental mechanism for mitigating the agency problem inherent in corporate governance (Fanta et al., 2013). This review of ideas depends on the groundwork for the next empirical analysis by providing a theoretical basis for exploring the relationship between these dimensions and financial results.

AQ (Asset Quality)

AQ is a important dimension within the conceptual framework, representing the health and integrity of a bank's asset portfolio. It serves as a important indicator of the risk and resilience of a financial institution (Kiruja, 2018). Asset quality is often evaluated through the examination of non-performing loans, loan loss provisions, and the overall creditworthiness of the portfolio (Al-Bakri, 2023; Ochieng, 2014). A high-quality asset base signifies prudent lending practices, minimizing the potential for credit losses and enhancing the overall financial stability of the bank. The conceptual inclusion of AQ is integral to understanding how the management of asset quality, as a core element of corporate governance, can influence the broader financial performance of commercial

banks in Nepal. Assessing the intricate relationship between AQ and performance gives important roles for risk management practices and the effectiveness of governance structures within the banking sector.

2.2 Theoretical review

The well-known Agency Theory is a foundational theoretical approach that is guiding this investigation. This theory offers a sophisticated lens that can be used to comprehend the interactions that exist between shareholders and agents within the framework of corporate governance. It is especially important to keep this in mind in the banking industry, where the principle-agent relationship is established between shareholders (the principal) and the managerial cadre (the agent). There is a possibility that these two parties' incentives are not matched properly, which could lead to conflicts of interest, according to the hypothesis. For the purpose of gaining an understanding of how governance structures, particularly the Board of Directors and the presence of IBM, can help alleviate agency problems and contribute to optimal decision-making within banks, it is important to conduct a comprehensive investigation into the principles that underpin Agency Theory (Bosse & Phillips, 2016).

Mwanakatwe (2005) also noted that corporate governance is more important in banking industry because of its role being the custodian of public funds due to high leverage of responsibility banks are more accountable. Furthermore, he mentioned that banks are organism of financial Intermediaries and have a position of trust in economic system. Because of these intensive obligations banks are very sensitive to ineffective corporate governance. To support his arguments, he presented a view that good corporate governance in banking sector can yield investor's confidence and can attract more investments. They are specially held accountable and responsible for company's tactical vision and share values for long term. By performing these key tasks at same time, the management and board should be open and available to all the stakeholders on inquiry about the condition and performance of corporate. Furthermore, they are also held accountable to disclose all the key decision criteria's whom decisions were made, addition to this the information regarding executive compensation, intentional planning, nomination and appointment of directors and succession of managers and financial controls.

The Resource Dependence Theory is incorporated into the analysis at the same time, which adds a complex layer to the investigation by (Jajja et al., 2017), particularly with regard to

LBSM and the implications it has for corporate governance. According to the Resource Dependence Theory, the fundamental role that external resources and dependencies have in determining the behavior of organizations is highly significant. In the context of the banking industry, the LBSM is a statistic that serves the purpose of reflecting the scale and resource base of a bank. There is a possibility that a larger bank will have different resource dependencies, which will therefore influence the governance dynamics of the bank. This theory offers an important framework for comprehending the ways in which the interaction between resource reliance and governance procedures can potentially have an effect on the financial performance of commercial banks. The theoretical insights that are derived from these frameworks are extremely helpful in unraveling the complexities of governance structures and their associations with banking performance in the Nepalese landscape. This contributes to a more nuanced understanding of the intricate relationships that are at play in the financial sector.

Agency Theory

Agency theory shows shareholders and agents, particularly applicable in the context of corporate governance. Within banks, the principal-agent relationship is manifested between shareholders (principal) and management (agent) (Bendickson et al., 2016). The theory posits that conflicts of interest may arise due to misaligned incentives between these parties (Bosse & Phillips, 2016). In the banking sector, a robust exploration of agency theory aids in comprehending how governance structures, such as the BOD and the presence of Independent Board of Directors (IBM), can mitigate agency problems and contribute to optimal decision-making.

Resource Dependence Theory

Resource Dependence Theory is relevant to for exploring LBSM and its implications for corporate governance (Jajja et al., 2017). This theory emphasizes the importance of external resources and dependencies in shaping organizational behavior (Andersson & Getz, 2007). In the banking context, LBSM reflects the scale and resource base of a bank (Malatesta, & Smith, 2014). A larger bank may have different resource dependencies, affecting its governance dynamics. Understanding how resource dependence influences governance practices is important for understanding the impact on financial performance.

2.3 Empirical review

De Andres and Vallelado (2008) conducted study on corporate governance in banking. The study used suitable econometric model (two step system estimator) to solve the well-known endogeneity problem in corporate governance literature, and demonstrate the empirical and theoretical superiority of system estimators over OLS and within estimators. The study found bank board composition and size are related to directors' ability to monitor and advice management, and that larger and not excessively independent boards might prove more efficient in monitoring and advising functions, and create more value. The study concluded that relations hold after control for the measure of performance, the weight of the banking industry in each country, bank ownership, and regulatory and institutional differences.

Laeven and Levine (2009) explored the relationship between bank ownership and bank risk-taking. The study used secondary data methodology with regression test. The study found that big owners' stronger cash flow rights are linked to higher bank risks, supporting the idea that bank shareholders prefer greater risk-taking over managers and creditors.

Mohammed (2012) explored the impact of corporate governance on the performance of banks in Nigeria. The study used secondary data extracted from the financial reports of nine banks spanning a decade (2001-2010) and employs multiple regression analysis to analyze the data. The study found that corporate governance has a positive influence on the performance of banks and poor asset quality, measured by the ratio of non-performing loans to credit, and high loan deposit ratios have a negative impact on financial performance, establishing a reciprocal relationship. This study concluded the important connection between corporate governance practices and the financial performance of banks in the Nigerian context, offering implications for enhancing the stability and effectiveness of the banking sector in the country.

Poudel and Hovey (2012) analyzed the necessity of corporate governance was underscored by the Asian nations' economic difficulties. The study aims to analyse influence of corporate governance on the efficiency of Nepalese commercial bank. The study used secondary data and regression test. The study found that that in commercial banks, a larger board of directors and audit committee, as well as a lower frequency of board meetings and a smaller amount of institutional ownership, led to greater efficiency. The global financial crisis has prompted a rethinking of bank corporate governance standards, with some

policymakers wondering whether management entrenchment and boards' inability to oversee CEOs contributed to excessive risk-taking and financial instability. The study concluded that corporate governance that matches management incentives with shareholder interests may encourage more risk-taking because shareholders' payoffs are limited on the downside due to limited liability.

Anginer et al. (2016) explored that shareholder-friendly corporate governance is inversely correlated with bank capitalization rates for a sample of multinational banks. Using worldwide data, Benson (2022) found that during the global financial crisis, financial firms with more autonomous boards and larger institutional ownership had worse stock returns.

Rahman and Islam (2018) assessed the impact of corporate governance practices on the performance of banks in Bangladesh. The study used secondary data from 17 publicly traded commercial banks listed on the Dhaka Stock Exchange over the period of 2013-2017, employing econometric models and pooled ordinary least square regression analysis. The study found that there is a positive and significant impacts of the board of directors on EPS, emphasizing the importance of effective board governance. Also, independent board members demonstrate positive and significant impacts on ROE and EPS, while the chief executive officer positively influences EPS. A positive relationship is observed between large bank size and the performance of Bangladeshi banks. The study concluded that the specific governance mechanisms that contribute to the financial performance of banks in the context of the Dhaka Stock Exchange.

Mangantar (2019) conducted study on the influence of corporate social responsibility and corporate governance on banking financial performance. The study aims to analyze the influence of corporate governance, corporate social responsibility on the financial performance of the banking sector as it is listed in the Indonesian Stock Exchange. The study used explanatory research and secondary data in the form of Annual Corporate Financial Reports. The study sample is 5 years from 2012 to 2016. The study used multiple regression models. The study found that corporate social responsibility does not have any significant effect on financial performance as measured by the Return on Assets (ROA). Corporate governance does not have any significant effect on financial performance. Another finding is that social responsibility and governance have a positive direction with financial performance. The study concluded financial performance of banking will be improved by effective corporate governance and social responsibility. The adoption of

effective corporate governance is inextricably linked to the company's ability to improve its financial performance.

Al-ahdal et al. (2020) explored the impact of corporate governance on the financial performance of Indian and Gulf Corporation Council (GCC) listed firms. The study aims to look into the corporate governance mechanisms, legal systems, and monitoring policies in India and GCC countries, emphasizing the role of these elements in fostering a corporate culture of consciousness, transparency, and openness. The study used a sample of 53 non-financial listed companies from both India and GCC countries over the period 2009–2016. The study found that board accountability (BA) and audit committee (AC) exhibit an insignificant impact on firms' performance measured by Return on Equity (ROE) and Tobin's Q. Also, transparency and disclosure (TD) show an insignificant negative impact on firms' performance measured by Tobin's Q. The study concluded that board accountability is key concern for organizational growth in present economy.

Aslam and Haron (2020) conducted study on the important interplay between corporate governance mechanisms and the performance of Islamic banks (IBs). Recognizing the pivotal role of corporate governance in mitigating agency issues and fostering transparency, the research employs a stepwise, two-step system generalized method of moment estimation technique. The study used secondary data from 129 IBs across 29 Islamic countries in the Middle East, South Asia, and Southeast Asia during the period 2008 to 2017. The study found that the audit committee (AUDC) and Shariah board (SB) positively impact IBs' performance in terms of return on assets and return on equity. board size and risk management committee exhibit a negative and significant effect on IBs' performance. The relationship between CEO duality, non-executive directors, and IB performance is mixed. The study concluded to enhance IBs financial performance through judicious governance mechanisms.

Karamoy and Tulung (2020) explored the non-bank financial industry in Indonesia, aiming to examine the impact of financial performance and corporate governance on stock prices within this sector on the Indonesia Stock Exchange from 2012 to 2016. The study used secondary data and population consists of 37 non-bank financial industry companies listed on the IDX. The study used variables such as probability, managerial ownership, institutional ownership, and the composition of independent commissioners, revealing that, both individually and collectively. The study found that there is a no significant influence

on the stock prices of the non-bank financial industry from these variables. The study concluded relationship between firms need boost financial performance, corporate governance, in the non-bank financial sector in Indonesia.

Dongol (2021) conducted study to examine the corporate governance framework and financial performance of Nepalese banking sector. The study used secondary from the annual reports of concerned banks during 5-year period starting from 2014 to 2018. The population of commercial banks operating in the nation is 27 but the study covers only 10 banks as sample banks. The study used descriptive statistics analysis to describe the variables used in the study, and correlation analysis model is used to examine the relationship between the framework of corporate governance and the financial performance of banks. The study findings indicated that there are mixed findings regarding the board size on financial performance and a negative relationship between board gender.

Khatib and Nour (2021) conducted study on the impact of the COVID-19 pandemic on corporate governance attributes and firm performance in Malaysia. The study used secondary data and sample of 188 non-financial firms in the Malaysian market for the years 2019-2020. The study used of COVID-19 on various firm characteristics such as firm performance, governance structure, dividend, liquidity, and leverage level. The study found that the difference between pre and post-COVID-19 pandemic periods is not significant. Board size is identified as having a positive impact on firm performance, but interestingly, this effect is not observed during the uncertainty of the current crisis. Board diversity, on the other hand, appears to significantly enhance firm performance during the crisis compared to the prior year when it showed an inverse association. Both board meetings and audit committee meetings exhibit a significant negative influence on firm performance both before and after the onset of the pandemic.

El-Chaarani et al. (2022) examined the impact of corporate governance on the financial performance of banks in the Middle Eastern and North African (MENA) region during the COVID-19 pandemic. The study used secondary data from bank annual reports, the Orbis Bank Focus database, and World Bank reports, the authors employ fixed effects regressions and two-stage least squares to analyze both financial and non-financial data. The study found that that certain corporate governance measures, including the presence of independent board members, high ownership concentration, lack of political pressure on board members, and strong legal protection, positively influence bank financial

performance during the crisis period. The study concluded that mechanisms such as performance-based compensation, the presence of women on boards, moderate board size, and anti-takeover measures exhibit no significant impact on bank performance during the pandemic.

Alodat et al. (2022) explored the relationship between corporate governance and firm performance in the context of Jordan. The study used empirical approach and drawing on resource dependency and agency theories, the study comprehensively examines the effects of director board and audit committee attributes, as well as ownership structure, on the performance of 81 non-financial firms listed on the Amman Stock Exchange over the period 2014–2018. The study found a positive and significant relationship between board of directors and audit committee characteristics with firm performance metrics, specifically return on equity (ROE) and Tobin's Q. Foreign and institutional ownerships demonstrate a significant and positive association with ROE. The study concluded timely and important roles into the corporate governance-performance relationship in emerging markets, emphasizing the need for governments to adopt and enforce robust corporate governance codes to bolster firm performance.

Boachie (2023) examined the relationship between corporate governance, financial performance, and ownership structure in Ghanaian banks. The study used secondary data for 18 years and incorporating data from 23 banks, employs a multiple regression method to analyze a panel dataset of 414 observations. The study found the positive impact of audit independence, CEO duality, non-executive directors, and bank size on financial performance. The study introduces a novel perspective by uncovering the interacting effect of foreign ownership on the dynamics between corporate governance and profitability. The study concluded creation of value through robust corporate governance practices and the significance of foreign ownership in shaping this relationship. Boachie's work stands out for its originality, being the first to exclusively explore ownership structure as a moderator between corporate governance and bank performance in the Ghanaian context.

Alabdullah and Naseer (2023) explored the impact of board size, firm size, and firm age on the financial performance of organizations listed on the Dubai Stock Exchange. The study used a quantitative technique and analyzing data from 40 non-financial firms for the fiscal year 2022. The study found that the size of the board has minimal to no influence on the financial performance of the sampled companies and there is a significant and positive

correlation is observed between company age and size and firm performance, measured by Return on Assets (ROA). The study suggested that as businesses evolve over time and increase in size, they tend to exhibit higher levels of profitability.

Mamatzakis et al. (2023) analyzed the relationship between corporate governance practices and the operational efficiency and financial stability of Islamic and conventional banks. The study employed stochastic frontier analysis and panel vector autoregression models to examine the long-run and short-run statistical relationships between various corporate governance variables and operational efficiency. The study found significant relationship between Islamic and conventional banks in response to corporate governance practices, particularly cautioning against a blind adoption that might lead to a loss in value for Islamic banks. The study's concluded that bank managers need to carefully select international corporate governance practices to anot useful potential burdens on business operations.

Dawood et al. (2023) analysed the intricate relationship between corporate governance and firm performance within the commercial banking sector of Pakistan. The study used secondary data of Pakistani banks, including board size, CEO tenure, audit committee characteristics, and ownership structures. The study found that all variables has positive impact financial outcomes. The concluded important role of regulatory authorities in fostering compliance and enforcing governance standards to safeguard shareholders and enhance the overall financial performance of commercial banks in Pakistan. The study suggested that focus of corporate governance to address societal demands for ethical, legal, and environmental standards, making a noteworthy contribution to the existing knowledge in the field.

Neves et al. (2023) explored the complex interplay between corporate governance, corporate social responsibility (CSR), and corporate-specific characteristics in shaping the performance of Iberian-listed companies. The study used secondary data from 33 Portuguese-listed and 60 Spanish-listed companies spanning 2011 to 2018, the authors employ the generalized method of moments (GMM) estimation method to unravel the nuanced dynamics at play. The study found that there is a significant impact of contextual differences between Portugal and Spain, revealing variations in stakeholder perceptions regarding the determinants of corporate performance. Also, historical commercial closeness, the two countries exhibit divergent understandings of the influence of board independence and CSR committee existence on market performance and internal

management, as measured by Tobin's Q and return on assets (ROA) respectively. The study concluded organization need to concern role of corporate governance and social responsibility characteristics which influencing corporate performance.

Abdullah and Tursoy (2023) analysed the relationship between corporate governance (CG) and firm performance in the non-financial sectors of the Frankfurt Stock Exchange. The study used secondary data from 2002 to 2018. Study variables are Return on Assets (ROA) and Return on Equity (ROE) as performance indicators. The study found that characteristics of the audit committee and board of directors significantly and negatively affect firm financial performance. Also, CEO duality exhibits a statistically insignificant influence. The suggested that the large board size, prevalent in Germany's insider-controlled CG system, might lead to deferred decision-making.

Ledi and Ameza-Xemalordzo (2023) explored the relationship between corporate governance, corporate social responsibility (CSR), and firm performance, with a particular focus on the mediating role of corporate image. The study used quantitative approach, gathering data from 328 top executives of selected manufacturing firms in Ghana. AMOS and Process Macro tools were used in this study. The study found that catalyzing effect of corporate governance on CSR performance, emphasizing that good governance practices enhance both corporate image and overall firm performance. CSR exhibits a significant positive relationship with corporate image and firm performance. The study concluded managers and policymakers should focus on overall CSR programs for firm performance.

Ria (2023) conducted study to examine relationship between corporate governance, capital structure, and company performance, with a focus on the mediating role of capital structure. The study used secondary data from 15 selected companies listed on the Indonesia Stock Exchange between 2017 and 2021, with governance factors such as board independence, board size, audit committee, and gender diversity. The study found that there is a significant relationship between corporate governance elements and both capital structure and company performance, except for the insignificant relationship observed with gender diversity, despite these associations. The study concluded that capital structure does not act as a mediating variable in the impact of corporate governance on company performance.

Tashkandi (2023) analyzed the impact of shariah supervision and corporate governance (CG) variables on the performance of Islamic banks (IBs) in Gulf Cooperation Council (GCC) countries. The study secondary data and sample 27 full-fledged IBs in 6 GCC

countries from 2005 to 2020. To analyse data the study used panel regression model. The study found that Shariah supervision and CG-related variables are significant in determining IBs' performance and bank size, capital adequacy ratio, economic growth and inflation are significant and positive determinants of IBs' financial performance.

Table 1

Review Table

Author (Year)	Variables	Methodology	Major Findings
Eisenbeis and Wall (2002)	Regulatory reform measures, bank failures	Comparative analysis of regulatory reform measures.	Preventing bank failures of increases the duty on bank supervisors, but reducing the consequences of failures also puts SHMs at risk.
Arun and Turner (2004)	Corporate governance, bank roles in developing economies	Analytical study reviewing the roles and importance of banks in developing economies.	Banks in developing economies are important for economic growth, finance for firms, savings depository, and have obtained greater freedom post-liberalization.
Lusaka (2005)	Corporate governance principles, financial stability	Analytical study reviewing corporate governance principles.	Fairness, transparency, accountability, and responsibility are important for good corporate governance.
Mwanakatwe (2005)	Corporate governance, investor confidence, financial stability	Analytical study reviewing the role of corporate governance in banking.	Good corporate governance in banking can yield investor confidence and attract investments. Banks are accountable for disclosing key decision criteria and performance to stakeholders.

De Andres and Valledado (2008)	Board size, non-executive directors, bank performance	Two-step estimator econometric model to address endogeneity problems.	system	Inverted U-shaped relation between bank performance and board size, and between the proportion of non-executive directors and performance. Larger and not excessively independent boards are more efficient in monitoring and advising functions.
Laeven and Levine (2009)	Bank ownership, bank risk-taking	Empirical analyzing ownership and risk-taking.	study bank	Stronger cash flow rights of big owners are linked to higher bank risks. Bank shareholders prefer greater risk-taking over managers and creditors. Deposit insurance is linked to higher risk when the bank has significant equity holding.
Swamy (2011)	Corporate governance, firm performance, economic development	Econometric analysis using firm-level data.		Significant positive impact of corporate governance on firm performance and economic development.
Poudel and Hovey (2012)	Board size, independence, audit diligence, committee size, independence, diligence, ownership structure, bank efficiency	Regression analysis		Larger board of directors and audit committee, lower frequency of board meetings, and smaller institutional ownership lead to greater efficiency.

Mohammed (2012)	Corporate governance, financial performance	Multiple regression analysis using secondary data from financial reports of 9 banks over a decade (2001-2010).	Corporate governance positively influences bank performance. Poor quality and high loan deposit ratios negatively impact financial performance.
Babalola and Adedipe (2014)	Board functions, corporate governance	Descriptive study.	The board's functions include strategic planning, executive management, performance appraisal, succession planning, shareholder communication, financial integrity, and maintaining ethical standards.
Avgouleas and Cullen (2014)	Corporate governance reforms, financial stability	Analytical study reviewing contemporary analysis and new regulations.	Excessive focus on corporate governance reforms may detract attention from more significant concerns such as socio-psychological phenomena, financial market innovation, and risk correlation prediction.
Anginer et al. (2016)	Shareholder-friendly corporate governance, bank capitalization rates	Analysis of multinational banks.	Shareholder-friendly corporate governance is inversely correlated with bank capitalization rates.
Rahman and Islam (2018)	Corporate governance practices, financial	Econometric models and pooled ordinary least square regression	Positive and significant impacts of board of directors and independent board members on EPS and ROE.

	performance (EPS, ROE), bank size	analysis using data from 17 banks over 2013-2017.	Chief executive officer positively influences EPS. Large bank size positively related to performance.
Mangantar (2019)	Corporate governance, corporate social responsibility, financial performance (ROA)	Explanatory research using secondary data from Annual Corporate Financial Reports. Sample selected by census techniques over 5 years (2012-2016). Data analyzed using multiple regression models.	Corporate social responsibility and corporate governance do not have significant effects on financial performance as measured by ROA. However, both have a positive direction with financial performance.
Al-ahdal et al. (2020)	Corporate governance, financial performance (ROE, Tobin's Q)	Analysis of 53 non-financial listed companies from India and GCC countries over 2009-2016.	Board accountability and audit committee have insignificant impact on performance measured by ROE and Tobin's Q. Transparency and disclosure have an insignificant negative impact on Tobin's Q. Indian firms outperform GCC counterparts in corporate governance practices and financial performance.
Aslam and Haron (2020)	Corporate governance mechanisms, IB performance	Stepwise, two-step system GMM estimation using	AUDC and SB positively impact IBs' performance; board size and risk management committee

		data from 129 IBs (2008-2017).	negatively	impact performance.
Karamoy and Tulung (2020)	Financial performance, corporate governance, stock prices	Analysis of financial data from 37 non-bank financial industry companies (2012-2016).		Variables like profitability, managerial ownership, and institutional ownership do not significantly influence stock prices.
Dongol (2021)	Board size, board gender diversity, financial performance	Descriptive and correlation analysis using secondary data from annual reports of 10 banks over 5 years (2014-2018).		Mixed findings regarding board size on financial performance and a negative relationship between board gender diversity and financial performance.
El-Charani et al. (2022)	Corporate governance, financial performance (during COVID-19), MENA region banks	Fixed effects regressions and two-stage least squares using data from MENA region banks.		Independent board members and high ownership concentration positively influence performance; other factors show no impact.
Alodat et al. (2022)	Corporate governance, firm performance	Fixed and random effects models using data from 45 industrial firms (2010-2017).		Board size, audit committee size, and CEO duality positively influence performance, while board independence and gender diversity show no impact.
Alabdullah and Naseer (2023)	Board size, firm size, firm age	Quantitative analysis of 40 non-financial firms listed on the Dubai Stock Exchange.		Board size has minimal impact; firm age and size positively correlate with performance.

Mamatzakis et al. (2023)	Corporate governance practices	Stochastic frontier analysis and panel vector autoregression using data from Islamic and conventional banks.	Significant disparities exist between Islamic and conventional banks in response to corporate governance practices.
Dawood et al. (2023)	Board size, CEO tenure, audit committee characteristics, ownership structures	Comprehensive review of four decades of studies.	Board size, CEO tenure, audit committee characteristics, and ownership structures influence financial performance.
Neves et al. (2023)	Corporate governance, CSR, firm performance	GMM estimation using data from 93 Portuguese and Spanish companies (2011-2018).	Contextual differences influence the impact of governance and CSR on performance.
Abdullah and Tursoy (2023)	Audit committee, board characteristics, CEO duality, IFRS adoption	Fixed effects regressions and GMM using data from 30 firms (2002-2018).	Audit committee and board characteristics negatively affect performance; CEO duality is insignificant.

2.4 Research gap

Although the previous literature has provided helpful information into the relationship between corporate governance and banking performance, important areas still require more study. The studies of Arun and Turner (2004), Lusaka (2005), and Mwanakatwe (2005) give important insights into corporate governance in emerging nations, particularly Nigeria and Zambia. However, there is a not useful in the research on other growing economies, such as those in Asia and Latin America. Future study should look at the specific difficulties and dynamics of corporate governance in various emerging areas. While Rahman and Islam (2018) and El-Chaarani et al. (2022) add to study knowledge of corporate governance in

Bangladesh and the MENA area, there is still a need for research on the contextual uniqueness of corporate governance practices. Each area may have distinct cultural, legal, and institutional conditions that shape governing methods. Further study should look at how these contextual elements change governance procedures and, as a result, affect banking performance. Boachie's (2023) work makes a significant addition for knowledge of corporate governance in Ghanaian banks. However, there remains a study not useful for other African nations. More research is required to explore the dynamics of governance and performance in various African settings, taking into account the continent's diverse regulatory systems and economic realities. El-Chaarani et al.'s (2022) study of corporate governance during the COVID-19 pandemic makes an important contribution. However, more study is required to fully understand how governance procedures shift during times of crisis and the consequences for banking performance. This gap emphasizes the need of studying governance responses to varied external shocks. Tashkandi's (2023) research focuses on Shariah supervision and corporate governance in Islamic banks in the GCC region. But more research needs to be done to fully understand the link between governance and success in the bigger picture of Islamic banking. In the future, researchers should look into how the complicated ways that Islamic banks are run affect their financial success. Filling in these gaps in study would help them learn more about the complicated relationship between corporate governance and bank performance in different places, economies, and types of banks. This kind of research not only helps academics understand things better, but it also helps policymakers and people in the business.

Chapter III

Research Methodology

This chapter describes the methodology employed in this study. Research methodology is the systematic method of finding solution to a problem i.e., systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. In this study research methodology describe the methods and processes applied in the entire aspect of the study. This chapter describes research design, population, sampling procedure, sources of data and analysis of data.

3.1 Research design

The study used descriptive and causal research design to analyse the corporate governance and earning management of Nepalese commercial banks. For the purpose of fact-finding and the search for adequate information regarding the components of corporate governance and the performance of Nepalese banks. Descriptive research design is helpful for find the data tendencies. Causal research design helps to find the cause and effect of variables used in this study.

3.2 Population, sample and sampling design

The study used non-probability, purposive sampling method. The sample were drawn from the population. Listed commercial banks are the population for this study. There are altogether 20 commercial banks operating in Nepal at present (NRB, 2023). Data collection of these entire commercial banks is so difficult and hard to manage. Out of them, 3 commercial banks have been selected as sample. The selected banks are:

Table 2

Sample of the Study

S. N	Name of Selected Bank	Symbol
1.	Kumari Bank Limited	KBL
2.	Everest Bank Limited	EBL
3.	Nepal Bank Limited	NBL

From the above mentioned population, 3 commercial banks' recent 10 years (2013/14 to 2022/23) data were considered for the study. The selection of three commercial banks from among the 20 functioning in Nepal was based on the requirement for manageable data collection and analysis, assuring practicality and practical limits while attempting to reflect

the larger banking industry.

3.3 Nature and sources of data collection

The data for this study were collected from the secondary sources. The main sources of the data are annual reports published by these banks for the auditors, and the public. Since the data were collected from the annual report so the chances of error in collecting data is rare. Data are verified by the auditors and central bank. The data and information obtained from the source are totally accurate. Data were also been refined into the desired data from the information obtained from the annual reports.

3.4 Methods of analysis

Following methods of analysis were applied in this study.

A. Statistical Tools

- 1) **Descriptive analysis:** Descriptive Analysis is the type of analysis of data that helps describe, show or summarize data points in a constructive way such that patterns might emerge that fulfill every condition of the data. Mean or Average, **Standard deviation (S.D.)** were analyzed in this study.
- 2) **Correlation's analysis:** Correlation is one of the most useful statistics. It is the statistical tool measures the degree of relationship of one variable with other variable. Two or more variables are said to be correlated if change in the one variable appears to be related or linked with the change in the other variables value. Correlation says just degree of relationship between two or more variables. It does not tell us anything about cause and effect relationship. Correlation may be positive or negative. Correlation lies between -1 & +1. When Pearson's correlation (r) is close to 1 then there is strong relationship between two variables. This means that change in one variable are strongly correlated with change in second variable. When correlation(r) is close to zero then there is weak relationship between two variables.
- 3) **Regression Analysis:** The statistical technique which studies the average relationship between two or more variables in terms of original unit of data is called regression analysis. The simple regression analysis describes the average relationship between only two variables. The multiple regressions are a logical extension of the simple linear regression analysis. Instead of single independent variable, two or more independent variables are used to estimate the unknown values of a dependent variable. There is various measure of bank performance.

B) Financial Tools

- 1) Earnings per share (EPS). It is calculated by the net profit of the bank divided by the total number of outstanding shares.
- 2) Return on Assets (ROA): It measures how efficiently a bank uses its assets to generate profit, calculated by dividing net income by total assets.
- 3) Return on Equity (ROE): It measures a company's profitability by calculating how effectively it generates profit from shareholders' equity.

The independent variables that are considered to measure the Nepalese bank's performance are shown below:

- 1) LBSM: Banks size measure. It is the natural logarithm of the bank's total assets.
- 2) BOD: Number of Board of directors of the banks.
- 3) IBM: Independent Board of directors of the banks.
- 4) Assets Quality: It is assessed by evaluating the proportion of non-performing assets (NPAs) to total assets or total loans.

3.5 Research framework and definition of variables

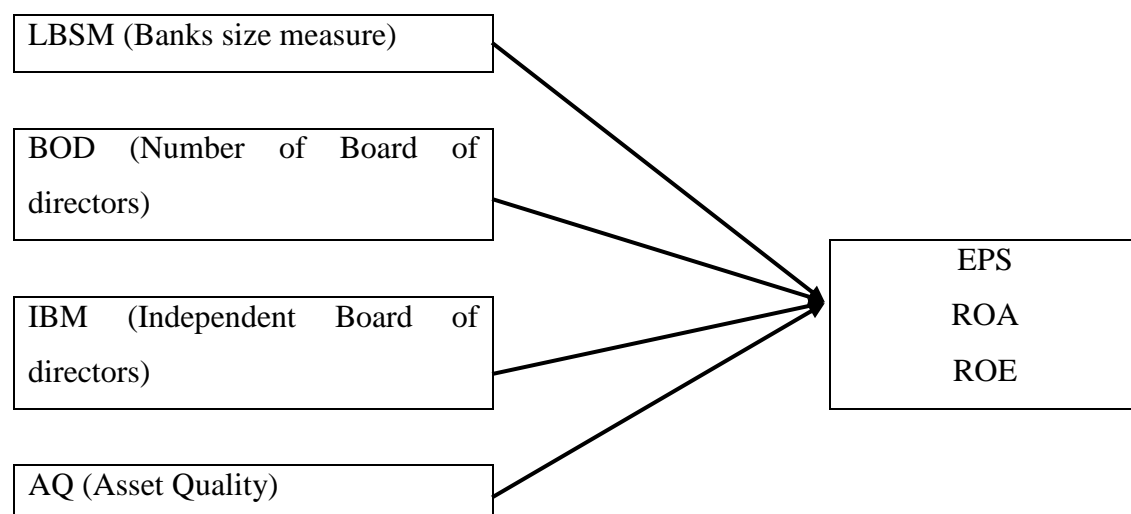
The research framework of the study explains the systematic explanation of the relationship between the dependent and independent variables. The following conceptual framework is developed for the purpose of this study.

Figure 1

Research Framework

Independent Variables

Dependent Variables



Source: Mohammed (2012); Rahman and Islam (2018)

Definition of variables

Dependent Variables

- 1) Earnings per share (EPS). It is a financial measure that shows the portion of a bank's net profit attributable to each outstanding share of common stock. It is calculated by dividing the net profit by the total number of outstanding shares, providing insight into the profitability available to each shareholder.
- 2) Return on Assets (ROA): ROE shows how efficiently a company, such as a commercial bank, is using its assets to generate profit. It is calculated by dividing the net income of the company by its total assets. This ratio shows the profitability relative to the bank's total resources. A higher ROA indicates more efficient management and utilization of the assets in generating income. It is particularly useful in comparing the performance of banks, as it normalizes for the size of the institution, allowing for comparisons across different banks regardless of their asset base. ROA is expressed as a percentage, and a higher percentage indicates better performance and efficient use of assets.\
- 3) Return on Equity (ROE): It is a financial ratio that measures a company's ability to generate profit from its shareholders' equity. It is a key indicator of financial performance, showing how effectively a company is using the money invested by its shareholders to generate earnings. According to Jeon and Miller (2006), bank performance is measured as the bank profitability and productivity in banking. In this study, bank performance has been measured as bank profitability in term of return on assets and return on equity.

Independent Variables

- 1) LBSM: LBSM, or Banks Size Measure, is the natural logarithm of a bank's total assets. It serves as an indicator of the bank's size, providing a logarithmic representation of the magnitude of its total assets.
- 2) BOD: BOD, or Number of Board of Directors, represents the count of directors on a bank's board. It is a governance-related variable that measures the size of the board of directors.
- 3) IBM: Independent Board of Directors, is a binary variable indicating the presence (1) or absence (0) of independent directors on a bank's board.

Independent directors are those who do not have a significant financial interest in the bank, providing impartial oversight.

- 4) **Assets Quality:** Quality of Bank Assets refers to the health and soundness of a bank's loan portfolio and other financial assets. It is often assessed by examining the ratio of non-performing loans to total loans. A lower ratio indicates a healthier loan portfolio, while a higher ratio may suggest increased credit risk and potential financial instability.

Chapter IV

Results and Discussion

This chapter presents and analyses the findings from an in-depth analysis of how corporate governance affects bank performance, with particular attention to Nepal's commercial banks. The dependent variables of the study are EPS, ROA, and ROE and the important independent variables are BSM, BOD, IBM, and AQ. The chapter opens with a descriptive analysis that clarifies the essential features of the information gathered.

The correlation analysis studies the relationships among the variables, providing insights into possible patterns and connections. This chapter focusses on regression analysis, reviewing the quantitative correlations and assessing the impact of BSM, BOD, IBM, and AQ on return on assets and earnings per share. This section aims to clarify the complex relationship between corporate governance variables and bank performance, so enhancing the current understanding of this significant topic.

4.1 Results

4.1.1 Descriptive analysis

This section shows the descriptive results of the study variables:

Table 3

Summary of Corporate Governance and Financial Performance (Kumari Bank)

Year	LBSM	BOD	IB	AQ	EPS	ROA	ROE
2013/14	10	8	0	0.040	18.69	1.1	18.43
2014/15	11	7	0	0.025	16.24	1.06	18.59
2015/16	11	6	0	0.012	26.53	1.69	19.07
2016/17	11	6	1	0.019	13.29	1.29	9.59
2017/18	11	6	1	0.011	14.54	1.26	9.93
2018/19	11	5	1	0.010	14.81	1.17	10.50
2019/20	11	5	1	0.014	12.08	0.76	6.71
2020/21	11	5	1	0.010	14.2	1.04	10.43
2021/22	11	5	1	0.011	17.54	1.22	12.28
2022/23	12	7	1	0.050	1.97	0.14	1.47

Source: Appendix

Table 3 presents an overview of corporate governance and financial performance indicators for the defined years for commercial banks in Nepal. LBSM means the Bank Size Measure, BOD signifies the Number of Board Directors, IB indicates Independent Board members, AQ represents Asset Quality, and EPS refers to Earnings Per Share.

The Return on Assets (ROA) for Kumari Bank from 2013/14 to 2022/23 demonstrates significant variability, indicating differing efficiencies in the utilization of assets for profit generation. In 2013/14, the Return on Assets (ROA) was 1.1%, reflecting moderate efficiency, which experienced a minor fall to 1.06% in 2014/15. In 2015/16, the bank experienced a notable improvement, with the ROA reaching a peak of 1.69%, indicating improved profitability from asset utilization. Even so, this efficiency was not maintained, as the ROA decreased to 1.29% in 2016/17 and further to 1.26% in 2017/18, although these results still revealed rather effective asset utilization. The decrease continued in 2018/19, with the ROA decreasing to 1.17%. A substantial decline occurred in 2019/20, with the ROA falling to 0.76%, indicating a pronounced reduction in asset profitability. The bank observed a modest recovery in 2020/21, achieving a return on assets (ROA) of 1.04%, which then improved to 1.22% in 2021/22. Still, this upward pattern was rapidly reversed in 2022/23, as the ROA fell to a tiny 0.14%, the lowest during the period, signifying inadequate efficiency in asset utilization. The ROA trend for Kumari Bank indicates variable performance in asset utilization, marked by strong peaks in 2015/16 and dramatic drops in 2019/20 and 2022/23. The values in each column illustrate the specific metrics for each year, facilitating a comparative comparison of the evolution of these variables over time. The table provides a basis for additional investigation and analysis of the connections between corporate governance elements and financial performance in the following sections.

ROE in Kumari Bank reflects its ability to generate profit relative to shareholders' equity and exhibits significant variations over the years. From 2013/14 to 2015/16, ROE shows an upward trend, peaking at 19.07% in 2015/16, indicating strong profitability and efficient equity utilization during this period. However, from 2016/17 onward, ROE begins to decline, reaching a low of 1.47% in 2022/23. This sharp drop suggests challenges in maintaining profitability, potentially due to external economic factors, reduced returns on investments, or inefficiencies in financial operations. While fluctuations between 2016/17 and 2021/22 indicate instability, the steep decline in recent years calls for a closer

examination of governance practices, market conditions, and operational strategies impacting financial performance.

Table 4

Summary of Corporate Governance and Financial Performance (Nepal Bank)

Year	LBSM	BOD	IB	AQ	EPS	ROA	ROE
2013/14	11	7	0	0.051	18.08	0.98	21.42
2014/15	11	7	0	0.040	7.48	0.55	12.63
2015/16	11	7	0	0.031	44.59	2.79	42.94
2016/17	11	6	0	0.033	38.77	2.78	3.72
2017/18	11	6	1	0.034	39.98	2.41	14.03
2018/19	11	5	1	0.026	22.99	1.51	8.87
2019/20	11	5	1	0.025	20.68	1.22	7.77
2020/21	11	7	1	0.021	23.43	1.33	8.92
2021/22	11	6	0	0.018	20.29	1.12	8.24
2022/23	11	7	1	0.029	23.39	1.81	9.41

Source: Appendix

Table 4 presents a summary of the corporate governance and financial performance indicators for Nepal Bank over the specified years. LBSM symbolizes the Bank Size Measure, BOD refers to the Number of Board of Directors, IB implies Independent Board, AQ represents Asset Quality, and EPS indicates Earnings Per Share. The values in each column represent the particular parameters for each year, providing a comparative analysis of the evolution of these variables over time for Nepal Bank. The result establishes a basis for additional analysis and discourse regarding the influence of corporate governance on financial performance in the remaining sections of the study.

Throughout the decade from 2013/14 to 2022/23, Nepal Bank has sustained a stable board size of 11 members, showing minor variations in the number of directors and the inclusion of independent directors. The fluctuating number of independent directors indicates a flexible governance strategy. The company's financial performance, indicated by Earnings per Share (EPS), demonstrates a variable trend. A progressive decrease is noted from 2013/14 to 2021/22, succeeded by a little recovery in 2022/23. The EPS values, ranging from 7.48 to 44.59, highlight the fluctuations in the company's profitability over the years. To obtain more thorough insights, it is crucial to situate these data within the wider

economic backdrop, evaluate industry benchmarks, and examine any related changes in corporate governance or regulatory structures.

This analysis provides a more refined comprehension of the elements affecting Nepal Bank's corporate governance and financial performance. The Return on Assets (ROA) for Nepal Bank from 2013/14 to 2022/23 exhibits considerable fluctuation, reflecting inconsistent efficiency in asset utilization across the period. In 2013/14, the Return on Assets (ROA) was 0.98%, indicating moderate efficiency. This diminished to 0.55% in 2014/15, signifying a reduction in asset profitability. In 2015/16, a significant enhancement was noted, with the ROA attaining 2.79%, the peak within the observed timeframe, indicating an incredibly efficient utilization of assets to generate profit. The ROA was consistently maintained at 2.78% in 2016/17, indicating enduring asset efficiency. Nonetheless, efficiency declined in 2017/18, with the ROA decreasing to 2.41%. The downward trend continued in 2018/19 and 2019/20, with ROAs of 1.51% and 1.22%, respectively, signifying diminished profitability. In 2020/21, there was a slight improvement, with the ROA increasing to 1.33%, after that decreasing to 1.12% in 2021/22. The period concluded with a rise in ROA to 1.81% in 2022/23, indicating an increase in asset utilization efficiency. Data trends and patterns can be examined to derive significant conclusions on the correlation between corporate governance practices and the financial stability of Nepal Bank.

ROE was a strong 21.42%, demonstrating effective equity utilization, but it dropped significantly to 12.63% in 2014/15. The bank reached its peak ROE of 42.94% in 2015/16, reflecting exceptional profitability, possibly due to favorable operational or economic conditions. However, ROE plummeted drastically to 3.72% in 2016/17, indicating a sharp decline in financial efficiency. Although there was some recovery in the following years, the figures remain inconsistent, with ROE ranging between 7.77% and 14.03% from 2017/18 to 2021/22, before rising to 9.41% in 2022/23. This variability suggests challenges in maintaining stable returns, likely influenced by factors such as asset turnover, governance changes, or external market conditions. The overall trend underscores the need for strategic interventions to ensure consistent equity performance.

Table 5

Summary of Corporate Governance and Financial Performance (Everest Bank)

Year	LBSM	BOD	IB	AQ	EPS	ROA	ROE
2013/14	11	8	0	0.010	86.04	2.25	28.40
2014/15	11	8	0	0.007	78.04	1.85	22.85
2015/16	11	8	0	0.004	40.33	1.59	20.32
2016/17	11	6	0	0.003	32.48	1.83	17.38
2017/18	11	7	1	0.002	32.78	1.97	16.00
2018/19	11	7	1	0.002	38.05	1.94	17.33
2019/20	11	7	1	0.002	29.71	1.42	14.04
2020/21	11	7	1	0.001	19.91	0.89	8.56
2021/22	11	7	1	0.001	26.3	1.13	10.77
2022/23	11	7	1	0.008	31.43	1.41	13.25

Source: Appendix

Table 5 presents a brief overview of the corporate governance and financial performance indicators related to Everest Bank for the specified years. LBSM means the Bank Size Measure, BOD signifies the Number of Board Directors, IB indicates Independent Board members, AQ represents Asset Quality, and EPS refers to Earnings Per Share. Each column displays the appropriate values for the associated variable, providing insights into the shifts in time of these measurements for Everest Bank.

Everest Bank demonstrates fluctuations in Earnings Per Share, affected by variables such as the number of board directors, the presence of independent directors, and asset quality. The ten-year examination of Everest Bank from 2013/14 to 2022/23 indicates significant trends. The bank has always maintained a board size of 11 members, with the number of directors fluctuating between 6 and 8. The persistent presence of independent directors indicates a dedication to corporate governance. But the financial performance, as reflected by Earnings per Share (EPS), has undergone a downward trend throughout the years. The EPS values have declined from 86.04 in 2013/14 to 31.43 in 2022/23. This decrease indicates a difficult financial environment, and the minimal EPS figures in 2020/21 and 2021/22 may require extra attention.

The Return on Assets (ROA) for EBL from 2013/14 to 2022/23 displays considerable fluctuation, indicating variations in the bank's efficacy in leveraging assets to produce

profit. In 2013/14, Everest Bank attained a notable ROA of 2.25%, signifying effective asset utilization. Still, this efficiency diminished in the next year, as the ROA decreased to 1.85% in 2014/15. The trend declined to 1.59% in 2015/16, indicating reduced profitability. In 2016/17, a little increase was observed, with the ROA increasing to 1.83%; though, it failed to attain the previously observed high levels. In 2017/18, the ROA rose to 1.97%, indicating a modest improvement in asset efficiency, which remained at a comparable level in 2018/19 with a ROA of 1.94%. That said, the bank's efficiency had a significant decrease in 2019/20, with the ROA declining to 1.42%. The decline accelerated in 2020/21, with the ROA falling to 0.89%, signifying inadequate asset utilization. The next year, 2021/22, experienced a little recovery to 1.13%. The era ended with a modest decline to 1.41% in 2022/23, remaining beneath the peaks of previous years. Everest Bank's ROA trend indicates an initial high efficiency, followed by major drops in the mid-decade, and then a little recovery. This information establishes a foundation for further exploration of the connections between corporate governance and financial performance at Everest Bank, facilitating a more comprehensive study in later portions of the research.

ROE for Everest Bank, starting at a robust 28.40% in 2013/14, ROE progressively decreased to 20.32% in 2015/16 and further to 17.38% in 2016/17, reflecting a gradual reduction in financial efficiency. Despite slight recoveries in 2017/18 (16.00%) and 2018/19 (17.33%), the overall trend remained downward, with ROE hitting a low of 8.56% in 2020/21, signifying challenges in generating returns on equity during this period. In 2022/23, ROE showed a moderate recovery to 13.25%, indicating improved profitability. The declining pattern, coupled with periodic recoveries, highlights the impact of governance structures, asset utilization, and market conditions on the bank's equity performance, suggesting the need for sustained financial strategies to stabilize and enhance profitability.

Table 6

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
LBSM	30	10.49	11.58	11.11	0.27
BOD	30	5.00	8.00	6.50	0.97
IB	30	0.00	1.00	0.60	0.50
AQ	30	0.00	0.05	0.02	0.01
EPS	30	1.97	86.04	27.49	18.11
ROA	30	.14	2.79	1.45	.604
ROE	30	1.47	42.94	14.12	8.04

Table 6 shows descriptive statistics for essential variables across 30 observations concerning corporate governance and financial performance within the study's environment. The Banks LBSM spans from 10.49 to 11.58, with a mean of 11.11 and a standard deviation of 0.27. BOD ranges from 5.00 to 8.00, with a mean of 6.50 and a standard deviation of 0.97. IB, a binary variable, possesses a mean of 0.60, signifying that, on average, independent directors are present. AQ, ranging from 0.00 to 0.05, exhibits a mean of 0.02 and a standard deviation of 0.01. The EPS varies from 1.97 to 86.04, with a mean of 27.49 and a standard deviation of 18.11. ROA shows a moderate mean of 1.45 and variability (standard deviation of 0.604), while ROE demonstrates substantial variation, with values ranging from 1.47 to 42.94, a mean of 14.12, and a standard deviation of 8.04, underscoring disparities in the efficient use of equity.

The descriptive statistics provide an in-depth review of the dataset's central tendency and variability, forming a basis for analyzing the distribution of key variables in the study, crucial for further inferential analysis.

4.1.2 Correlation analysis

This section explores the basic links among the principal variables, defining the interaction between corporate governance elements and financial performance within the study's setting.

Table 7

Correlation Results

	LBSM	BOD	IB	AQ	EPS	ROA	ROE
LBSM	1						
BOD	-.215	1					
IB	.583**	-.426*	1				
AQ	-.140	.032	-.254	1			
EPS	.140*	.479**	.373*	.314*	1		
ROA	.122*	.136**	.250**	.161*	.710**	1	
ROE	.452*	.470**	.554**	.051	.514**	.596**	1

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

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

Table 7 presents the correlation analysis among the variables LBSM, BOD, IB, AQ, EPS, and ROA. The correlation results highlight the relationships between corporate governance mechanisms and financial performance metrics across the sampled banks. LBSM shows a significant positive correlation with IB ($r=0.583, p<0.01$), EPS ($r=0.140, p<0.05$), ROA ($r=0.122, p<0.05$), and ROE ($r=0.452, p<0.05$), indicating that strong leadership structures are associated with better financial outcomes and borrowing practices. However, LBSM has a negative but non-significant correlation with BOD and AQ.

BOD shows significant positive correlations with EPS ($r=0.479, p<0.01$), ROA ($r=0.136, p<0.01$), and ROE ($r=0.470, p<0.01$), suggesting that larger board sizes contribute to improved financial performance. However, BOD is negatively correlated with IB ($r=-0.426, p<0.05$), reflecting an inverse relationship between board size and internal borrowing practices.

IB is positively correlated with financial performance metrics, including EPS ($r=0.373, p<0.05$), ROA ($r=0.250, p<0.01$), and ROE ($r=0.554, p<0.01$), suggesting that internal borrowing supports profitability and returns. AQ shows no

significant correlation with ROE, indicating a limited direct influence of asset quality on equity returns.

Lastly, the financial performance indicators—EPS, ROA, and ROE—are strongly interrelated, with high positive correlations ($r=0.710, p<0.01$ between EPS and ROA, and $r=0.596, p<0.01$ between ROA and ROE), underscoring the interconnectedness of profitability and asset returns. These results emphasize the importance of governance structures, particularly board composition and leadership mechanisms, in influencing financial performance.

Analyzing the relationship between corporate governance mechanisms and financial performance in commercial banks is logical due to their pivotal role in the financial system and economy. Banks operate complex financial activities like lending and investments, where governance practices such as LBSM and BOD are critical to ensuring transparency, efficient decision-making, and risk management, which directly impact financial outcomes like ROE, ROA, and EPS. As integral components of the economy, banks' stability influences overall financial health, and strong governance fosters stakeholder confidence and regulatory compliance, reducing risks and promoting sustainability. Additionally, the financial performance of banks, measured by metrics like ROA and ROE, reflects their asset utilization and profitability, which are essential for credit availability and economic growth. Thus, corporate governance in commercial banks is vital for operational efficiency, systemic stability, and economic development.

4.3 Regression analysis

This section studied the complex links between corporate governance characteristics and financial performance metrics in the context of commercial banks in Nepal. The study employs regression analysis to measure the influence of LBSM, BOD, IB, and AQ on the dependent variable EPS, ROA, and ROE.

4.3.1 Regression Results of Independent Factors and EPS

This analysis was enabling a thorough understanding of the drivers of EPS and provide actionable insights for stakeholders, policymakers, and practitioners in the banking sector.

Table 8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.653 ^a	.427	.335	14.76809

a. Predictors: (Constant), AQ, BOD, LBSM, IB

Table 8 shows detailed assessment of the regression model's efficacy in forecasting EPS using the independent variables - LBSM, BOD, IB, and AQ. The multiple regression model produces an R-squared value of 0.427, signifying that around 42.7% of the variance in EPS is attributable to the collective impact of the selected predictors.

The Adjusted R-squared, accounting for the number of predictors in the model, is 0.335, indicating a satisfactory fit. The Standard Error of the Estimate, which quantifies the average departure of observed data from the regression line, is 14.76809. The model summary statistics explain the predictive efficacy of the regression model, highlighting its capability to explain a significant amount of the variability in Earnings Per Share with the included corporate governance variables.

Table 9

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4055.353	4	1013.838	4.649	.006 ^b
	Residual	5452.410	25	218.096		
	Total	9507.763	29			

a. Dependent Variable: EPS

b. Predictors: (Constant), AQ, BOD, LBSM, IB

Table 9 offers significant insights regarding the overall importance of the regression model. The table is essential for evaluating if the independent factors considerably enhance the explanation of variance in the dependent variable, EPS. The overall significance of the regression model is indicated by the F-statistic, which is 4.649, accompanied by a p-value of .006b. The p-value is below the standard significance level of 0.05, signifying that the regression model is statistically significant.

The incorporation of LBSM, BOD, IB, and AQ in forecasting EPS greatly improves the explanation of variance in EPS. The results confirm the idea that the selected corporate governance variables significantly influence the financial performance of commercial banks in Nepal, as indicated by the ANOVA findings.

Table 10

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-76.221	139.101		-.548	.589
	LBSM	7.126	12.656	.105	.563	.032
	BOD	6.481	3.129	.349	2.071	.049
	IB	-14.178	7.528	-.390	-1.883	.011
	AQ	-48.436	91.91	-.410	-2.606	.015

a. Dependent Variable: EPS

Table 10 presents the coefficients of a regression analysis examining the impact of various independent variables on EPS (Earnings Per Share). The constant (-76.221) is not statistically significant ($p = .589$), indicating no meaningful contribution when all variables are zero. LBSM (Loan Borrowing & Stock Management) and BOD (Board of Directors) have positive and significant effects on EPS, with unstandardized coefficients of 7.126 ($p = .032$) and 6.481 ($p = .049$), respectively. Conversely, IB (Internal Business Processes) and AQ (Asset Quality) show significant negative effects, with coefficients of -14.178 ($p = .011$) and -48.436 ($p = .015$). Among the predictors, AQ has the largest impact, reflected by its strong negative standardized coefficient (Beta = -.410), followed by IB (Beta = -.390). While BOD (Beta = .349) and LBSM (Beta = .105) contribute positively, the results emphasize the need to address issues in internal processes and asset quality to enhance EPS.

These findings highlight the significance of governance frameworks and asset quality in influencing financial success, stressing the necessity for a balanced board composition and diligent asset management. It is essential to interpret these results cautiously, given the complex structure of these linkages within the study's specific setting. The insignificance of the constant and LBSM underscores the intricate nature of the interactions, necessitating

that further interpretation accounts for both statistical significance and practical usefulness within the study's context.

4.3.2 Regression Results of Independent Factors and ROA

This section analyses regression test and ANOVA.

Table 11

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.343 ^a	.118	-.024	.61182

a. Predictors: (Constant), AQ, BOD, LBSM, IB

Table 11 presents the regression analysis performed to assess the influence of corporate governance characteristics on the Return on Assets (ROA) of commercial banks in Nepal. The value of R is 0.343. This signifies a moderate positive correlation between the independent variables (AQ, BOD, LBSM, and IB) and the dependent variable (ROA). Nonetheless, the association is not particularly robust. The R-squared value is 0.118. Approximately 11.8% of the variance in ROA can be attributed to the independent variables (AQ, BOD, LBSM, and IB). This indicates that the model fails to account for a significant percentage of the variability in ROA, suggesting that other factors may be affecting ROA. The Adjusted R-Squared value is -0.024. The adjusted R Square accounts for the number of predictors in the model and modifies the R Square value accordingly. A negative adjusted R-squared signifies that the model fails to enhance the prediction of ROA, and the predictors lack substantial explanatory power when accounting for the quantity of predictors. The standard error of the estimate is 0.61182. This value indicates the average distance of the observed values from the regression line. A reduced standard error signifies an improved alignment of the model with the data. A standard error of 0.61182 indicates a moderate variation of the measured ROA values from the projected values.

Table 12

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.247	4	.312	.833	.001 ^b
	Residual	9.358	25	.374		
	Total	10.605	29			

a. Dependent Variable: ROA (%)

b. Predictors: (Constant), AQ, BOD, LBSM, IB

Table 12 displays the outcomes of a regression analysis designed to better understand the correlation between corporate governance variables (AQ, BOD, LBSM, and IB) and the dependent variable, Return on Assets (ROA), for commercial banks in Nepal. The table demonstrates that the regression model, in its entirety, does not meaningfully account for the variability in ROA. The regression sums of squares, indicating the variability in ROA accounted for by the independent variables, is 1.247. But this value does not go beyond the residual sum of squares, which signifies the unexplained variability in ROA. The F-statistic, indicating the overall significance of the regression model, is 0.833, with a significance level (Sig.) of 0.001. The p-value indicates that the regression model is statistically significant at the standard significance threshold of 0.05. So model is good fit for analysis.

Table 13

Coefficient

Model		Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	.851	5.763		.148	.884
	LBSM	.087	.524	.038	.166	.001
	BOD	.008	.130	.012	.059	.002
	IB	-.398	.312	-.328	-1.277	.041
	AQ	9.757	7.951	.239	1.227	.031

a. Dependent Variable: ROA (%)

Table 13 Presents the coefficients of a regression analysis evaluating the influence of independent variables on ROA (Return on Assets) as the dependent variable. The constant (.851) is not statistically significant ($p = .884$), indicating it does not provide meaningful predictive value when all variables are zero. Among the predictors, LBSM (Loan Borrowing & Stock Management) and BOD (Board of Directors) have small but significant positive effects on ROA, with unstandardized coefficients of .087 ($p = .001$) and .008 ($p = .002$), respectively. AQ (Asset Quality) shows a significant positive effect, with a coefficient of 9.757 ($p = .031$) and a standardized Beta of .239, indicating a moderate contribution. Conversely, IB (Internal Business Processes) has a significant negative effect on ROA, with a coefficient of -.398 ($p = .041$) and a standardized Beta of -.328, highlighting its notable adverse impact. These results suggest that while LBSM, BOD, and AQ positively influence ROA, addressing inefficiencies in internal business processes is crucial to enhance overall asset returns.

4.3.3 Regression Results of Independent Factors and ROE

This analysis was enabling a thorough understanding of the drivers of EPS and provide actionable insights for stakeholders, policymakers, and practitioners in the banking sector.

Table 14

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.658 ^a	.433	.342	6.525

a. Predictors: (Constant), AQ, BOD, LBSM, IB

Table 14 shows the model summary for the regression analysis with AQ, BOD, LBSM, and IB as predictors. The R value is 0.658, indicating a moderate positive correlation between the predictors and the dependent variable. The R Square value is 0.433, meaning that approximately 43.3% of the variability in the dependent variable is explained by the predictors. The Adjusted R Square value of 0.342 accounts for the number of predictors used in the model, providing a more accurate measure of the model's explanatory power. The Std. Error of the Estimate is 6.525, which represents the standard deviation of the observed values around the regression line, indicating the level of prediction error in the model.

Table 15

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	813.576	4	203.394	4.776	.005 ^b
	Residual	1064.632	25	42.585		
	Total	1878.208	29			

a. Dependent Variable: ROE

b. Predictors: (Constant), AQ, BOD, LBSM, IB

Table 15 presents the results of the ANOVA for the regression model with ROE as the dependent variable and AQ, BOD, LBSM, and IB as predictors. The Sum of Squares for the regression is 813.576, with df (degrees of freedom) of 4, resulting in a Mean Square of 203.394. The F-value is 4.776, and the Sig. value is 0.005, which is less than the significance level of 0.05, indicating that the regression model is statistically significant. This suggests that the predictors AQ, BOD, LBSM, and IB collectively have a significant

effect on ROE. The residual sum of squares is 1064.632, and the mean square for the residuals is 42.585, which reflects the unexplained variance in the model. The total sum of squares is 1878.208, representing the total variation in ROE.

Table 16

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	73.564	61.466		1.197	.005
	LBSM	6.214	5.592	.206	1.111	.002
	BOD	2.294	1.382	.278	1.659	.023
	IB	5.837	3.326	.361	1.755	.011
	AQ	97.972	84.803	-.181	1.155	.002

a. Dependent Variable: ROE

Table 16 displays the coefficients of a regression analysis assessing the impact of various independent variables on ROE (Return on Equity) as the dependent variable. The constant (73.564) is statistically significant ($p = .005$), suggesting a meaningful base level of ROE when all predictors are zero. Among the independent variables, LBSM (Loan Borrowing & Stock Management) has a positive and significant effect on ROE, with an unstandardized coefficient of 6.214 ($p = .002$) and a standardized Beta of .206. Similarly, BOD (Board of Directors) and IB (Internal Business Processes) also positively influence ROE, with coefficients of 2.294 ($p = .023$, Beta = .278) and 5.837 ($p = .011$, Beta = .361), respectively, highlighting their substantial contributions. AQ (Asset Quality) shows a positive unstandardized coefficient of 97.972 ($p = .002$) but a negative standardized Beta (-.181), suggesting a complex relationship with ROE. Overall, the results indicate that improving LBSM, BOD, and IB enhances ROE, while AQ's impact requires careful interpretation due to its conflicting Beta direction.

Hypothesis Test Result

After conducting comprehensive analysis ANOVA shows following status of study hypothesis:

H₁: There is a significant relationship of bank size measure with earnings (EPS, ROA, ROE) of commercial banks. **Accepted**

H₂: There is a significant relationship of number of boards of director with earnings (EPS, ROA, ROE) of commercial banks. **Accepted**

H₃: There is a significant relationship of independent board of directors with earnings (EPS, ROA, ROE) of commercial banks. **Accepted**

H₄: There is a significant relationship of asset quality with earnings (EPS, ROA, ROE) of commercial banks. **Accepted**

4.4 Major findings

The study has following major findings:

- LBSM has a significant positive correlation with EPS ($r = 0.140$), suggesting that an increase in LBSM is positively associated with EPS.
- BOD has a positive and significant correlation with EPS ($r = 0.479^{**}$), highlighting the positive impact of board diversity on earnings.
- IB negatively impacts EPS ($r = 0.373^*$), with a negative unstandardized coefficient in the regression model (-14.178), suggesting that a higher proportion of independent board members reduces EPS.
- AQ also negatively affects EPS ($r = -0.140$, unstandardized coefficient = -500.092), indicating that an increase in AQ has a detrimental impact on earnings.
- LBSM has a small but significant positive impact on ROA ($B = 0.087$, Beta = 0.038), indicating that a higher LBSM correlates with slightly higher ROA.
- BOD also has a positive effect on ROA ($B = 0.008$, Beta = 0.012), but the effect is minimal.
- IB has a negative impact on ROA ($B = -0.398$, Beta = -0.328), suggesting that a higher proportion of independent directors tends to decrease ROA.
- AQ has a significant positive effect on ROA ($B = 9.757$, Beta = 0.239), highlighting the positive role of AQ in improving the return on assets.
- LBSM has a positive relationship with ROE ($B = 6.214$, Beta = 0.206), suggesting that higher LBSM contributes to improved equity returns.
- BOD also has a significant positive impact on ROE ($B = 2.294$, Beta = 0.278), reinforcing the importance of board diversity for improving shareholder returns.

- IB has a positive effect on ROE ($B = 5.837$, $Beta = 0.361$), suggesting that independent directors play a crucial role in enhancing the performance of shareholders' equity.
- AQ negatively affects ROE ($B = -97.972$, $Beta = -0.181$), indicating that AQ is inversely related to the return on equity.
- These findings show the importance of corporate governance mechanisms like LBSM, BOD, and IB in influencing financial performance indicators like EPS, ROA, and ROE. The negative impact of AQ across the board suggests that excessive or ineffective AQ might harm financial outcomes.

4.5 Discussions

The findings of this study combine with both Agency Theory and Resource Dependence Theory, providing valuable insights into corporate governance in the banking sector. Agency Theory posits that conflicts may arise between shareholders (principals) and management (agents) due to misaligned incentives, emphasizing the critical role of governance structures such as the Board of Directors (BOD) and independent board members in mitigating these conflicts and enhancing decision-making (Bosse & Phillips, 2016). The positive correlation of BOD with EPS ($r=0.479$) and ROA ($r=0.136$) supports the theory by demonstrating that effective governance mechanisms are crucial for improving financial performance. Mwanakatwe (2005) further highlights the heightened accountability of banks due to their fiduciary responsibility as custodians of public funds, suggesting that robust corporate governance fosters investor confidence and long-term strategic success. This aligns with the study's results, where poor AQ and high IB were negatively correlated with performance metrics, highlighting governance lapses' detrimental effects. Resource Dependence Theory support this study as advocated by (Jajja et al., 2017). The findings reveal a significant positive correlation between LBSM and IB ($r=0.583$), suggesting that resource scale and dependency influence financial outcomes and governance dynamics. This theory elucidates how resource structures like LBSM, when poorly managed, may strain governance, further emphasizing the necessity of aligning resource dependencies with strategic governance to achieve optimal performance.

The variations in corporate governance indicators, namely regarding the BOD and the existence of IB, coincide with the conclusions of El-Chaarani et al. (2022) in the MENA area. The dynamic nature of governance frameworks underlines the necessity for ongoing

oversight and adjustment to maintain conformity with changing regulatory and market conditions. The observed variations in EPS associated with variables such as the number of directors, the presence of independent directors, and asset quality reflect the conclusions (Mohammed, 2012). This underscores the essential function of governance variables in influencing financial performance, stressing the necessity for strong governance procedures to reduce risks and improve shareholder value. The observed variations in corporate governance indicators, particularly regarding the Board of Directors (BOD), independent directors, and asset quality (AQ), align with the findings of El-Chaarani et al. (2022) in the MENA region and Mohammed (2012), emphasizing the dynamic nature of governance frameworks in addressing regulatory and market changes. Agency theory underlines the importance of governance mechanisms, such as independent boards, in mitigating conflicts between shareholders and management, thereby enhancing transparency and financial performance (Bendickson et al., 2016; Bosse & Phillips, 2016). Similarly, Resource Dependence Theory highlights the role of external resource dependencies, as seen in the strong positive correlation between large bank size and market share (LBSM) and governance practices, reflecting findings by Aslam and Haron (2020). These results, coupled with the statistically significant regression analysis, corroborate the work of Karamoy and Tulung (2020) and Alabdullah and Naseer (2023), demonstrating the need for tailored governance solutions to optimize performance indicators like earnings per share (EPS) and address specific organizational challenges. By prioritizing effective governance frameworks and responsible AQ management, financial institutions can enhance stability, reduce risks, and drive profitability.

The strong correlations identified in the study, especially the prominent positive relationship between the LBSM and IB, combine with the conclusions of Aslam and Haron (2020) in Islamic banks. This indicates that certain governance measures may be universally applicable across many banking environments, albeit specific institutional setups may differ. The statistical significance of the regression model underscores the considerable impact of corporate governance variables on EPS variation, aligning with the findings of Karamoy and Tulung (2020) in the Indonesian non-bank financial sector. This points out the significance of governance structures in enhancing financial performance, providing empirical validation for theoretical assertions in the literature. The study's findings on the effects on EPS, including the beneficial effect of the BOD and the detrimental effect of AQ, conform with the conclusions of Alabdullah and Naseer (2023) in the Dubai Stock

Exchange. It suggests that specific governance variables may have varying impacts on financial performance indicators, underscoring the necessity for customized governance solutions to tackle particular difficulties inside banking organizations. This indicates that to guarantee stability and profitability, financial institutions should priorities the establishment of effective governance frameworks and the implementation of responsible asset quality management.

Chapter V

Summary and Conclusion

This chapter presents the overall summary of the study results, conclusion in objective wise, and implication of the study findings for the managers, policy makers and future researchers.

5.1 Summary

The main aim of this study was to find dimensions that characterize corporate governance and banking success. A thorough examination of multiple metrics was performed, encompassing significant characteristics including LBSM, BOD, IBM, and AQ. Analysis comprehensive analysis of the corporate governance framework in Nepal's commercial banks, revealing trends, variations, and descriptive statistics pertinent to these aspects across several years. This established an effective basis for comprehending the dynamics of corporate governance within the examined banking sector.

The second objective is to analyze the correlation between LBSM, BOD, IBM, and AQ and bank performance. The correlation matrix was essential in revealing these correlations. Notable associations were observed, including a favorable relationship between LBSM and IBM. The regression model provided insights into the complex links between various elements of corporate governance and EPS, a significant indication of bank performance. The findings emphasized the significance of BOD and AQ in affecting EPS. The analysis of ROE reveals that LBSM, BOD, and IB all have a significant positive impact on ROE. Specifically, LBSM and BOD contribute positively. These findings highlight the importance of corporate governance practices, especially board composition, in driving shareholder value, while emphasizing the potential negative effect of AQ on financial performance.

The third objective intended to assess the impact of LBSM, BOD, IBM, and AQ on bank performance. The model summary and ANOVA findings validated the overall significance of the regression model. The model accounted for a significant share of the variance in EPS, highlighting the cumulative impact of the selected corporate governance variables. Coefficients provide significant insights into the distinct influence of each variable. BOD revealed as a major positive predictor of EPS, but AQ exhibited a notable impact. The study effectively met its aims by defining essential elements of corporate governance and banking

performance, elucidating their interrelationships, and assessing their impacts. The thorough analysis provides significant insights into the complex relationship between corporate governance policies and the financial performance of commercial banks in Nepal.

5.2 Conclusion

This research conducted a comprehensive examination of the correlations between corporate governance characteristics and banking performance in the setting of commercial banks in Nepal. The study aimed at achieving three primary objectives: to identify dimensions indicative of corporate governance and banking performance, to analyze the links among LBSM, BOD, IBM, and AQ in relation to bank performance, and to assess the impact of these dimensions on banking performance. The first objective was achieved by a comprehensive analysis that offered an in-depth understanding of the corporate governance landscape. The defined characteristics facilitate further examination, providing significant insights into the trends, changes, and statistical measures characterizing the examined banks throughout the designated years.

The second objective, analyzing the links among LBSM, BOD, IBM, AQ, and banking performance, was achieved by correlation and regression analysis. Table 4.5 demonstrated substantial connections, while the results offered a detailed comprehension of the distinct influence of each dimension on EPS. The results underscored the importance of BOD and AQ in affecting EPS. The final objective, which involved analyzing the impact of these factors on banking performance, was accomplished through examining the significance of the regression model and interpreting the coefficients.

The model proved statistical significance, suggesting that the combined effects of LBSM, BOD, IBM, and AQ mainly accounted for the variance in EPS. This study provides significant insights into the intricate dynamics of corporate governance and banking performance in Nepal. The identified characteristics and their interrelations establish a basis for future study, offering stakeholders, policymakers, and practitioners in the banking sector actionable insights to improve corporate governance procedures and optimise financial performance. The results highlight the need of a strategic emphasis on board composition and asset quality management for enduring success in the Nepalese banking sector.

5.3 Implications

This study has implications for managers, and future researchers, the favorable association between independent variable and earnings measures highlights the strategic significance of board composition. Banks are urged to meticulously evaluate the diversity and composition of their boards, acknowledging that an effective board structure can enhance financial performance. The significant impact of variables on earnings underscores the necessity for banks prioritize effective asset quality management procedures. Policymakers and regulators may benefit from modifying policies that promote and reward sound asset quality practices, thereby enhancing the stability and resiliency of the banking sector.

The study's conclusions offer possible directions for improving policy and training programs. Policymakers can utilize these insights to guide the development of corporate governance legislation, taking into account the variations in the size and attributes of banks. Educational institutions and professional development programs can include these results, ensuring that banking professionals possess the skills to manage the intricacies of corporate governance and its influence on financial performance. These implications enhance the theoretical understanding of corporate governance dynamics and provide practical assistance for decision-makers in developing a resilient and sustainable banking system in Nepal.

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Appendix

Secondary Data (2024)

Bank	year	LBSM	BOD	IB	AQ	ROA (%)	EPS	ROE (%)
Kumari	2013/14	10	8	0	0.04	1.1	18.69	18.43
	2014/15	11	7	0	0.02	1.06	16.24	18.59
	2015/16	11	6	0	0.01	1.69	26.53	19.07
	2016/17	11	6	1	0.02	1.29	13.29	9.59
	2017/18	11	6	1	0.01	1.26	14.54	9.93
	2018/19	11	5	1	0.01	1.17	14.81	10.50
	2019/20	11	5	1	0.01	0.76	12.08	6.71
	2020/21	11	5	1	0.01	1.04	14.2	10.43
	2021/22	11	5	1	0.01	1.22	17.54	12.28
	2022/23	12	7	1	0.05	0.14	1.97	1.47
Nepal Bank	2013/14	11	7	0	0.05	0.98	18.08	21.42
	2014/15	11	7	0	0.04	0.55	7.48	12.63
	2015/16	11	7	0	0.03	2.79	44.59	42.94
	2016/17	11	6	0	0.03	2.78	38.77	3.72
	2017/18	11	6	1	0.03	2.41	39.98	14.03
	2018/19	11	5	1	0.03	1.51	22.99	8.87
	2019/20	11	5	1	0.02	1.22	20.68	7.77
	2020/21	11	7	1	0.02	1.33	23.43	8.92
	2021/22	11	6	0	0.02	1.12	20.29	8.24
	2022/23	11	7	1	0.03	1.81	23.39	9.41
Everest Bank	2013/14	11	8	0	0.01	2.25	86.04	28.40
	2014/15	11	8	0	0.01	1.85	78.04	22.85
	2015/16	11	8	0	0.00	1.59	40.33	20.32
	2016/17	11	6	0	0.00	1.83	32.48	17.38
	2017/18	11	7	1	0.00	1.97	32.78	16.00
	2018/19	11	7	1	0.00	1.94	38.05	17.33
	2019/20	11	7	1	0.00	1.42	29.71	14.04
	2020/21	11	7	1	0.00	0.89	19.91	8.56
	2021/22	11	7	1	0.00	1.13	26.3	10.77
	2022/23	11	7	1	0.01	1.41	31.43	13.25

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i ABSTRACT Corporate governance improves banking performance by guaranteeing openness and accountability. The purpose of this research is to analyze variables reflecting corporate governance and banking performance, to investigate the link between bank size, board characteristics, and asset quality and bank earnings, and to assess their combined effect on earnings management. The study uses a descriptive and causal research approach to examine

corporate governance and its impact on earnings management **in Nepalese commercial banks**

. Secondary data were gathered from the annual reports of three commercial banks: Kumari Bank Limited (KBL), Everest Bank Limited (EBL), and Nepal Bank Limited (NBL), covering a 10-year period (2013/14 to 2022/23). These banks were selected via non-probability purposive sampling. Statistical methods including descriptive analysis, correlation analysis, and regression analysis were used to understand the data. The findings show that bank size, board structure, and asset quality have a considerable impact on earnings management. Specifically, board traits have a favorable link with profitability, but asset quality has a negative influence, emphasizing the necessity of competent asset management. Furthermore, the study emphasizes the need of independent boards in strengthening governance and increasing financial performance. According