

**IMPACT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE:
THE MODERATING ROLE OF CAPITAL STRUCTURE**

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment
of the requirements for the Master's Degree

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **“Impact of Corporate Governance on Firm Performance: The Moderating Role of Capital Structure”**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has been proposed and presented as part of requirements for any other academic purposes.

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

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REPORT OF RESEARCH COMMITTEE

Miss Bindu K.C. has defended research proposal entitled “**Impact of Corporate Governance on Firm Performance: The Moderating Role of Capital Structure**”, 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. Binita Manandhar and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled “**Impact of Corporate Governance on Firm Performance: The Moderating Role of Capital Structure**” presented by Bindu K.C. a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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This study entitled “**Impact of Corporate Governance on Firm Performance: The Moderating Role of Capital Structure**” has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models involving the management accounting of commercial banks in Nepal.

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Bindu K.C.

November, 2024

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Abbreviations

BOD	:	Board of Directors
BS	:	Board Size
C.V.	:	Coefficient of Variation
D/Y	:	Dividend Yield
FS	:	Firm Size
GDP	:	Gross Domestic Product
ICAN	:	Institute Of Chartered Accountants of Nepal
IPO	:	Initial Public Offering
LC	:	Letter Of Credit
LIC	:	Life Insurance Corporation Limited
LM	:	Female Director
NEPSE	:	Nepal Stock Exchange
NIM	:	Net Interest Margin
NRB	:	Nepal Rastra Bank
ROA	:	Return on Assets
ROC	:	Registrar of Companies
ROE	:	Net Profit Margin
S.D.	:	Standard Deviation
SEB	:	Securities Exchange Board
SEC	:	Securities Exchange Centre
SIZE	:	Firm Size

ABSTRACT

Corporate governance refers to the collaborative process involving top management, the board of directors, and shareholders in determining a company's performance and strategic direction. It also examines how the goals guiding the corporation's governance interact with its stakeholders. The primary aim of this study is to identify the characteristics that best represent corporate governance and its relationship with banking performance, specifically focusing on Nepalese commercial banks. The study employs a descriptive, causal-comparative research design to explore the relationship between various factors and their influences.

This survey encompasses 20 commercial banks, from which ten have been selected for the study. The findings indicate that board size, earnings per share, and the presence of female directors negatively influence ROA and NIM. While the effects of earnings per share and the number of female directors are statistically insignificant, board size has a statistically significant impact. Conversely, the capital adequacy ratio and ethnic group positively affect ROA and NIM, with the capital adequacy ratio showing a statistically significant relationship with performance. The ethnic group also plays a crucial role. Consequently, the variables that demonstrate a linear relationship with ROA and NIM include board size, earnings per share, ethnic group, capital adequacy ratio, and the number of female directors.

Key Words: Corporate Governance, Performance, ROA, NIM, Board and Ethnical Group.

CHAPTER I

INTRODUCTION

1.1 Background of the study

Corporate governance pertains to the methods by which companies are directed and managed. In the absence of corporate governance, companies would struggle to be accountable to their various stakeholders. Numerous scholars emphasize important aspects of corporate governance in their definitions. It can be seen as a mechanism employed to direct and control firms and organizations (Amarneh, 2014).

Corporate governance refers to the interactions among shareholders, the board of directors, and top management in guiding the corporation's direction and performance. It also encompasses the relationships among stakeholders and the objectives for which the corporation operates. The key stakeholders include shareholders, management, and the board of directors, while other stakeholders comprise employees, suppliers, customers, regulators, the environment, and the wider community. Governance emphasizes the effectiveness, transparency, and accountability of an institution's management while safeguarding stakeholder interests. Over time, modern corporate governance practices have evolved, leading to the development of various codes of best practices by different organizations. The OECD code of corporate governance and the Basel code of corporate governance principles serve as guidelines for promoting effective governance. These principles primarily address the roles and responsibilities of the board, directors, chairperson, CEOs, senior management, auditors, shareholders, and regulators. Key aspects such as accountability, internal control, related party transactions, conflicts of interest, and information disclosure have been thoroughly considered and emphasized in the development of these governance principles (Cabraal, 2014).

Corporate governance encompasses the set of policies and best practices that organizations implement to meet their goals concerning stakeholders. It is also a branch of economics that examines the various challenges that arise from the division between ownership and management. The structure of corporate governance outlines how rights and responsibilities are allocated among various participants in the corporation, including board

members, managers, shareholders, and other stakeholders, while also defining the rules and procedures for making decisions regarding corporate matters (Pradhan & Adhikari, 2011).

The term "corporate governance" has evolved to signify a notion of goodness that encompasses both moral and non-moral aspects. Non-moral interpretations include efficient decision-making, proper resource allocation, and strategic planning (Monks & Minow, 2011). On the moral side, effective corporate governance is viewed as fostering an ethical environment that is inherently appropriate and leads to positive business results through ethical behavior (Francis, 2003). The connections mentioned here involve due diligence, directors' responsibilities, and the overall increase in corporate accountability. Corporate performance is a key concept that pertains to how effectively an organization utilizes its financial, material, and human resources to meet its overarching objectives. This approach not only sustains the organization's operations but also enhances the potential for future opportunities.

Good corporate governance is expected to enhance investors' confidence in the country's economy. It involves establishing credibility, ensuring transparency and accountability, and maintaining effective information disclosure channels that promote strong corporate performance. Consequently, it is vital for every service and industrial sector to uphold a robust corporate governance culture. Furthermore, corporate governance has become recognized as a significant means of fostering trust and confidence in institutions. This is particularly critical for banks, as they manage public funds, and any inability to recover investments could result in bank failures, ultimately impacting the national economy. Bernanke (2003) and Grossman (2005) provide evidence indicating that bank failures can have considerable negative impacts on future economic activity. Such failures result in diminished income growth for lower-income individuals, increased poverty rates, and reduced employment levels. Effective corporate governance is not merely an end goal; rather, it serves as a means to enhance economic efficiency, promote sustainable growth, and ensure financial stability. Strong performance is attainable through good governance practices.

Corporate governance plays a vital role across all economic sectors, but it is especially critical in the banking industry. Hambrick et al. (2008) highlight that the stakeholders in

the banking sector are directly impacted by the quality and nature of corporate governance, which can also influence the broader national economy, either advancing or hindering it. Katrodia (2016) emphasizes that the overall health of the economy is closely tied to the stability of its banking systems. The 2008 global financial crisis was initiated by the downfall of major US banks, which had widespread repercussions across various sectors, including the financial security of pension holders. The failures within the US financial system were attributed to inadequate governance, leading to a significant crisis that affected the global economy. Mareinkowska (2017) pointed out that any global crisis is linked to weak governance in financial institutions.

Corporate governance within the banking sector requires focused efforts and the use of specialized tools for monitoring, supervising, and assessing its operations. The Bank for International Settlements emphasizes that strong corporate governance is crucial for fostering and sustaining public trust and confidence in the banking industry. Public trust is vital for attracting deposits. However, implementing corporate governance in developing nations remains a significant challenge. Research is needed to develop corporate governance policies, frameworks, and structures tailored to these countries, as there has been insufficient focus on this issue in those regions.

Extensive attention has been paid in recent years to corporate governance, which has garnered global interest, particularly during the last economic crisis that led to significant financial distress for numerous companies and banks. Despite this, there has been a lack of focus on the relationship between corporate governance and the performance of the banking sector on a global scale (Maria, 2010). In the context of Nepal, an earlier study indicated that companies that hold their Annual General Meetings (AGMs) on schedule, submit financial statements punctually, and appoint “A” class auditors tend to achieve higher rates of return and greater market prices per share (Pradhan & Adhikari, 2011).

1.2 Problem statement

Banks and financial intermediaries played a central role following the financial crisis in the USA, Brazil, Thailand, and other countries. One of the key structural factors contributing to the crisis was the decline in the quality of their asset portfolios, primarily resulting from

flawed credit management (Sanusi, 2010). This issue was significantly influenced by inadequate governance.

Recent literature has increasingly focused on corporate governance in developing countries, highlighting the growth potential of these economies. Furthermore, research has shown that noise trading, rather than fundamentals, influences the markets in these regions (Claessens & Yurtoglu, 2012). Overall, these markets tend to be less efficient, which results in a greater need for robust corporate governance.

Recent literature has highlighted the importance of corporate governance in developing countries, attributing this focus to the growth potential of these economies. Furthermore, research has shown that noise trading, rather than fundamentals, influences the markets in these regions (Claessens & Yurtoglu, 2012). Overall, these markets tend to be less efficient, which increases the need for stronger corporate governance.

Effective corporate governance is crucial not only due to its growing significance for international investors but also for safeguarding domestic investors. While international investors have access to sophisticated tools to manage their overall portfolio risk, domestic investors often find themselves limited to local markets, facing the risk of losing their life savings when there is a lack of transparency and weak governance structures. Jensen and Meckling (2003) recognized that the principal-agent theory, which is also utilized in this study, is widely regarded as the foundational concept in discussions surrounding corporate governance. Various corporate governance mechanisms have been suggested to address the principal-agent dilemma between managers and shareholders. These mechanisms identified in agency theory include factors such as board size, board composition, CEO pay-performance sensitivity, director ownership, and shareholder rights. The agency theory posits that smaller boards are preferred to reduce agency costs through more effective management oversight, while larger boards may lead to an increased likelihood of interactions and conflicts among members. On the other hand, another perspective advocates for larger boards, suggesting that firms with a greater number of board members can compel managers to minimize debt costs, as creditors perceive these companies to have better oversight of their financial accounting, which can enhance performance (Poudel & Hovey, 2013).

For a developing nation such as Nepal, enhancing corporate governance can fulfill several key public policy goals. Effective corporate governance minimizes the susceptibility of emerging markets to financial crises, strengthens property rights, lowers transaction and capital costs, and promotes the development of capital markets. Conversely, inadequate corporate governance structures undermine investor confidence and may deter external investment.

The Central Bank of Nepal, Nepal Rastra Bank (NRB), has been actively enhancing the governance of banks through the revision and updating of policies and directives. Recent initiatives include comprehensive directives, stress testing guidelines, and CEO remuneration guidelines, all designed to promote better governance in the banking sector.

Despite the existence of various guidelines and directives, corporate governance continues to face challenges as individuals with malicious intentions find new ways to misuse public funds. Organizations in Nepal have yet to embrace a culture of good governance that adequately considers the public's interests. The distinction between ownership and management remains unclear, and the involvement of directors and staff in fraudulent activities poses a significant challenge in the country. For instance, H & B Bank (2012) and the CEO of KIST Bank (2013) faced charges related to misappropriation. Similarly, NABIL Bank (2011) and Himalayan Bank (2012) were implicated in cases involving the theft of ATM PIN numbers by employees. These incidents have fostered a climate of distrust, making the public hesitant to deposit their money in banks. To cultivate an environment of trust and security among the general populace, a focus on good governance is essential. Effective governance practices in banks can not only enhance customer deposits but also boost their profitability. With this context in mind, the research has been designed around the following research questions:

- What are the dimensions that represent corporate governance and banking performance?
- Does there any relationship between corporate governance and bank performance?
- What is the impact of corporate governance on bank performance of Nepalese commercial banks?

1.3 Objectives of the study

The objective of this study are as follows:

- To analyze the dimensions that represents the corporate governance and banking performance.
- To examine the relationship between corporate governance and bank performance.
- To assess the impact of corporate governance on bank performance of Nepalese commercial banks.

1.4 Hypothesis

In this study, the hypothesis testing is used to test the significance of the relationship between dependent and independent variables:

H1: Female Director (BM) significant negative relation to the bank performance.

H2: Board directors is significant positive relation to the bank performance.

H3: ROA is significant negative relation to the bank performance.

H4: Bank size is significant positive relation to the bank performance.

H5: There is significant positive relationship between capital adequacy ratio and bank performances.

H6: There is significant positive relationship between EPS and bank performances.

1.5 Rationale of the study

Research on corporate governance and bank performance is crucial due to its connection to the economic sector. Studies conducted by various researchers indicate a direct link between effective governance and an organization's performance. Therefore, maintaining good governance is likely to result in better performance and, conversely, poor governance can lead to decreased performance. Different determinants influence governance, and these factors can vary depending on the type of organization and business sector. Each variable also impacts the organization to different extents, making it essential for banks to identify which factors affect them the most and which have a lesser impact. In Nepal, governance has become a prominent topic in recent academic research and policy discussions (Khatiwada, 2002; Rawal, 2003; Kafle, 2004). Paudel and Hovey (2013) explored how corporate governance affects the efficiency of Nepalese commercial banks, analyzing a total of 20 banks. Their findings indicated that larger board and audit committee sizes,

fewer board meetings, and a lower proportion of institutional ownership contribute to enhanced efficiency in these banks. This study also aims to assess how good governance variables influence bank performance. Specifically, it examines the effects of board size, the presence of female directors, earnings per share, capital adequacy ratio, ethnic diversity, and bank size as independent variables on net interest margin and return on assets (ROA). The research will highlight how banks can improve their performance by focusing on the relationship between corporate governance variables and performance metrics. Additionally, the findings can guide banks in managing board member composition and increasing the participation of independent directors.

1.6 Limitations of study

The limitations of the study are as follows

- The study is focused on impact of corporate governance on firm performance: the moderating role of capital structure.
- Only 10 banks are considered for the purpose of the study. The inclusion of all 20 banks in the study would have provided more valid results, Namely Nepal Investment Mega Bank Limited, Laxmi Sunrise Bank Limited, Rastra Banijya Bank Limited, Agricultural Development Bank Limited, Kumari Bank Limited, Sanima Bank Limited, Nabil Bank Limited, Nepal Bank Limited, Himalayan Bank Limited and Everest bank Ltd.
- The study is based on secondary data.
- The study covers 10 fiscal year data from 2013/14 and 2022/23.

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

This chapter examines the evidence and findings from previous research conducted by various scholars. These studies and findings are pertinent to further exploration of corporate governance and bank performance.

2.2 Theoretical review

Similar to the government, the term governance ultimately originates from the Greek word *Kubernao*, which means "to steer." The concept of governance was reintroduced in the 1990s by an economist and political scientist, and it gained traction through organizations like the UNO, IMF, and World Bank. Numerous theories regarding governance as a process stem from neoclassical economics. These theories developed deductive models based on the assumptions of the modern economy, illustrating how national actors may establish and maintain formal organizations, such as firms and states, as well as informal organizations, including networks and practices for managing common resources.

2.2.1 Assimilation theory

Hawley and Williams (1998) conducted a literature review on corporate governance to serve as a background paper for the Organization for Economic Cooperation and Development. Their research in the United States identified four theoretical models of corporate governance: the simple finance model (or agency theory), the stewardship model, the stakeholder model, and the political model. Agency theory, stewardship theory, and stakeholder theory emerged as key components of corporate governance. Many issues in corporate governance were tied to the relationship between management and shareholders, with differing perspectives leading to governance challenges. A brief description of the four theories identified by Hawley and Williams is provided below.

2.2.1.1 Simple finance model / agency theory

In this theory, the primary issue of corporate governance is seen as the need to create rules and incentives that effectively align managers' (agents') behaviors with the owners' desires. The rules and incentives mentioned in the finance model are those established by the firms themselves, rather than those imposed by the legal or regulatory framework of the host

country. It is based on the assumption that managers may act in their own self-interest rather than prioritizing the interests of shareholders, leading to various issues. The discrepancies between managers and owners are termed agency problems, which escalate agency costs and result in poor governance within organizations. Consequently, agency theory was developed to describe the relationship between principals and agents in business, focusing on addressing potential issues that may arise within this agency relationship.

2.2.1.2 Stewardship theory

In stewardship theory, managers are viewed as responsible guardians of the corporation, striving to achieve high levels of corporate profit and returns for shareholders. This perspective enhances the social and professional esteem associated with managerial roles. Managers are believed to be driven by a desire for achievement and to derive intrinsic satisfaction from successfully tackling inherently challenging tasks. They utilize their authority and fulfill their responsibilities effectively to gain recognition from colleagues and superiors. Additionally, the theory advocates for the inclusion of non-executive directors on the board to ensure effective governance within the organization.

2.2.1.3 Stakeholder theory

The firm functions as a network of stakeholders within the broader context of the host society, which supplies the essential legal and market infrastructure for its operations. Its primary purpose is to generate wealth or value for shareholders by transforming their investments into goods and services. Consequently, managers and directors should aim to enhance the overall wealth of the firm. This theory emphasizes increasing the firm's value rather than focusing solely on managers or organizations. To achieve this, it is crucial to provide ownership incentives to participants who contribute or control vital specialized inputs and to align the interests of key stakeholders with those of external or passive shareholders. Additionally, this theory advocates for corporations to have long-term owners and to promote board representation from significant customers, suppliers, employees, and community representatives.

2.2.1.4 Political theory

The political model acknowledges that the government played a key role in determining how corporate power, privileges, and profits were distributed among owners, managers, and other stakeholders. Additionally, the capacity of corporate stakeholders to influence

the distribution of resources at the micro-level was shaped by the corporate sector. This model of governance significantly impacted the evolution of corporate governance.

2.3 Empirical review

Vieira and Madaleno (2024) researched on Does corporate governance influence firm performance? The aim of the study was to investigate how board size affects firm performance. The researchers utilized pooled ordinary least squares, the fixed effects model, and the random effects model in their analysis. They discovered that CEO duality negatively impacts return on assets (ROA), while larger board size and greater gender diversity positively influence firm performance. The study concluded that corporate governance (CG) does not consistently affect company performance, indicating that the relationship between CG characteristics and firm performance varies depending on the performance measure used.

Danilov (2024) analyzed on the impact of corporate governance on firm performance: panel data evidence from S&P 500 Information Technology. The study aimed to analyze a group of 66 information and technology (IT) companies, employing fixed effects (fe), random effects (re), and quantile regression models. Findings revealed that factors such as firm age, dividend payout ratio, effective tax rate, board size, CEO duality, and the presence of a corporate social responsibility committee negatively impact performance. The research concluded that CEO duality has a significant effect on companies with high profitability, while those with low to medium profitability are more adversely affected by board size.

Wulandari, Sudaryanti and Fakhriyyah (2024) conducted a study on the moderation effect of corporate governance mechanisms on the relationship between capital structure and company performance. The aim of the study was to explore how Capital Structure influences Company Performance, particularly focusing on the moderating role of Corporate Governance mechanisms. Data analysis was conducted using the Partial Least Square (PLS) path method. The results revealed that the impact of Capital Structure on Company Performance is minimal. Specifically, the relationship between Capital Structure, represented by the debt-asset ratio (DAR), and Company Performance, measured by Return on Assets (ROA), remains insignificant, even when accounting for the moderating factor of Commissioner's Size. The study concluded that the effect of capital structure (DAR) on

company performance (ROA), with board size as a moderating variable, is negligible. Additionally, the influence of Capital Structure (DAR) on Company Performance (ROA), considering Audit Committee Size as a moderating variable, is also insignificant.

Miao et al. (2023) examined the effect of corporate governance on firm performance: perspectives from an emerging market. The aim of the study was to examine how various Corporate Governance (CG) attributes—including Audit Meeting Frequency, Ownership Concentration, Board Meeting Frequency, Foreign Ownership, Institutional Ownership, Board Gender Diversity, Audit Committee Size, Board Size, Audit Reputation, and CEO Compensation—impact the performance of firms in Pakistan. The research utilized the pooled least squares method. It was found that the CG systems in the energy sector are comparable to those in the cement sector. Additionally, Tobin's Q was lower than ROA, indicating similar conditions to those of companies in the cement sector. The study concluded that the profitability measures yielded lower returns compared to firms in the cement sector.

Ahmed et al. (2023) researched on the relationship between capital structure and firm performance: the moderating role of agency cost. The study aimed to investigate how agency cost moderates the relationship between capital structure and firm performance. Using multiple regression analysis on the data, the findings revealed a negative correlation between capital structure and firm performance. While agency cost also adversely affects corporate performance, it shows a positive relationship with ROA and EPS. The study concluded that it offers fresh insights into the connection between capital structure and firm performance based on data from publicly traded manufacturing companies in Iran. Thus, these new findings from a developing market enhance the understanding of capital structure within Asian and Middle Eastern contexts.

Khan and Mahmood (2023) researched on impact of corporate governance on firm performance: a case of Pakistan stock exchange. The aim of the study was to explore how corporate governance affects the performance of firms. To analyze the data, multiple regression and correlation coefficients were employed. The results indicated that a lean board size, moderate levels of leverage, CEOs holding positions on multiple boards, strong independence in audit committees, larger firm size, younger firms, and sustainable growth all contribute positively to firm performance. Conversely, the study concluded that high

leverage negatively impacts firms' profitability, particularly when interbank offered rates are elevated.

Dawood et al. (2023) researched on contribution the effect of corporate governance on firm performance in Pakistan. The aim of the study was to examine how corporate governance influences the performance of firms in Pakistan's commercial banking sector. Utilizing panel multiple regression for data analysis, the study discovered that various factors such as board size, long-term CEO tenure, audit committee size, audit committee independence, foreign ownership, institutional ownership, annual preference meetings, and dividend coverage positively impact financial performance. The study concluded that this research significantly enhances the understanding of how corporate governance relates to a company's overall performance.

Musa and Yahaya (2023) researched on corporate governance and firm value. The aim of the study was to investigate how corporate governance impacts the enhancement of firm value. Panel multiple regression analysis was employed to evaluate the data. Findings indicated that factors such as the size of the risk committee, leverage, asset tangibility, profitability, and firm size significantly influence firm value. Conversely, the study found that concentrated ownership, board size, audit committee size, remuneration committee size, audit quality, and dividend yield do not significantly affect firm value.

Tasya and Kusumaning (2023) conducted a study on the impact of corporate governance and firm performance on waste and effluent disclosure: Evidence from polluting industries in Indonesia. The aim of the research was to investigate the impact of corporate governance—specifically, board gender diversity, board independence, board focus, and the audit committee. Multiple regression analysis was employed to evaluate the data. The findings revealed that corporate governance factors, including board gender diversity, board independence, board focus, and the audit committee, significantly affect waste and effluent disclosure. The study also concluded that firm performance, measured by return on assets (ROA), does not significantly impact the waste and effluent disclosure of companies in pollution-intensive sectors listed on the Indonesia Stock Exchange.

Ferriswara et al. (2022) examined on do corporate governance, capital structure predict financial performance and firm value. The study aimed to investigate the relationships

between corporate governance, capital structure, financial performance, and firm value within the Jakarta Islamic Index. Utilizing Partial Least Square (PLS) and structural equation modeling (SEM) for data analysis, the results revealed that out of the five proposed hypotheses, two determinants significantly influenced firm value. Specifically, financial performance had a notable impact on firm value, while corporate governance and capital structure did not directly affect it. However, corporate governance exhibited both positive and negative effects on financial performance. Ultimately, the study concluded that corporate governance significantly influences financial performance with a negative coefficient, suggesting that corporate governance has not been optimally implemented in the proxy company, characterized by a low percentage of independent commissioners and independent audits.

Mansour et al. (2022) analyzed on the relationship between corporate governance quality and firm performance: the moderating role of capital structure. The aim of the study was to investigate the contingent influence of capital structure on the link between the quality of corporate governance and company performance. It employed descriptive statistics, correlation coefficients, and multiple regression analysis to assess the data. The findings revealed that the interaction between a composite measure of corporate governance and capital structure could reduce conflicts of interest between management and shareholders by lowering the agency costs related to managers. The study concluded that capital structure can enhance the relationship between corporate governance quality and firm performance.

Boachie and Mensah (2022) examined a study on the effect of earnings management on firm performance: The moderating role of corporate governance quality. The aim of the research was to explore the connection between earnings management and the financial performance of companies in Anglophone sub-Saharan African nations within a dynamic context. The analysis utilized correlation coefficients and multiple regression methods. The findings indicated that the impact of earnings management on performance remains significant, even when accounting for dynamic endogeneity, simultaneity, and the unobserved time-invariant heterogeneity present in the relationship between earnings management and performance. The study concluded that agency theory supports the notion that effective monitoring through adherence to best-practice internal governance systems can limit earnings management practices and subsequently improve company performance.

Huynh (2022) researched a study on does financial leverage mediates corporate governance and firm performance? The study aimed to investigate how corporate governance influences firm performance, with financial leverage acting as a mediating factor. Multiple regression analysis was employed to analyze the data. Findings indicated a connection between corporate governance and firm performance. Specifically, a larger board size was linked to improved firm performance, as greater board size correlates with enhanced performance. Additionally, board independence showed a significant positive relationship with firm performance. The research concluded that the size of the audit committee also positively impacts firm performance, and the presence of female directors on the board is associated with better firm performance.

Jesuka (2022) analyzed a study on corporate governance and firm performance: does sovereign rating matter? The study aimed to examine how sovereign ratings and corporate governance affect the performance of Latin American companies from 2004 to 2018. It utilized a two-stage least squares (2SLS) model for data analysis. The findings indicated that companies in Latin America tended to perform better when their countries had higher sovereign ratings and implemented stronger board of directors and audit committee practices. The study concluded that sovereign ratings play different roles based on whether governance variables are present or absent, suggesting that ratings and governance can serve as alternative mechanisms to safeguard investors.

2.4 Research Gap

The difference in research from earlier studies to the current study is known as the research gap (Caprio & Levine, 2002). A prior investigation into the corporate governance and performance of Nepalese commercial banks was carried out by a variety of specialists, academics, and students. Only three banks have been included in prior research on this case study. A sample of ten commercial banks is chosen for this investigation. Additionally, there are variations in the case study's time frame. The time period in this study is from 2013/14 to 2022/23, unlike the short time periods in Haron et al. (2020). Ahmed and Hamdan (2015) have employed return on equity (ROE) and return on assets (ROA) as a foundation. Return on equity (ROE) and net interest margin (NIM) were employed in this analysis. The points that set my case apart from the Balaputhiran (2016) are as following. The central bank of Nepal, commercial banks and other financial institutions, up-and-

coming scholars, and other non-financial entities have all benefited in part from the research on corporate governance and financial performance in the context of Nepalese banks. Regression and correlation analysis of the data assisted in determining the relationship between the independent and dependent variables. The people and organizations listed above may find this outcome useful.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology outlines the techniques and processes used throughout all aspects of a study. Each research project should be organized systematically, making research methodology a crucial component. To meet the fundamental goals of this study, various methodologies have been utilized, including research design, population and sample selection, data sources, and data collection procedures.

3.1 Research design

The study employs a descriptive and causal research design. Causal research design aims to describe the relationships of cause and effect among various aspects or variables. In this context, factors such as board size, earnings per share, capital adequacy ratio, female directors, and ethnic groups are examined for their influence on firm performance. Additionally, various statistical tools, including standard deviation, correlation coefficients, and regression analysis, have been applied to the sampled banks. The research design emphasizes the methods for data collection, the research instruments used, and the sampling strategy implemented.

3.2 Population and sample, and sampling design

The stock market consists of various sectors, including financial institutions, commercial banks in Nepal, manufacturing and processing, hospitality, trading, hydropower, and others. This study focuses on 20 commercial banks as its population. From this group, 10 banks were selected as a sample using purposive sampling. The chosen banks are Nepal Investment Mega Bank Limited, Laxmi Sunrise Bank Limited, Rastra Banijya Bank Limited, Agricultural Development Bank Limited, Kumari Bank Limited, Sanima Bank Limited, Nabil Bank Limited, Nepal Bank Limited, Himalayan Bank Limited, and Everest Bank Limited, based on their deposit levels and profits earned (NRB, 2023).

3.3 Sources of data

The required information and data are gathered from secondary sources, including annual reports, trading reports, and publications released by the respective banks' annual reports.

Additional data related to the NRB, as well as from national and international journals and relevant websites, are also included.

3.4 Data collection procedure

The majority of the data required for the study was gathered from secondary sources and surveys. Additionally, insights were obtained from individual investors, relevant organizational officials, staff from SEBON and NEPSE, and other pertinent individuals. Information regarding share market prices, market capitalization, and NEPSE index volatility was sourced from trading reports published by NEPSE. Other data concerning related companies was collected from the companies themselves and their official websites.

3.5 Method of analysis

It encompasses all the gathered data and its analysis. The study presents and examines data on Board size, Earnings per Share, capital adequacy ratio, the presence of Female Directors, and Ethnic Group categories. The tables and figures in this study effectively communicate the results of the findings.

a. Descriptive analysis

Descriptive statistics are concise summary metrics that encapsulate a data set, representing either the whole population or a sample from it. These statistics are categorized into measures of central tendency and measures of variability (spread). The central tendency measures consist of the mean, median, and mode, whereas the variability measures include standard deviation, variance, minimum and maximum values, kurtosis, and skewness.

b. Correlation analysis

Correlation analysis is a statistical method used to indicate the extent to which one variable is linearly associated with another (Levin & David, 1994). This tool is valuable for assessing the strength of the linear relationship between two variables. A positive correlation indicates that the variables are directly proportional, while a negative correlation suggests that they are inversely proportional. Regardless of the relationship's direction, the correlation coefficient remains confined to the range of +1 to -1. The correlation coefficients (r) between two variables, x and y , can be calculated using the following formula. The value of this coefficient is always constrained between +1 and -1,

meaning +1 and -1 serve as its boundaries. A coefficient of $r = +1$ indicates a positive correlation between the variables, while $r = -1$ indicates a negative correlation. A value of zero signifies no correlation at all.

c. Regression analysis

Regression analysis comprises various statistical techniques employed to estimate the relationships between a dependent variable and one or more independent variables. It can be used to evaluate the strength of these relationships and to model future interactions between the variables.

3.6 Research framework and definition of variables

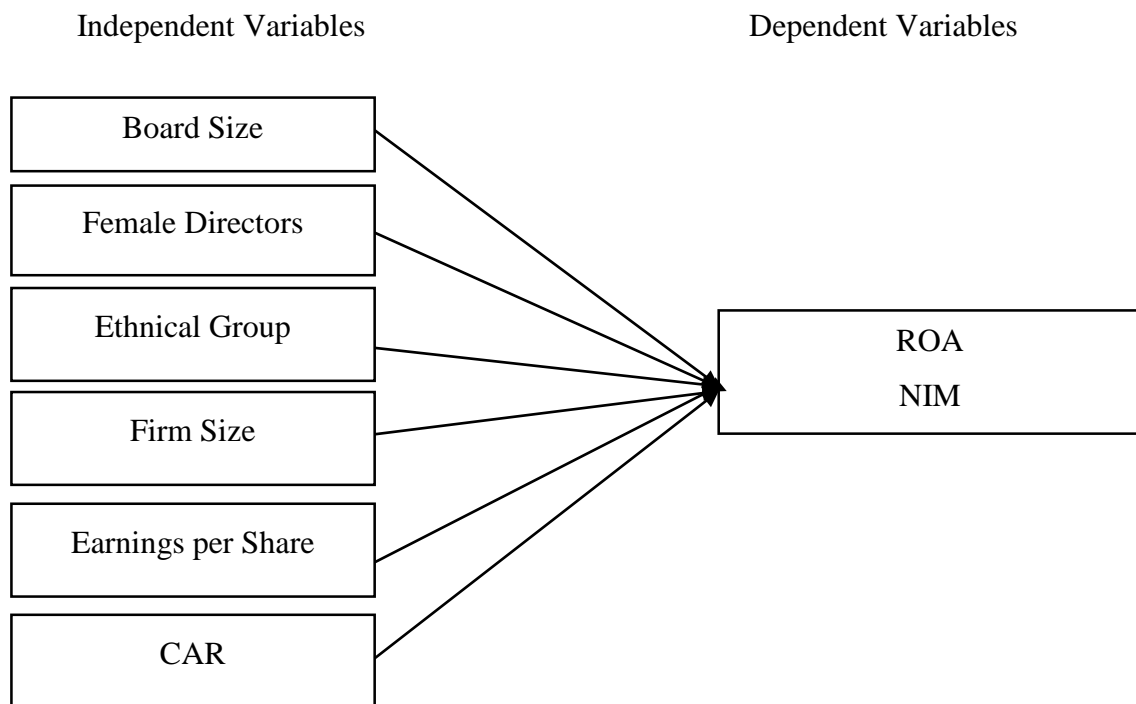


Figure 1

Research Framework

Source: (Ali & Anwar, 2021)

Definitions of Variables

Board Size

The company's performance is heavily impacted by the size of its board of directors. Directors are responsible for ensuring that management functions efficiently and adheres to the established policies and procedures. They also develop policies, rules, and

regulations while making key decisions on behalf of the company. According to Jensen (1996) and Lipton & Lorsch (1995), having too many board members can lead to agency problems and slow down the decision-making process, ultimately reducing a bank's performance (Ahmed & Hamdan, 2015).

Female Director

Women generally make valuable contributions to board responsibilities, particularly in areas that involve qualitative tasks. Various studies highlight their strong abilities in strategic planning, overseeing corporate social responsibility matters, and monitoring management (Amarneh, 2014).

Ethnic Group

An ethnic group refers to a social group or segment of a population distinguished and united by shared racial, linguistic, national, or cultural characteristics within a larger society. Ethnic diversity represents one aspect of the social intricacy present in the majority of modern societies (Balaputhiran, 2016).

Size

The size of a company serves as a metric that can differentiate between large and small companies based on several factors, such as total assets, market value, and average sales. Total assets are often used as a reliable indicator of a company's size, as they tend to be more stable and reflective of the company's scale. Large companies are typically seen as less risky due to their perceived greater access to capital markets (Nugraha, 2018).

Earnings per Share (EPS)

The earnings per share (EPS) represents the share of a company's profit attributed to each outstanding common stock share. It serves as a key measure of a company's profitability. Higher EPS reflects stronger financial performance and efficiency in utilizing funds, especially for financial institutions, while lower EPS suggests the opposite. In this study, EPS is used as the independent variable (Wijerathna, 2018).

Capital Adequacy Ratio (CAR)

The capital adequacy ratio (CAR) evaluates a bank's available capital in comparison to its risk-weighted assets. During periods of financial strain, this ratio provides a quick

assessment of the bank's capacity to absorb losses and remain solvent (Bennedsen et al., 2013).

The study model

$$\text{ROA} = a + b_1\text{BS} + b_2\text{LM} + b_3\text{EG} + b_4\text{Size} + b_5\text{EPS} + b_6\text{CAR} + e$$

$$\text{NIM} = a + b_1\text{BS} + b_2\text{LM} + b_3\text{EG} + b_4\text{Size} + b_5\text{EPS} + b_6\text{CAR} + e$$

Where,

ROA = Return on Assets

NIM = Net interest margin

BS = Board Size

LM = Female Director

EG = Ethnical Group

EPS = Earnings per Share

CAR = Capital adequacy Ratio

a = Intercept

b_1, b_2, \dots = Slope of Independent variables

e = Error

CHAPTER IV

RESULTS AND DISCUSSION

The data collected for the study's variables is displayed in this chapter. Each variable is represented by a separate figure. Various statistical methods have been applied to analyze the data and address the study's research questions. Descriptive statistics, including the mean, maximum, minimum, and standard deviation, have been used to calculate the factors influencing an insurance company's profitability.

4.1 Descriptive analysis

The descriptive statistics for all the variables used in the study are presented in Table 2. It provides the summary statistics for each variable included in the analysis, with the mean, maximum, minimum, and standard deviation values shown in sequence.

Table 1

Descriptive Statistics

Variables	Mean	S.D.
Net Interest Margin	4.6809	35.526
Return on Assets	1.6201	.799
Earnings Per Share	34.8001	26.327
Capital Adequacy Ratio	16.8013	9.703
Firm Size	22.8962	19.737
Ethnical Group	9.0100	1.567
Female Director	2.1600	1.099
Board size	8.3300	1.111

Source Appendix – I and SPSS Output

Table 1 outlines the descriptive statistics, offering a summary of the main attributes for each variable in the dataset pertaining to corporate governance and firm performance. It presents data on nine variables: Net Interest Margin (NIM), Return on Assets (ROA), Earnings Per Share (EPS), Capital Adequacy Ratio (CAR), Firm Size (FA), Ethnic Group (EG), Female Directors (FE), and Board Size (BS).

The "Mean" refers to the average value of each variable. For example, the mean NIM and ROA are 4.6809 and 1.6201, respectively, which represent the average NIM and ROA in

the study. Likewise, the average values for EPS, CAR, FS, EG, FD, and BS are 34.8001, 16.8013, 22.8962, 9.0100, 2.1600, and 8.3300, respectively.

The "Maximum" refers to the peak value recorded for each variable. For instance, the maximum values for NIM and ROA are 43.96 and 3.25, signifying the highest NIM and ROA among the 10 fiscal years of the respective banks.

The "Minimum" represents the lowest value recorded for each variable. For example, the minimum NIM and ROA are -338.98 and 0.00, respectively, reflecting the lowest NIM and ROA over the 10 fiscal years.

The "Std. Dev." (Standard Deviation) quantifies the spread or dispersion of data points relative to the mean, offering insights into data variability. For instance, the standard deviations for NIM and ROA are 35.526 and 0.799, indicating that their values fluctuate relatively close to the mean. Likewise, the standard deviations for EPS, CAR, FS, EG, FD, and BS are 26.327, 9.703, 19.737, 1.567, 1.099, and 1.111, respectively.

4.2 Correlation analysis

Table 3 presents the relationship between the variables employed in the study. If there is a correlation among the variables, it is logical to assume that at least one variable has an impact on another.

This table illustrates the Karl-Pearson correlation coefficient for the variables analyzed. The P-value is indicated between the additions. Below is the presentation of the variables.

Table 2

Pearson's Correlation Analysis

Variables	NIM	ROA	EPS	CAR	SIZE	EG	FD	BS
NIM	1							
ROA	0.899* 0.044	1						
EPS	0.595** 0.003	0.317* 0.028	1					
CAR	0.412* 0.017	0.179 0.075	0.077 0.448	1				
Size	0.467** 0.002	0.656* 0.036	-0.096 0.344	-0.256* 0.01	1			
Ethical	-0.011 0.131	0.093 0.355	-0.216* 0.031	-0.033 0.743	.202* 0.044	1		
Fem. Dir	-0.192 0.002	0.049 0.627	0.048 0.632	0.072 0.479	0.138 0.171	0.005 0.961	1	
Board size	0.983* 0.017	0.096 0.342	-0.163 0.105	-0.056 0.582	0.006 0.953	0.091 0.368	-0.085 0.4	1

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

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

Source: Appendix II and SPSS Output

Table 2 presents the correlation matrix illustrating the relationships among the variables. EPS demonstrates a significant positive correlation with NIM at the 1% significance level, with a coefficient of 0.595. Additionally, size exhibits a strong positive and significant relationship with NIM, scoring 0.467. At the 5% significance level, ROA, CAR, and board size also show significant positive correlations with NIM, with coefficients of 0.899, 0.412, and 0.983, respectively. Furthermore, ROA, EPS, and CAR indicate significant positive correlations with ROE, while size and board size reveal significant negative correlations with ROE at the 5% significance level.

The correlation between ROA and EPS is 0.317, indicating a moderate positive correlation that is significant at the 5% level. In contrast, Size exhibits a strong positive and significant relationship with ROA at the 5% level. Board size and Size show a weak negative correlation with ROE, which is also significant at the 5% level. The relationship between NIM and EPS demonstrates a strong positive correlation, significant at the 1% level. Additionally, the Ethical group has a significant positive relationship with Size (0.202) and a significant negative relationship with EPS (-0.216).

4.3 Regression analysis

The main purpose of regression analysis was to determine how the study's independent factors affected the dependent variable. Analyzing the factors that affect firm performance and testing the hypotheses were the goals of the investigation.

Table 3

Model Summary of ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.281a	.079	.019	.79116

a. Predictors: (Constant), Earnings Per Share, Ethnical Group, adequacy ratio, Female Director, board size, firm size

Table 3 shows the percentage of variability in ROA that can be attributed to the independent variables. The adjusted R-squared is a more reliable statistic as it takes into account the size of the sample. Adjusted R-squared is used to assess the reliability of the correlation and the extent to which it is influenced by the inclusion of independent variables. The coefficient for the board size of independent variables indicates its impact on the dependent variables. The sign of the coefficient (whether positive or negative) indicates the direction of the effect. The standard error reflects the average deviation of the coefficient from the regression line, serving as a measure of dispersion.

Table 4

ANOVA Table

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	222.110	5	44.422	10.571	.000b
Residual	88.246	21	4.202		
Total	310.356	26			

a. Dependent Variable: ROA

b. Predictors: (Constant), Earnings Per Share, Ethnical Group, adequacy ratio, Female Director, board size, firm size

Table 4 demonstrated that the overall regression model is significant. It indicates that the influence of the independent variables—operating Earnings Per Share, ethnic group, capital adequacy ratio, presence of female directors, board size, and firm size—on the dependent variable, ROA, is statistically significant, with a p-value of 0.000, which is below the 0.05 significance level. Therefore, to establish a significant relationship between these variables, the p-value must be less than 5%.

Table 5

Regression Coefficient

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	48.474	7.269		6.669	.000
	Board size	-5.108	.803	-1.144	-6.359	.000
	Female Director	-.169	.115	-.204	-1.465	.158
	Ethnical Group	.695	.391	.378	1.779	.090
	Capital Adequacy Ratio	4.878	2.030	.370	2.403	.026
	Earnings Per Share	-.211	.130	-.209	-1.623	.120
	Firm Size	-.003	.003	-.086	-.726	.473

a. Dependent Variable: ROA

Source: Appendix III and SPSS Output

Table 5 indicates that the calculated t-value for 'a' is 6.669, with a p-value of 0.000 (or 0.00%). This suggests that the computed 'a' is statistically significant at the 10% significance level. The size of the board has a significant negative effect on ROA, while the presence of female directors and earnings per share also negatively influence ROA. In contrast, ROA is positively affected by the ethnic group and capital adequacy ratio; the capital adequacy ratio is statistically significant at the 5% level, and the ethnic group is significant at the 10% level, with coefficients of 4.878 and 0.695, respectively. The r-squared value is 7.90%, and the p-value for the regression is 0.000, indicating statistical significance at the 0.05 level. Therefore, there is a linear relationship between ROA and factors such as female directors, capital adequacy ratio, ethnic group, board size, and earnings per share, with board size and capital adequacy ratio being the most significant variables affecting ROA.

Table 6

Model Summary of NIM

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.365a	.133	.077	5.29385

a. Predictors: (Constant), Earnings Per Share, Ethnical Group, adequacy ratio, Female Director, board size, firm size

Table 6 presents the r^2 values from the model summary, indicating that 13.30% of the variance in Net Interest Margin (NIM) is explained by the explanatory variables, including Earnings Per Share, Ethnic Group, adequacy ratio, the presence of a Female Director, board

size, and firm size. The regression coefficient indicates a significant relationship between NIM and the variables Earnings Per Share, Ethnic Group, adequacy ratio, and Female Director, with a value of 0.035, as shown in the ANOVA table.

Table 7

ANOVA Table

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	400.552	6	66.759	2.382	.035b
	Residual	2606.314	93	28.025		
	Total	3006.866	99			

a. Dependent Variable: NIM

b. Predictors: (Constant), Earnings Per Share, Ethnical Group, adequacy ratio, Female Director, board size, firm size

Table 7 presents the ANOVA results, summarizing the significance between the dependent and independent variables. This table indicates that the independent variables—Earnings Per Share, Ethnic Group, adequacy ratio, Female Directors, and board size—have a statistically significant effect on the dependent variable, NIM, with a significance level of 0.05, specifically 0.035.

Table 8

Regression Coefficients

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17.208	5.491		3.134	.002
	Board size	.572	.488	-.115	1.171	.245
	Female Director	-.503	.494	-.100	-1.018	.011
	Ethnical Group	.425	.355	.121	1.198	.034
	Capital Adequacy Ratio	-.005	.057	-.009	-.086	.031
	Earnings Per Share	.052	.021	.246	2.455	.016
	Firm Size	-.056	.029	-.202	-1.951	.044

a. Dependent Variable: NIM

Source: Appendix IV

Regression analysis output: coefficient

The linear equation of this model is,

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6$$

$$\text{NIM} = 17.208 + 0.572 X_1 - 0.503 X_2 + 0.425 X_3 + 0.005 X_4 + 0.052 X_5 + 0.056 X_6$$

Table 8 presents the estimated regression results for Earnings Per Share, Ethnic Group, adequacy ratio, Female Director, board size, and firm size concerning Net Interest Margin (NIM). The positive coefficients for board size, Ethnic Group, and Earnings Per Share are 0.572, 0.425, and 0.052, respectively, suggesting that an increase of Rs. 1 in board size, Female Directors, and Ethnic Group results in an increase in NIM of 0.572, 0.425, and 0.052. This implies that larger board sizes, more Female Directors, and a greater presence of diverse ethnic groups correlate with higher NIM in Nepalese commercial banks. However, the beta coefficients for board size, Female Directors, and Ethnic Group are positive, indicating that an increase in these variables is associated with a decrease in the profitability of Nepalese commercial banks.

The constant terms, earnings per share, and firm size show a statistically significant relationship with NIM at the 0.05 significance level. Additionally, board size, the presence of female directors, ethnic group, and capital adequacy ratio are also significant in relation to NIM, as indicated by their p-values being less than 0.05. The coefficient of determination (r^2) is 0.133, or 13.30%. As shown in the table above, board size, female directors, ethnic group, capital adequacy ratio, and earnings per share are collectively significant as independent variables, while each independent variable also demonstrates significance with NIM.

4.4 Discussion

The aim of this study is to examine how corporate governance affects the performance of banks in Nepal. The research employed measures such as mean, median, maximum, minimum, and standard deviation. A higher Return on Assets (ROA) and Return on Equity (ROE) is more desirable than lower figures, suggesting that greater profitability is favored when considering ROA and ROE. The "Mean" indicates the average value of each variable; for example, the mean ROA reflects the average return on assets among the mutual funds analyzed.

The research indicated a moderate positive correlation between Return on Assets (ROA) and Earnings Per Share (EPS), with significance at the 5% level. In contrast, Size demonstrated a strong positive and significant relationship with ROA, also at the 5% significance level. This aligns with the findings of Jebran and Chen (2023), which reported

a low negative correlation between board size and Return on Equity (ROE), significant at the 5% level. Additionally, the results are consistent with studies by Bista (2019) and Mohan (2018), which found a strong positive correlation between Net Interest Margin (NIM) and EPS, significant at the 1% level. Furthermore, the Ethical group showed a significant positive relationship with Size and a significant negative relationship with EPS, echoing the findings of Jebran and Chen (2023).

The Return on Assets (ROA) is adversely affected by board size, the presence of female directors, and earnings per share. While board size shows a significant effect at the 5% level, both earnings per share and the presence of female directors are statistically insignificant, aligning with the findings of Khan (2023). Conversely, ROA is positively influenced by the ethnic group and the capital adequacy ratio, echoing the results of Jesuka (2022). Here, the capital adequacy ratio is significant at the 5% level, while the ethnic group is significant at the 10% level. Thus, there exists a linear relationship between ROA and the variables of female directors, capital adequacy ratio, ethnic group, board size, and earnings per share. Additionally, a statistically significant negative relationship is observed between female directors and ethnic group, which supports Koutoupis's (2021) findings but contradicts those of Khatib (2021).

The positive coefficients for board size, female directors, and ethnic groups suggest that when these factors increase by Rs.1, the return on equity (ROE) decreases accordingly. This implies that a larger board size, more female directors, and greater representation of ethnic groups are associated with higher ROE in Nepalese commercial banks, aligning with the findings of Boachie and Mensah (2022). Additionally, the positive beta coefficients for board size, female directors, and ethnic groups indicate that increases in these factors correlate with lower profitability for Nepalese commercial banks, consistent with the results reported by Jebran and Chen (2023).

As shown in the table above, the overall significance of board size, the presence of female directors, ethnic diversity, capital adequacy ratio, and earnings per share as independent variables is confirmed, with each individual variable also showing significance with NIM. This result contrasts with the findings of Khanal (2023), Boachie and Mensah (2022), and Huynh (2022), but aligns with the conclusions drawn by AI-Matari (2023) and Khan (2023).

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

The main motivation for the examination study was to investigate whether there is a relationship between corporate governance and its other variables. To address this question, various studies on corporate governance have been reviewed. These studies explore the key variables influencing corporate governance, the factors that facilitate its achievement, and how this research assesses corporate governance. Additionally, the concept of corporate governance, its dimensions, and its connections with other variables have also been thoroughly researched and analyzed.

The main objective of the study was to investigate the impact of corporate governance on bank performance. This chapter outlines the background and focus of the research. It includes an introduction that details the study's background, problem statement, objectives, rationale, and limitations. The second chapter provides a comprehensive literature review, covering the theoretical foundations of banking principles as well as relevant journals, articles, and previous theses. The third chapter elaborates on the research methods employed to evaluate the liquidity and profitability of the development banks examined. In the fourth chapter, the findings and data are presented, assessed, and interpreted using financial and statistical techniques. Lastly, the fifth chapter concludes with a summary, conclusions, and recommendations for the study.

The study employed a descriptive and causal comparative research design. It focused on ten commercial banks to explore the relationship between financial performance and corporate governance. The specific objectives of the study are: i) to identify the dimensions that characterize corporate governance and banking performance; ii) to analyze the relationship between corporate governance and bank performance; and iii) to investigate the effect of corporate governance on the performance of Nepalese commercial banks. A purposive sampling method was utilized to select 10 banks from a total of 20 as the sample. The research relied on secondary data collected from the annual reports of the individual banks. Microsoft Excel and SPSS were used to organize and analyze the data gathered.

5.2 Conclusion

The main aim of this study was to assess the corporate governance practices of commercial banks in Nepal and explore the relationship between corporate governance, perceived performance, and other variables such as female directors, ethical groups, bank size, earnings per share, capital adequacy ratio, return on assets (ROA), and net interest margin (NIM). Analyzing firm performance alongside corporate governance factors revealed a significant relationship between the two. The findings suggest that commercial banks should prioritize corporate governance to enhance their overall performance.

The study's results indicate that the presence of female directors, firm size, and earnings per share (EPS) have an insignificant negative effect on the performance of commercial banks. The correlation analysis reveals a negative and statistically significant relationship between female directors and firm size, measured by assets ($P > 0.5$), with a correlation coefficient of -0.508 at the 1 percent significance level. This suggests that as the number of female directors increases, the size of the firm also tends to increase.

In a similar vein, the presence of a Female Director shows a negative and statistically significant correlation with revenue, indicating that as revenue increases, liquidity tends to decrease. Additionally, Size has a negative and significant relationship with itself. However, Size and ROA are positively correlated. Furthermore, ROA is adversely affected by liquidity, firm size, and growth rate, though this impact is not statistically significant even at the 10% significance level. Conversely, ROA is positively influenced by Size and revenue, with Size showing statistical significance at the 5% level and revenue at the 10% level. Therefore, there is a linear relationship between Size and liquidity, fixed assets, revenue, and the growth rate of firms.

The primary issue with corporate governance in organizations is that the board of directors and management members are often indistinguishable, leading to employee dissatisfaction with the audit committee's performance. Additionally, employees believe that the bank's board meetings are not conducted as needed. Even though the bank has a written code of conduct, its implementation is lacking. This research shows that effective governance is crucial for corporations, especially in the banking sector, as it significantly influences information disclosure.

Similarly, Size is adversely affected by firm size, the presence of female directors, and GDP. Firm size is significant at the 5% level, while female directors and GDP show no statistical significance even at the 10% level. On the other hand, Size is positively influenced by revenue and leverage; leverage is significant at the 10% level, whereas revenue does not reach significance at the same level. Thus, there is a linear relationship between Size, the presence of female directors, the leverage ratio, revenue, and GDP of firms.

5.3 Implications

Based on the findings of the research the following implications were given as the study draws some conclusions and identifies the effect of profitability insignificantly.

- This research concentrated exclusively on five specific factors or groups related to corporate governance. Future studies examining this relationship may uncover additional variables that influence corporate governance and perceived performance, beyond those identified in this study.
- This study utilized a sample from a commercial bank, which limits the applicability of the findings to other types of institutions, such as development banks, manufacturing firms, and finance companies.
- As this research is solely academic in nature, the sample size is limited. For professional research purposes, increasing the sample size would help minimize errors and enhance the generalizability of the results.
- Conducting research across the entire country can enhance its effectiveness and authenticity. Future researchers are advised to utilize a larger participant sample that encompasses the entire banking sector, allowing for a clearer understanding of the banking sector in Nepal.
- The adverse effects of company size and capital volume on life insurance premiums suggest that minimizing debt levels could lead to improved returns on assets.
- Future studies should examine how resources are allocated and risks are managed, focusing on the factors influencing life insurance premiums for commercial banks and their implications for risk management practices.

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APPENCIDES

APPENDIX- I

Essential Information of Nepal Investment Mega Bank Limited

(Rs.in Million)

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Profit	1940	1962	2551	3114	3659	3324	2423	3558	3797	3720
Deposit	73831	90631	108627	125669	140328	152183	168824	174558	184791	354414
EPS	46.2	40.7	30.9	29.3	29.3	35.7	26.4	17	22	20.7
NIM	1.91	1.77	1.25	0.68	0.83	1.36	2.78	2.91	2.46	1.49
CAR	11.49	11.27	11.9	14.92	13.02	12.66	13.26	13.54	14.71	15.96
LN Size	42.4	44.8	45.6	46.4	48.8	63.6	59.1	56.3	60.3	60.8
Ethnical	12	10	9	8	9	11	10	10	8	8
Female Dir.	4	2	1	3	3	4	1	2	2	2
ROA	2.6	2.3	1.9	2	2.1	2.13	1.79	1.19	1.56	1.55
Board Size	9	9	7	7	11	9	9	8	8	8

(Source: Annual Report of Nepal Investment Mega Bank)

Essential Information of Laxmi Sunrise Bank Limited

(Rs.in Million)

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Profit	246	470	951	1112	1476	1706	1359	1446	1513	2285
Deposit	26616	33486	51650	57286	67366	75432	90223	106432	139252	296243
EPS	15.46	11.03	19.27	23.94	16.76	18.13	20.94	15.16	15.25	19.39
NIM	3.74	4.94	2.9	1.22	1.37	1.24	1.03	1.86	1.39	1.3
CAR	11.8	11.49	11.11	12.05	14.47	13.38	13.22	14.38	13.41	12.35
LN Size	38.21	42.26	43.27	45.5	45.25	55.99	59.84	61.13	63.43	67.34
Ethnical	12	11	8	7	10	12	13	12	8	11
Female Dir.	0	1	1	2	2	2	4	3	2	2
ROA	1.19	0.83	1.26	1.62	1.61	1.78	1.8	1.17	1.05	1.15
Board Size	9	9	9	9	8	8	9	9	8	7

(Source: Annual Report of Laxmi Sunrise Bank Limited)

Essential Information of Rastra Banijya Bank Limited

(Rs.in Million)

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Profit	974	961	1382	2006	2101	2762	2908	4165	4959	6694
Deposit	52292	60176	74682	101910	104850	120088	212315	268434	276965	426325
EPS	21.79	21.38	54.07	27.42	32.32	30.26	56.04	48.61	37.27	34.85
NIM	5.32	6.38	5.35	4.25	3.77	4.75	4.59	4.08	3.23	2.09
CAR	2.94	4.62	10.16	10.46	10.39	11.46	13.39	12.64	13.46	13.29
LN Size	43.89	44.98	50.95	52.88	46.96	31.48	30.57	24.53	22.45	18.92
Ethnical	10.22	9.1	8.23	8.32	7.78	9.2	8.97	9.63	6.99	7.93
Female Dir.	15.78	19.38	14.48	14.09	9.6	5.29	6.44	7.32	3.54	7.32
ROA	1.26	1.47	3.22	1.42	1.6	1.42	2.23	1.64	1.1	1.3
Board Size	7	7	7	9	11	11	10	8	8	8

(Source: Annual Report of Rastra Banijya Bank Limited)

Essential Information of Agricultural Development Bank Limited

(Rs.in Million)

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Profit	2289	1521	3490	2465	2966	3554	3332	3527	2226	1323
Deposit	54478	65898	77035	87387	99515	104216	118845	162815	166590	199487
EPS	45.09	59.03	35.19	78.83	52.79	36.91	42.88	31.45	29.13	14.41
NIM	8.98	5.85	5.46	5.35	4.36	3.5	3.29	2.84	1.88	2.09
CAR	19	16.34	14.93	13.9	17.16	20.33	20.37	19.29	16.94	15.59
LN Size	42.11	40.45	42.19	42.28	42.47	28.88	24.72	21.87	33.67	28.07
Ethnical	4	7	7	9	11	13	13	13	11	10
Female Dir.	4	4	5	2	2	2	2	3	2	2
ROA	2.9	2.97	1.76	0.93	0.58	2.71	2.77	1.86	1.59	0.9
Board Size	7	7	7	7	8	8	8	9	7	7

(Source: Annual Report of Agricultural Development Bank Limited)

Essential Information of Kumari Bank Limited

(Rs.in Million)

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Profit	701	767	1270	1488	1999	2319	2194	2961	2958	3229
Deposit	35414	44741	64902	76339	94245	114556	139172	180439	191156	223307
EPS	18.89	-33.46	17.27	17.24	8.71	15.19	28.38	13.94	14.93	19.4
NIM	6.6	6.01	5	5.1	5.56	4.38	4.05	4.38	3.45	3.19
CAR	16.42	11.67	13.93	13.83	16.07	17.18	16.54	14.2	13.26	11.72
LN Size	2.65	-3.2	8.97	8.82	8.95	9.61	6.94	12.99	39.18	17.58
Ethnical	10	10	10	10	9	9	8	8	8	8
Female Dir.	2	2	2	3	2	1	0	0	1	1
ROA	3.22.4	2.8	2.7	2.41	2.62	3.11	1.49	1.87	2.11	2.31
Board Size	7	7	9	9	9	11	8	9	9	9

(Source: Annual Report of Kumari Bank Limited)

Essential Information of Sanima Bank Limited

(Rs.in Million)

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Profit	428	624	1000	1377	1698	2258	1776	2318	2093	2606
Deposit	24874	34045	41664	56161	77849	89374	107250	126426	157518	175745
EPS	6.04	15.13	19.28	24.47	32.55	26.31	21.22	28.22	20.18	23.94
NIM	5.72	12.58	15.09	18.19	22.69	14.39	18.67	23.2	16.09	18.54
CAR	37.25	17.18	33.09	22.68	23.04	16.38	15.27	12.33	16.35	20.26
LN Size	2.44	4.05	2.47	3.79	2.11	3.71	4.32	6.05	4.12	3.69
Ethnical	8	8	8	11	11	9	9	9	10	10
Female Dir.	1	0	3	3	1	0	0	2	2	2
ROA	0.89	1.39	1.46	1.55	1.78	1.86	1.85	2.07	1.41	1.44
Board Size	7	7	7	7	9	9	8	9	9	9

(Source: Annual Report of Sanima Bank Limited)

Essential Information of Nabil Bank Limited

(Rs.in Million)

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Profit	2319	2094	2823	3645	3982	4238	3463	4528	4256	6405
Deposit	75389	104238	110211	118684	134810	162954	190806	223474	326222	396843
EPS	76.12	57.24	59.27	59.86	51.84	50.57	36.16	33.57	18.64	23.67
NIM	7.38	5.79	4.34	2.29	2.56	4.33	6.08	7	4.84	3.12
CAR	30.25	32.78	27.97	22.73	25.61	26.65	20.94	17.76	13.61	15.19
LN Size	11.05	11.2	11.38	11.66	11.76	11.85	12.04	12.21	12.38	12.58
Ethnical	8	8	7	9	9	8	8	9	7	9
Female Dir.	1	1	2	2	1	1	1	0	2	1
ROA	3.25	2.89	2.06	2.32	2.69	2.61	2.11	1.58	1.71	1.2
Board Size	9	9	9	7	9	7	7	9	11	11

(Source: Annual Report of Nabil Bank Limited)

Essential Information of Nepal Bank Limited

(Rs.in Million)

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Profit	717	484	2883	3118	3216	2597	2333	2961	2923	3438
Deposit	69338	77999	77999	89410	99831	118275	142989	162813	196075	244514
EPS	198.53	18.08	7.48	44.59	38.77	39.98	26.99	20.68	23.43	17
NIM	22.53	9.6	11.55	17.46	18.81	4.06	4.53	4.19	3.49	4.17
CAR	-0.59	4.55	7.49	10.2	14.47	16.8	17.01	16.8	15.05	16.81
LN Size	10.98	11.17	11.26	11.39	11.55	11.63	11.83	12.05	12.16	12.31
Ethnical	7	8	7	8	8	9	9	8	7	7
Female Dir.	2	2	1	3	2	2	1	1	2	3
ROA	0	0.01	0.01	0.01	0.03	0.03	0.02	0.02	0.01	0.01
Board Size	7	7	8	7	8	9	9	9	8	8

(Source: Annual Report of Nepal Bank Limited)

Essential Information of Himalayan Bank Limited

(Rs.in Million)

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Profit	959	1112	1936	2178	1876	2764	2587	2998	2368	1563
Deposit	64675	73538	87336	92881	98989	109387	125264	141021	168419	275311
EPS	34.19	33.1	33.37	43.03	33.55	23.11	32.44	27.6	28.07	18.26
NIM	-338.98	43.96	13.35	29.41	13.82	11.90	5.88	5.95	13.29	17.85
CAR	11.55	11.23	11.14	10.84	12.15	12.46	12.6	14.89	13.89	11.75
LN Size	2.45	2.42	2.41	2.38	2.5	2.52	2.53	2.7	2.63	2.46
Ethnical	7	9	9	10	9	9	8	10	10	9
Female Dir.	4	4	2	2	3	3	3	2	3	4
ROA	1.54	1.3	1.34	1.94	2.03	1.67	2.21	1.79	1.68	1.09
Board Size	8	8	8	8	8	9	9	9	7	9

(Source: Annual Report of Himalayan Limited)

Essential Information of Everest Bank Limited

(Rs.in Million)

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Profit	1550	1574	1730	2006	2582	3054	2516	1771	2479	3362
Deposit	62108	83094	93735	95094	116428	130177	144728	160220	172739	198008
EPS	88.55	91.88	86.04	78.04	40.33	32.48	32.78	38.05	29.71	19.91
NIM	15.19	16.91	24.27	16.16	16.52	17.75	18.56	14.43	18.5	6.5
CAR	11.67	17.32	30.58	27.17	83.94	41.66	20.23	17.5	22.72	37.06
LN Size	10.93	11.09	11.16	11.5	11.64	11.67	11.88	12.04	12.13	12.26
Ethnical	8	8	9	9	9	8	8	8	9	9
Female Dir.	2	2	2	4	4	3	4	3	3	3
ROA	2.39	2.25	1.85	1.85	1.83	1.97	1.94	1.42	0.89	1.13
Board Size	7	7	7	8	7	9	9	9	10	10

(Source: Annual Report of Everest Bank Limited)

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ABSTRACT Corporate governance refers to the collaborative process involving top management, the board of directors, and shareholders in determining a company's performance and strategic direction. It also examines how the goals guiding the corporation's governance interact with its stakeholders. The primary aim of this study is to identify the characteristics that best represent corporate governance and its relationship with banking performance, specifically focusing on Nepalese commercial banks. The study employs a descriptive, causal-comparative research design to explore the relationship