

CORPORATE GOVERNANCE STRUCTURE AND PERFORMANCE OF NEPALESE BANKS

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by

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I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**CORPORATE GOVERNANCE STRUCTURE AND PERFORMANCE OF NEPALESE BANKS**” The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

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

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Rita Shrestha
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ABBREVIATIONS

ADB	:	Asian Development Bank
AGM	:	Annual General Meeting
BA	:	Bank Age
BD	:	Board Diversity
BIST	:	Borsa Istanbul
BM	:	Board Size Member
BOD	:	Board of Directors
BS	:	Bank Size
CAR	:	Capital Adequacy Ratio
CB	:	Commercial Banks
CEO	:	Chief Executive Officer
CG	:	Corporate Governance
CGP	:	Corporate Governance and Performance
CP	:	Corporate Performance
DB	:	Development Bank
DEA	:	Data Envelopment Analysis
FY	:	Fiscal Year
ID	:	Independent Director
LLP	:	Loan Loss Provisions
MPS	:	Market Price per Share
N	:	Neutral
NED's	:	Non Executive Directors
NIAT	:	Net Income after Tax
NPL	:	Non Performing Loan
NPM	:	Net Profit Margin
NRB	:	Nepal Rastra Bank
OLS	:	Ordinary Least Square

OS	:	Ownership Structure
PE	:	Price Earnings Ratio
ROA	:	Return on Assets
ROE	:	Return on Equity
SPSS	:	Statistical Packages for Social Sciences
Std. Dev.	:	Standard Deviation
R	:	Random Effect
TA	:	Total Assets
W. Value	:	Weighted Value
WB	:	World Bank

ABSTRACTS

The purpose of this study was to know the relationship and impact of corporate governance structure and performance of Nepalese banks. This study investigates the effect of corporate governance structure and performance of Nepalese banks by using secondary data. Corporate governance is an important concept which has been put into practice because of the needs of corporations to constantly be efficient and perform better; and it is this need that has made corporate governance so necessary today. Secondary data has been collected from 10 sample banks from 2014/15 to 2022/23 has been collected from various secondary sources like annual reports of sample banks and consolidated financial reports prepared by Nepal Rastra Bank. Descriptive statistics, correlation analysis and regressions analysis have been carried out to examine the secondary data. The performance measures like Return on Equity (ROE) and Return on Assets (ROA) of the banks have been used as the dependent variable while corporate governance variables like board size member (BM), earning per share (EPS), capital adequacy ratio (CAR), bank size (BS), bank age (BA), independent directors (ID) have been considered as independent variables in addition to which size and risks of the sample banks are included in the model as control variables.

This study aims to analyse the relationship of corporate governance structure with performance of banks. Findings suggest that effective corporate governance mechanisms significantly enhance the performance of Nepalese banks by fostering investor confidence, reducing agency costs, and promoting sustainable growth. However, challenges such as regulatory compliance gaps, board independence issues, and transparency deficits also emerge as critical factors affecting governance quality and consequently, bank performance. Recommendations include enhancing board independence, improving transparency and accountability mechanisms, and aligning executive incentives with long-term performance objectives to sustainably enhance the performance of Nepalese banks amidst evolving economic and regulatory landscapes.

Key words: Return on equity, return on assets, board size member, earning per share, capital adequacy ratio, bank size, bank age, independent directors

CHAPTER-I

INTRODUCTION

1.1 Background of the study

Corporate governance can be defined as the relationship among shareholders, the board of directors and the top management in determining the direction and performance of the corporation. It has fast track emerged as a benchmark for assessing corporate excellence in the circumstance of national and international business practices. Similarly, the definition of corporate governance most widely used is the system by which companies are directed and controlled (Cadbury Committee, 1992). More specifically it is the framework by which the various stakeholder interests are balanced, or as the IFC states, the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders. From guidelines and desirable code of conduct some decades ago, corporate governance is now recognized as a prototype for enhancing competitiveness and efficiency thereby improving investors' confidence and accessing capital, both domestic as well as foreign (Gupta, 2008). Corporate governance became an immense matter of concern in businesses since long time because of the separation of ownership and management which is popularly known as the agency problem.

Agency issues have their roots in earlier decades. High agency costs are incurred by shareholders due to knowledge asymmetries and conflicts of interest between managers and shareholders (Berle & Means, 1932). To prevent managers from pursuing their own interests while ignoring the interests of the shareholders, it is essential to fortify the legal and governance frameworks. Nonetheless, since empirical research with an emphasis on the principal-agent dilemma, or agency theory, has been conducted, the implications of corporate governance for enhancing business performance have been increasing (Jensen & Meckling, 1976). The main tenet of agency theory is that reduced agency expenses translate into greater performance and a higher value for a well-governed company. On the other side, the shareholder model of corporate governance is supported by Fama (1980) and Fama & Jensen (1983). This model states that the goal of the company is to maximize profits via allocative, productive, and dynamic efficiency. As a result, directors and management have an implicit responsibility to make sure that businesses are operated in the best interests of shareholders. The

fundamental issue with corporate governance in this model is the principal-agent relationship that results from the division of executive decision-making and beneficial ownership (Fama, 1980; Fama & Jensen, 1983). The firm's conduct deviates from the profit-maximizing ideal due to the split.

The alterations that have taken place in the financial markets, institutions, goods, and services make it abundantly plain that the banking sector in Nepal has undergone significant transition. Deregulation and the "open door" policy have given banks more ways to increase their profits, but they have also increased competition and, hence, risk. The domestic banking system, which includes government-owned banks, private banks, and foreign joint venture banks, has been greatly impacted by cross-border flows and the introduction of new products, which have caused them to modify the mix of goods and services offered. Furthermore, in order for banks to be competitive in the increasingly globalized market, they must respond quickly to changes in their operations and procedures. Due to the increased sensitivity and demand from customers, these advancements have given them more options, which has forced banks to provide a wider range of goods via a variety of distribution channels.

Beginning in 2002, the World Bank (WB) and Asian Development Bank (ADB) supported the development of corporate governance theory. The World Bank evaluated the company law provision in effect at the time and offered commentary on the legal and regulatory framework. Various rules and regulations, such as the Company Act of 2006, the Bank and Financial Institutions Act of 2006, and the NRB's Unified Directives, provide essential parameters for preserving corporate governance inside banks and financial institutions. The central bank and government of Nepal are aiming to create a robust, competitive, and transparent financial industry. There have been several attempts up to this point to develop corporate governance regulation mechanisms. These days, the NRB has been disclosing financial institutions that are troubled and in crisis more often. The primary cause of this statement was either linked to insider trading in the case of banks, which is really a significant issue with corporate governance, or to the mismanagement of deposits by promoters, which includes loans given. As a result, corporate governance has long been a major source of worry in developing countries, even before the current wave of corporate crimes in Western nations. Examining how far Nepalese banks have adopted good corporate governance procedures and how far corporate governance operates as a leading indicator of

improved performance is crucial in light of these corporate governance-related factors. Multiple regression analysis was used in this quantitative study using a descriptive research design to investigate the causal association between commercial banks' financial performance and corporate governance (Thapa, 2023).

1.2 Problem Statement

One of the most crucial strategic instruments available to businesses and organizations to boost a company's performance and the value it offers to its stakeholders is corporate governance. The current financial crisis is believed to have been largely caused by banks' inadequate corporate governance (Mulbert, 2010). Not only have banks but also other businesses all over the globe implemented firm-specific corporate governance codices and openly stated that the company places a high priority on effective corporate governance. Principals use governance systems as instruments to monitor and regulate agents and to align incentives between themselves and the agents Pallathitta (2005).

The diffuseness of shareholdings and business performance ought to be correlated in the opposite direction (Berle & Means, 1932). However, as ownership is widely distributed, there is a greater agency conflict between managers and shareholders because of coordination issues that make it difficult for shareholders to effectively supervise management decisions (Fama & Jensen, 1983 and Jensen, 1988).

Since the board of directors is the primary organ utilized by other stakeholders to supervise management, it is recognized as one of the most important tools to overcome the corporate governance issue (Jensen, 1993). It is evident that the number of directors on a board boosts its monitoring ability. Because specialization may lead to more efficient monitoring and advising roles, a larger board size is better than a smaller one (Klein, 2002). However, the extra expense of worse decision-making and communication that comes with having a bigger board of directors may outweigh the advantages of specialization. Therefore, according to Fama and Jensen (1983) and Yermack (1996), smaller boards are preferable than bigger ones. In addition to board size, board independence plays a significant factor in raising board activity. Higher percentages of outside directors make up the effective boards (Carse, 2000 & Paul et al., 2011). Several research (Weisbach, 1988; Kaplan & Minton, 1994; Stanwick & Stanwick, 2005 & Chiang & Lin, 2011) have demonstrated a favorable association

between outside director representation and company performance, which has been used to justify the success of independent boards. Despite the increased interest in outsider-dominated boards, research has shown no connection between board composition and business performance and does not provide a logical foundation for such boards (Chaganti et al., 1985 & Adams & Mehran, 2008).

According to the agency theory, a smaller board is advised in order to reduce agency costs by having effective management control, but bigger boards may result in an increase in the number of possible contacts and disputes between the group members. On the other hand, there exists a different perspective that supports larger boards. According to this perspective, companies with larger boards can encourage their managers to monitor debt costs more closely because creditors perceive them as having better financial accounting processes and higher performance (Poudel & Hovey, 2013).

Strong property rights, lower transaction and capital costs, lessen developing market susceptibility to financial crises, and promote the growth of capital markets are all benefits of good corporate governance. Conversely, weak company governance structures undermine investor trust and may deter outside investment. By liberalizing the banking and financial industries, it seeks to lower the risks connected with them while simultaneously bolstering and stabilizing the Nepalese economy. Investigating corporate governance mechanisms such as bank age, board member size, percentage of independent directors, capital adequacy ratio, earning per share, and board size with respect to the bank's performance in terms of return on equity and return on assets is the goal of the research. (Prahan and others, 2023)

By updating and changing rules and guidelines, Nepal Rastra Bank (NRB), the country's central bank, has continuously worked to enhance bank governance. Some of the recommendations designed to guarantee improved governance in banks include the most recent complete directive, guidelines for stress testing, guidelines for CEO compensation, etc. The exact link between corporate governance factors and bank performance in the Nepalese banking industry remains unknown, despite a few research. Thus, the following topics are covered in this study:

- i. What is the existing status of corporate governance and financial performance of Nepalese commercial bank?

- ii. Does there any relationship between corporate governance indicators like number of board of directors, independent directors along with other control variables and financial performance of Nepalese commercial banks?
- iii. What is the effect of corporate governance indicators like number of board of directors, independent directors along with other control variables on financial performance of Nepalese commercial banks?

1.3 Objective of the Study

The main purpose or objective of this study is to analyse the relationship between corporate governance structure and bank performance. However, the specific objectives of this study are as follows:

- i. To identify the current status of corporate governance and financial performance of Nepalese commercial bank.
- ii. To examine the relationship between corporate governance indicators like number of board of directors, independent directors along with other control variables and financial performance of Nepalese commercial banks.
- iii. To analyze the effect of corporate governance indicators like number of board of directors, independent directors along with other control variables on financial 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: Board member size (BM) significant negative relation to the bank performance.

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

H3: There is significant positive relationship between EPS and bank performances.

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: Bank Age is significant positive relation to the bank performance.

1.5 Rationale of the Study

The banking industry and the economy as a whole depend on the public's trust and confidence in the banking system, which can only be attained and maintained via effective corporate governance standards (Basel Committee, 2010). Inadequate corporate governance has the potential to be a contributing factor in bank failures, which may subsequently result in substantial public costs and ramifications as a result of their possible influence on more general macroeconomic issues including payment system disruption and contagion risk. The results of this study will therefore help to advance knowledge of corporate governance practices in the banking industry in Nepal, including how banks can apply sound corporate governance that is consistent with their performance and how these structures can represent the board's accountability to shareholders and other stakeholders through bank performance.

Determining the effect of good governance characteristics on bank performance is another goal of this research. In order to determine their influence on return on equity, independent variables such as bank size, earnings per share, capital adequacy ratio, and board member size are considered. By concentrating on the relationship between the corporate governance variable and performance measurement factors, this research will guarantee that the banks can achieve the performance. The banks may utilize this research to ensure that there are still a sufficient number of board members and that an independent director is involved.

The correlation between the performance of banks and the corporate governance structure and method has great importance for many stakeholders such as shareholders, promoters, management, regulators, depositors, and others. Furthermore, the banking industry in Nepal stands to gain equally from this research as do other non-financial business sectors. Researchers, investors, and decision-makers all gain from it, and policymakers may use it to help establish new and better guidelines for the finest corporate governance procedures.

1.6 Limitations of study

The limitation of the study are shortcomings which could be result of unavailability of resources, small sample size and faulted methodology. So, listing down the limitation of our study reflect honesty and transparency.

Following are the some of the limitation of the study:

- i. Inadequate coverage of banking study.
- ii. Limited coverage time period.
- iii. The study is based on the data from 2014/15 to 2022/2023.
- iv. There are 20 commercial banks where 10 banks are taken for the study.
- v. The result of entire analysis depends upon the information abstracted from data published in annual reports of concerned banks, articles, publication, journals, NRB directives etc.

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical Review

Many theories of corporate governance have been suggested in the literature; however, this research reviews the theoretical literature on agency theory and stakeholder theory, which appears more appropriate given the nature of this study.

a. Agency theory

The primary underlying challenge to corporate governance in firms is the agency issue (Berle & Means 1932; Jensen & Meckling, 1976). To put it simply, corporate governance is necessary to lessen the agency problem—that is, the conflict of interest between two significant corporate constituents. Owner and management inconsistency is the root cause of the agency issue, which raises agency costs and lowers performance. Corporate governance, therefore, is the act of implementing a specific framework that eliminates such issues and lowers agency costs, improving performance. Consequently, agency theory is regarded as one of the most significant and well-known theories that explains the need of corporate governance.

Moral hazard issues and entrenched interest may arise as a result of inadequate control mechanisms and a lack of openness. In this context, the essential query is: How can we minimize the expenses linked to the principal-agent conflict by guaranteeing that managers act in the best interests of shareholders? In order to ensure that the managers' and shareholders' interests are matched, concentrated shareholders may supervise the top management. Similar to this, the board of directors has important roles and duties that require them to act in the shareholders' best interests. They also promote transparency and disclosure, which helps the shareholders assess the effectiveness, performance, and risks related to the banks' operations.

b. Stakeholder theory

The agency theory's restricted focus on shareholders as the only interest group of a corporate organization is one of its main criticisms. The stakeholder theory said that a corporate body continuously aims to establish a balance between the interests of its varied stakeholders by broadening the pool of interested parties, so as to guarantee that each interest constituency is somewhat satisfied (Abrams, 1951). As a result, key

stakeholders include banks, governments, creditors, clients, workers, and the general public. In connection with the previous conversation, John and Senbet (1998) offered a thorough analysis of the stakeholders' theory of corporate governance, highlighting the existence of several parties with conflicting interests in the business's activities. Additionally, they stress how crucial non-market processes are to the operation of the company, such as the size of the board.

The stakeholder theory has encountered opposition. Stakeholder theory criticisms point out the issue of defining the true stakeholders (Jensen, 2001). Stakeholder theory, however, takes a moral stance, contending that managers should manage the company for the benefit of all stakeholders, regardless of whether or not stakeholder management improves financial performance. All stakeholders have a right to be treated equitably by an organization. In light of the main ideas put out by the stakeholder theory, it is important to remember that, in addition to shareholders, depositors and regulators make up the majority of the bank's corporate structure and have a significant impact on the performance and operations of the bank. The board of directors is in charge of the administration and operation of the bank, as well as the extent to which risks are taken and prospective investment projects that guarantee the efficient mobilization of bank deposits. It also guarantees a reasonable return on investment for the owners and protects depositors against fraud and bank runs. disclosure that is advantageous to regulators, depositors, and stockholders alike. Therefore, these policies and procedures take into consideration the varied range of bank stakeholders.

c . Stewardship theory

The idea of stewardship theory is a concept in corporate governance and organizational management that highlights the need of leaders, or stewards, to act in stakeholders' best interests rather than just their own. According to the argument, managers and executives need to see themselves as stewards of the resources that the community, shareholders, consumers, and workers have given to them.

A constructive perspective on management conduct is provided by stewardship theory, which holds that managers, motivated by corresponding interests and internal motives, may behave as accountable stewards of the company. Organizations may attain long-term success by using the whole potential of their leaders and managers via the cultivation of trust, empowerment, and a long-term outlook.

d . Political theory

The study of political theory delves into the fundamental inquiries of political existence. Through an analysis of the ethical, empirical, historical, and analytical aspects of politics, profound understandings of society's structure, the exercise of power, and the realization of rights and justice are offered. Political theory is nonetheless crucial for comprehending and enhancing the political environment, whether via the study of influential political philosophers or the examination of current political concerns.

Comparably, the methodical investigation and evaluation of political theories, conceptions, and ideologies is known as political theory. It investigates the nature of politics, power dynamics, justice, human rights, and the function of government in society. This is an example of an interdisciplinary approach that provides a thorough knowledge of political events by including ideas from economics, sociology, history, philosophy, and law, among other disciplines. It attempts to explain political processes and provide frameworks for assessing and enhancing political practices and institutions. It has both descriptive and prescriptive functions.

2.2 Empirical Review

This section includes the review of related literature. Empirical studies reviewed the sited gaps based on conceptualization, methodology.

Table 1

Empirical Review on International Studies

S.N	Authors/Date	Topic	Methodology	Findings
1	Khan et al., (2024)	The post-COVID effect of corporate governance on firm performance: A study on private commercial banks in Bangladesh.	Variables for CG: Board Size, Board Composition, Board Expertise, CEO Chair Duality. Indicators of FP: EPS, ROA, ROE.	Examined impact of corporate governance mechanisms on firm performance from Bangladesh's perspective.

- 2 Shaba and Adam (2023) Corporate Governance And Firm's Performance: A Review Of Empirical Studies Insights into literature studying role of CG mechanisms in relation to various firm performance measures. Ambiguities due to differences in theoretical frameworks, sampling methods, estimation techniques, and country/industry peculiarities.
- 3 Rashid et al. (2020) Corporate governance and banks' productivity: Evidence from the banking industry in Bangladesh Malmquist Productivity Index using panel data (2013-2017). Pre-tests investigation. OLS, FE, and RE regressions. Insights on how corporate governance influences banks' productivity for better policy formulation.
- 4 Latif et al. (2018) Impact of Corporate Governance on Firm Performance: Evidence from Sugar Mills of Pakistan Quantitative analysis with board size, composition, duality, and ROA data. Panel data methodology. Significant impact of board size on CG; insignificant impact of board composition on ROA; collective impact on CG.
- 5 Buallay et al. (2017) Corporate Governance And Firm's Performance: Evidence From Saudi Arabia Pooled data from Saudi stock exchange (171 listed companies). Descriptive analysis and regression. High governance level (61.4%), but no significant impact of CG adoption on operational and financial performance.

- | | | | | | | |
|---|-------------------------|--|----|---|---------|---|
| 6 | Agrawal (2017) | Impact of corporate governance on corporate financial performance | of | Sample: Indian financial companies listed on NSE. Multiple regression, correlation, t-test, F-test. | 20 non- | Positive and significant impact of governance ratings on corporate financial performance; firm size also matters. |
| 7 | Ceylan (2016) | The Impact Of Corporate Governance Practices On Bank Efficiency: A Case Of Turkey | Of | Sample: Turkish depository banks listed in Borsa Istanbul (2005-2015). DEA for efficiency levels, panel regression. | 10 | Free float rate and board independence negatively impact bank efficiency. Number of committees and board size positively relate to efficiency. Major shareholders have a significant positive relationship with efficiency. |
| 8 | Ahmed and Hamdan (2015) | The Impact Of Corporate Governance on Firm Performance: Evidence From Bahrain Stock Exchange | Of | Sample: Bahrain financial companies (2007-2011). Descriptive stats, multiple regression. | 42 | Shareholders' ownership (>50%) doesn't significantly influence performance (ROA, ROE). Earnings per share lacks positive impact on corporate governance mechanisms in Bahrain Stock Exchange. |
| 9 | Marashdeh (2014) | The Effect of Corporate Governance on Firm | of | Sample: firms listed in Amman Stock Exchange. Multiple | 115 | Non-executive directors (NEDs) negatively impact firm performance, contrary to monitoring |

		Performance in Jordan	in regression panel data analysis.	hypothesis of agency theory.
10	Fanta et al. (2013)	Corporate Governance and Impact On Banks Performance: Ethiopia	Structured review of documents, financial data from 2005 to 2011. Descriptive and multivariate regression analysis.	Board size negatively affects bank performance. Bank size and capital adequacy ratio positively impact performance. Lack of awareness, weak legal framework adversely affect corporate governance and bank performance in Ethiopia.

Khan et al. (2024) analyzed the effects of the post covid effect of CG on FP - A study on private commercial bank in Bangladesh. The factors of CG and EPS include the board's size, makeup, and experience, whereas the indicators of FP (Firm Performance) are ROA and ROE. Through sound governance methods, it lowers their agency difficulties (costs), which improves their firm's overall performance. Businesses that do well financially are more likely to follow corporate governance guidelines and regulations and put in place an effective structure.

Shaba and Adam (2023) examined on corporate governance and firms performance. Although there is an increasing body of research supporting the growing agreement that corporate governance practices and business success are connected, the evidence is far from conclusive. Whereas other people see no relationship at all between the two. Given this, there is now enough empirical data to support the claim. because of changes in the theoretical frameworks, sampling and estimate techniques utilized for the data variances, and because of the unique characteristics of the nations and/or study industries. Given these limitations, the study highlights the need for improved research design, a combination of accounting and market-oriented variables, a longer study period, a larger sample size, and sophisticated data analysis techniques that can offer more effective solutions for reducing the principal-agent issues that arise in the corporate world.

Rashid et al. (2020) examined the productivity of banks and how it relates to corporate governance. To do this, the research used panel data spanning five years, from 2013 to 2017, to assess the productivity of 30 listed banks in Bangladesh using the Malmquist Productivity Index, an extension of Data Envelopment Analysis. Based on actual findings, banks' average production is 1.03%. Lastly, independent runs of the random effect (RE), fixed effect (FE), and ordinary least square (OLS) regressions were conducted. In order to improve policy and increase productivity, the study offers academics, academicians, bank management, and regulatory bodies a fresh understanding of how corporate governance affects banks' productivity.

Latif et al. (2018) investigated how the board size corporate governance system affected the return on asset (ROA) of the Pakistani sugar business. The corporate governance methods of Board Size data were gathered between 2005 and 2010 from 12 Pakistani sugar mills that were listed. Applying the panel data approach to the estimate of the arithmetic mean. The results also show that board composition has a little effect on ROA and that board size has a considerable influence.

Buallay et al. (2017) examined on corporate governance and firms performance. Examining how governance affects operational, financial, and market performance in Saudi listed firms was one of the main goals. ROE was used to quantify firm performance, which is the dependent variable. Five control variables were also included in the research to aid in assessing the connection between company performance and corporate governance. The Saudi stock market database provided the data, which we employed in our sample. The pooled data included both cross-sectional and time series data. We discovered that there was a positive and significant association with Big Four and firm age, and a negative and negligible relationship with firm size and board size, after evaluating the impact of control variables on the operational performance of the business. According to the report, corporate governance laws in Saudi Arabia should be strictly enforced to ensure that all publicly traded companies are following them. The capital market authority should also hold a workshop to educate listed companies on the value of corporate governance, as just 61% of them currently do.

Ceylan (2016) conducted a two-stage examination of this study: first, the Data Envelopment Method (DEA) was used to assess the efficiency scores of the banks under consideration, which were then used to measure the efficiency of Turkish listed deposit banks between 2005 and 2015. A multiple regression model was then derived and

analyzed through panel data analysis, and finally, the effect of corporate governance practices on the banks' efficiencies was attempted to be ascertained through panel data analysis. The information used for the balance sheets, revenue tables, and annual reports of the ten Turkish depository banks listed on Borsa Istanbul (BIST) was taken into consideration while calculating the inputs and outputs. while gauging the banks' degree of efficiency. The findings of the regression analysis indicate that bank efficiency is positively impacted by board size. This indicates that when it comes to the input and output ratios used in the DEA technique, bigger boards result in greater levels of efficiency.

Fanta et al, (2013) examined at examining the corporate governance mechanisms and their impact on performance of commercial banks in the absence of organized stock exchange. external, impact bank performance. Based on financial and non-financial data gathered from all commercial banks in existence between the years of 2005 and 2011, the research used panel data econometric analysis.

Review of Nepalese Literature

Table 2

Empirical Review of Nepalese Literature

S.N	Authors/Date	Topic	Methodology	Findings
1	Pradhan et al. (2023)	Good corporate governance principles and their impact on financial performance in Nepal.	Secondary data analysis. Dependent variable: Financial performance (ROA, ROE). Independent variables: Board Size, Independent directors, Bank size, CAR, EPS, Bank Age.	Positive relationship observed between corporate governance factors and financial performance.
2	Khanal (2023)	Connection between bank performance and corporate governance	Conceptual model based on previous research. Surveyed employees using a questionnaire for	Board size, CEO duality, and corporate governance practices

- structure in primary data. significantly
Nepal. Descriptive stats, improve banks'
regression, and performance. Board
correlation analysis. independence, CEO
duality, and audit
committee
independence
enhance
performance.
Raising these factors
likely improves
banks' performance.
- 3 Dongol (2021) Financial performance and corporate governance structure in Nepal's banking industry. Secondary data from annual reports (2014-2018) of 10 commercial banks. Descriptive statistics and correlation analysis. Negative correlation between board gender diversity and return on equity (ROE) and return on assets (ROA). Conflicting conclusions about board size impact on financial success.
- 4 Gadthaula et al. (2021) Effect and significance of corporate governance on firm performance. and Dependent variables: Return on equity (ROE), Return on assets (ROA). Independent variables: Board size, total assets, executive CEO. Compliance with legislative requirements related to corporate governance is crucial. Corporate governance impacts bank performance. Analysis of published articles, reports, legal provisions, and supervision reports.

5	Sapkota (2020)	Relationship between corporate governance and financial performance of Nepalese commercial banks.	Focus on board meetings and board size concentration. Mixed results on ROE. Debt ratio, net interest margin, and total assets positively contribute to performance. Board meetings and liquidity negatively impact performance.	Smaller boards, more independent directors, less ownership concentration, transparency, and suitable director compensation enhance corporate governance. Ownership concentration improves performance but negatively affects governance. Endogenous relationship between governance and performance supported.
6	Sapkota (2020)	Effect of corporate governance on bank performance in Nepal.	Sample: Nine commercial banks (2008/09 to 2017/18). Leverage ratios, board meetings, board size, ownership concentration.	Debt-to-asset ratio, net interest margin, and total assets significantly improve bank performance. Board meetings and liquidity negatively impact performance. Board size and ownership concentration have no significant contribution.

- 7 Maharjan (2019) Impact of corporate governance practices on financial performance of insurance businesses in Nepal. Sample: 18 insurance companies (13 non-life, 5 life) from annual reports (2011-2018). Descriptive cum causal relational research design. Audit committee and board meetings positively affect insurance companies' financial results. Board size has a negative but not significant impact. CEO duality negatively impacts performance. Age of the organization positively influences financial performance.
- 8 G.C. (2019) Connections between ownership structure, corporate governance, and business success in Nepal. Panel data set of 25 companies listed on Nepal Stock Exchange (2012-2016). LSDV, fixed/random effects, 2SLS models. Smaller boards, more independent directors, less ownership concentration, transparency, and suitable director compensation enhance corporate governance. Ownership concentration improves performance but negatively affects governance. Endogenous relationship between governance and performance supported.

- 9 Lamichhane (2018) Influence of corporate governance financial performance of Nepalese companies (2009/10 to 2015/16). Descriptive and causal comparative research. Variables: Age, asset size, debt ratio, market-to-book ratio, ownership concentration, corporate governance index. Age, market-to-book ratio, and total corporate governance index positively correlate with profit margin and return on assets. Ownership concentration has no impact; asset size and debt ratio negatively affect performance.
- 10 Subedi (2018) Impact of corporate governance insurance businesses' financial results in Nepal. Descriptive cum causal relational research. Variables: Debt-to-equity ratio, firm size, firm age, business growth, firm ownership, board size. Corporate governance impacts insurance sector performance. Firm size and ownership positively affect ROA and ROE. Board size negatively impacts ROA. Debt-to-equity ratio significantly affects ROE.
- 11 Singh et al. (2018) Significance and effect of corporate governance on bank performance in Nepal. Independent variables: Board Size, Female Board Member, Financial Institution, CEO Duality, Independent Director, Firm Size, Firm Age, Earnings Corporate governance significantly affects both ROA and ROE. Independent directors and firm size enhance success. Female board members, board size, and

				per Share, Capital Adequacy Ratio.	board member salary negatively impact ROA.
12	Achrya (2018)	Impact of corporate governance regulations on commercial banks in Nepal.	Examined corporate governance impact on financial performance. Improved governance enhances investor trust and capital market effectiveness. Benefits include risk management, reduced unemployment, and financial stability.		Debt-to-asset ratio, net interest margin, and total assets significantly improve bank performance. Board meetings and liquidity negatively impact performance. Board size and ownership concentration have no significant contribution.
13	Bhattra (2017)	Corporate governance and financial performance in Nepali commercial banks.	Investigated board size, audit committee, and proportion of independent directors. Board size negatively affects performance; audit committee and independent directors have positive effects.		Audit committee and board meetings positively affect insurance companies' financial results. Board size has a negative but not significant impact. CEO duality negatively impacts performance. Age of the organization positively influences financial performance.
14	Jha (2017)	Corporate governance practices and	Explored impact of corporate governance		Smaller boards, more independent directors, less

		financial performance of MFIs in Nepal.	guidelines from Nepal Rastra Bank (NRB) on MFIs.	ownership concentration, transparency, and suitable director compensation enhance corporate governance. Ownership concentration improves performance but negatively affects governance. Endogenous relationship between governance and performance supported.
15	Bhattarai (2015)	Relationship between financial performance and corporate governance of commercial banks in Nepal.	Secondary data from annual reports of 20 Nepalese commercial banks (2018-2023). Board size negatively affects financial performance. Audit committee size and independent directors have positive impact.	Corporate governance significantly affects both ROA and ROE. Independent directors and firm size enhance success. Female board members, board size, and board member salary negatively impact ROA.
16	Pradhan (2015)	Corporate governance and bank performance in Nepal.	Analyzed significance of corporate governance. Dependent	Negative correlation between board gender diversity and return on equity (ROE) and return on

variables: ROE, assets (ROA).
 ROA. Independent Conflicting
 variables: Board conclusions about
 size, total assets, board size impact on
 executive CEO. financial success.
 Corporate
 governance
 significantly impacts
 both ROA and ROE
 in commercial
 banks.

Khanal (2023) examined the connection between bank performance and corporate governance structure. This study's conceptual model, which is based on assessments of previous research, focuses primarily on how board structure and procedures as well as audit committee procedures influence bank performance. Employees were surveyed using a questionnaire to gather primary data, which was then analyzed using percentages. Descriptive statistics, regression analysis, and correlation analysis were then used to look at the mean and standard deviation. Corporate governance variables like board size, board independence, audit independence and activity, and CEO duality have been regarded as independent variables, while performance metrics like banks' Return on Equity (ROE) and Return on Assets (ROA) have been used as the dependent variables. In order of their relative significance, board size, CEO duality, and corporate governance requirements are significant corporate governance mechanisms that improve banks' performance. These findings are supported by primary evidence. More precisely, the corporate governance practices that have a tendency to improve performance are board independence, CEO duality, and audit committee independence. It suggests that raising any one of these factors will probably improve the banks' performance. The report advises banks to raise their corporate governance standards, which will guarantee the stability of the financial sector in addition to enhancing each bank's performance. Additionally, it is advised that banks implement equitable corporate governance procedures in order to boost investor confidence and draw in more funding through transparent and high-quality disclosure.

Pradhan et al. (2023) examined the good corporate governance includes all formal and informal rules under certain principles of accountability, transparency. The study

employed financial performance as the dependent variable, measured by ROA and ROE, and board size, independent directors, bank size, CAR, EPS, and bank age as the independent variables. These variables demonstrated a positive correlation with each other.

Dongol (2021) analyzed at the banking industry's financial performance and corporate governance structure in Nepal. The operationalization of the corporate governance framework involved the use of two independent variables, such as the size of the board and gender diversity on the board, and two dependent variables, return on assets and return on equity, which are used to measure the profitability of the bank in this study. The secondary data came from the involved banks' annual reports throughout the course of a five-year period, from 2014 to 2018. Although there are 27 commercial banks in the country, only 10 of them are included in the study as sample banks. The variables included in the investigation are described using descriptive statistics analysis. Furthermore, a correlation analysis model is employed to investigate the association between the corporate governance framework and the financial performance of banks. The study's findings showed that there is a negative correlation between board gender diversity and return on equity and return on assets, as well as conflicting conclusions about the impact of board size on financial success.

Gadthaula et al. (2021) examined the effect and significance of corporate governance on firm performance. The dependent variables in this study are the return on equity and the return on assets, which were chosen as the bank's performance factors. The independent variables in corporate governance include the size of the board, the total assets of the company, and the executive CEO. A variety of published articles, reports, books, and magazines are also analyzed in addition to the data gathered from the Banking and Financial Statistics published by Nepal Rastra Bank, NRB Directives, legal provisions incorporated in the Companies Act, 2063, and relevant by-laws regarding corporate governance, the provisions on the Bank and Financial Institution Act, 2063, and the supervision report of Nepal Rastra Bank. The Regulation and Supervision Department of Nepal Rastra Bank, the Company Registrar Office, and the relevant bank are the sources of information about compliance with legislative requirements pertaining to corporate governance. The significance and importance of corporate governance in Commercial banks in Nepal are tested using multiple regression models. The outcome demonstrates that corporate governance has a major

impact on both ROA and ROE in financial institutions, primarily commercial banks. While the executive CEO has little effect on return on assets, the board's size and total assets have a positive considerable impact. The size of the board and the CEO's position have a major impact on ROE, but the impact of total assets is negligible.

Sapkota (2020) examined the effect of corporate governance on bank performance. Nine commercial banks covering the ten-year period from 2008/09 to 2017/18 make up the sample. Leverage ratios, board meetings, board size, and ownership concentration are examples of corporate governance. These factors have varying effects on banks' ROE-based performance measurements. Research suggests that the debt-to-asset ratio, net interest margin, and total assets all significantly improve a bank's performance. The performance of banks is negatively impacted by board meetings and liquidity. But ownership concentration and board size don't really affect how well a company performs.

Maharjan (2019) examined the impact of corporate governance practices on the financial performance of insurance businesses in Nepal was investigated by The research examined the following explanatory factors for corporate governance: CEO duality, board size, number of board meetings, and audit committee. The age of the enterprises and their size are regarded as control factors. Return on Equity (ROE) and Return on Assets (ROA) have been used to measure the performance of the dependant variable. Descriptive cum causal relational research design was used in the study. The population of the research comprises all 23 listed insurance companies. Based on data availability, a sample of only 18 insurance companies (13 non-life and 5 life) is selected, accounting for 78.26% of the sample. The secondary profitability data was taken from the company's annual report. Corporate governance-related explanatory factors have been gathered using a standardized survey questionnaire. 141 firm year observations covering the eight years from 2011 to 2018 are included in the study period. Using a multivariate linear regression model, data has been examined. The study comes to the conclusion that corporate governance procedures and firm performance are strongly correlated. It was discovered that the audit committee and board meetings had a favorable impact on insurance companies' financial results. It is discovered that board size is negatively although not significantly. The study also comes to the conclusion that an insurance company's performance is negatively impacted by CEO duality. Larger companies with high board meetings typically have better results. The financial

performance of insurance businesses in Nepal was positively impacted by the age of the organization as well.

G.C. (2019) examined the connections between ownership structure, corporate governance, and business success in Nepal. A panel data set of 25 companies listed on the Nepal Stock Exchange (NEPSE) is used in the study. The data set spans five years, from 2012 to 2016. The least squares dummy variable (LSDV) model, fixed and random effects panel data models, and two-stage least squares (2SLS) model make up the majority of the study's econometric methodology. The study discovers a reciprocal association between performance and corporate governance. Smaller boards, a higher percentage of independent directors, less ownership concentration, higher standards of transparency and disclosure, and the creation of suitable director compensation packages are all significant aspects of internal corporate governance mechanisms that regulators and listed companies in Nepal should pay particular attention to. It has been discovered that ownership concentration improves performance but has a negative impact on corporate governance. The endogenous relationship between corporate governance and performance is better understood and supported by empirical data in this study, which also supports the principal-principal agency relationship. The study's findings have a number of practical ramifications for listed companies and Nepali authorities who are advocating for good corporate governance standards and practices. A voluntary adoption of best practices or an improvement in compliance with a code of corporate governance can help listed firms perform better.

Lamichhane (2018) used a descriptive and causal comparative research approach to examine the variables influencing corporate governance and their impact on the financial performance of Nepalese companies over the fiscal year 2009/10 to 2015/16. A firm's age, size of assets, debt ratio, market to book ratio, ownership concentration, and corporate governance index are examples of firm-related and explanatory variables. The profit margin and return on assets are dependent variables used to measure financial performance. The study's findings indicate that age, the market to book ratio, and the total corporate governance index are positively correlated with profit margin and return on assets for businesses. This suggests that higher age, the market to book ratio, and corporate governance improve the financial performance of Nepalese businesses. Additionally, the study's regression analysis demonstrates that while ownership concentration has no bearing on a company's financial success, asset size and debt ratio

have a negative impact. The final finding of this research is that the financial performance of Nepalese enterprises may be strongly explained by corporate governance, age, asset size, market to book value ratio, and debt ratio.

Subedi (2018) examined how corporate governance affects insurance businesses' financial results. Descriptive cum causal relational research design was adopted in the study. The debt to equity ratio, firm size, firm age, and business growth are regarded as control variables, whereas firm ownership and board size are the primary variables in corporate governance. ROE and ROA are the metrics used to measure the dependent variable, company performance. The 40 insurance firms are all taken into account as the study's population. Convenient sampling was the method employed in the study to choose the sample. Eighteen nonlife insurance businesses and ten life insurance firms out of eighteen are chosen as the sample. 135 firm year observations spanning five years, from 2009/10 to 2016/17, were used in the study. Data were gathered by mail surveys, and Beema Samiti and the relevant insurance firm published data as well. A multiple linear regression model was used to examine the data. The study came to the conclusion that corporate governance has an impact on business performance in the insurance sector in Nepal. While firm size and ownership have a favorable effect on ROA and ROE, board size has a negative impact on ROA. ROE is significantly and negatively impacted by the variable debt to equity ratio, accordingly.

Singh et al. (2018) examined the significance and effect of corporate governance on bank performance. In the case of Nepal, the independent variables used to quantify bank performance are return on equity and return on assets. The independent variables in corporate governance are Board Size, Female Board Member, Financial Institution, CEO Duality, Independent Director, Firm Size, Firm Age, Earnings per Share, and Capital Adequacy Ratio of the firms. The information was gathered from the Banking and Financial Statistics that Nepal Rastra Bank publishes, NRB Directives, the Bank and Financial Institution Act of 2063, relevant bylaws pertaining to corporate governance, and legal provisions incorporated into the Companies Act of 2063. The outcome demonstrates that corporate governance significantly affects both ROA and ROE in the financial organization. The study's conclusions make it clear that aspects of corporate governance, like the number of independent directors and firm size, improve businesses' success. Nonetheless, the performance of enterprises is negatively impacted

by female board members, board size, board members, and board member salary, as determined by return on asset (ROA).

Achrya (2018) analyzed into how Commercial banks in Nepal performed in relation to corporate governance policies. The investigation specifically focuses on the connection between financial performance and corporate governance practices. The impact of corporate governance regulations, guidelines, and directives from Nepal Rastra Bank, the national bank, and self-initiatives carried out by commercial banks are all examined. In order to promote more fair growth sharing and to boost economic growth, the study conducted for this thesis is crucial. The inability to effectively establish corporate governance and oversee financial systems leads to a missed opportunity to take advantage of expansion prospects. Development is hampered greatly by a shortage of capital, and improved governance will greatly boost investor trust and create a deeper, more effective capital market in Nepal. Nepal has a lot of unexplored potential, and a strong capital market will draw in more domestic and international investors. Better risk management, reduced unemployment, a smaller balance of payments deficit, a reduction in brain drain, financial stability, and a robust financial system are all benefits of an enhanced capital market.

Lamichhane (2018) investigated the degree of corporate governance has a beneficial impact on the financial success of Nepalese companies. In order to comprehend and clarify the nature of variables, this study used a casual comparative and descriptive research design. For this research, secondary sources of data have been taken into account. In addition, regression and correlation analyses are used to examine how corporate governance and other diverse aspects impact the success of Nepalese enterprises.

Bhattra (2017) examined the connection between Nepal's commercial banks' corporate governance and financial performance. It specifically looks at how return on equity and nonperforming loans are affected by the size of the board, the audit committee, and the proportion of independent directors. The secondary data used in this study was gathered from the annual reports of 13 Nepali commercial banks. During the 2010–2015 review period, 65 observations provided samples for this investigation. According to the study, the size of the board has a negative effect on the financial performance of Nepali commercial banks, but the size of the audit committee and the proportion of independent directors has a good effect.

Jha (2017) investigated how corporate governance practices affected the financial performance and outreach of MFIs in Nepal. It specifically looks at the connection between MFIs' financial success and outreach and their corporate governance practices. This study examines the ways in which the corporate governance guidelines for Banking and Financial Institutions (BFIs) issued by Nepal Rastra Bank (NRB), the country's central bank, impact the corporate governance practices of microfinance institutions (MFIs).

Pradhan (2015) analyzed the significance and effect of corporate governance on the operation of businesses. The dependent variables in this study are the return on equity and the return on assets, which were chosen as the bank's performance factors. The independent variables in corporate governance include the size of the board, the total assets of the company, and the executive CEO. A variety of published articles, reports, books, and magazines are also analyzed in addition to the data gathered from the Banking and Financial Statistics published by Nepal Rastra Bank, NRB Directives, legal provisions incorporated in the Companies Act, 2063, and relevant by-laws regarding corporate governance, the provisions on the Bank and Financial Institution Act, 2063, and the supervision report of Nepal Rastra Bank. The Regulation and Supervision Department of Nepal Rastra Bank, the Company Registrar Office, and the relevant bank are the sources of information about compliance with legislative requirements pertaining to corporate governance. The significance and importance of corporate governance in Commercial banks in Nepal are tested using multiple regression models. The outcome demonstrates that corporate governance has a major impact on both ROA and ROE in financial institutions, primarily commercial banks. While the executive CEO has little effect on return on assets, the board's size and total assets have a positive considerable impact. The size of the board and the CEO's position have a major impact on ROE, but the impact of total assets is negligible.

Bhattarai (2015) examined the connection between Nepal's commercial banks' corporate governance and financial performance. It specifically looks at how return on equity and nonperforming loans are affected by the size of the board and the proportion of independent directors. The secondary data used in this research was gathered from the annual reports of 20 Nepali commercial banks. Ten observations from the review period of 2018 to 2023 served as the source of samples for this investigation. According to the research, the size of the board has a negative effect on the financial performance

of Nepali commercial banks, while the size of the audit committee and the proportion of independent directors has a good effect.

Pradhan (2012) analyzed the connection between the banking industry's performance and the framework of corporate governance in Nepal. Secondary data form the basis of the investigation. The research has conducted an analysis of pooled cross-sectional data. This study uses a causal comparative research approach to examine the link between corporate governance, control factors, and bank performance. The study specifically looks at the impact of board size, the number of independent and executive directors on the board, and the number of board meetings held in the previous fiscal year. Regression and correlation analysis are used to determine the relationship between the dependent and independent variables in this situation. The study's findings indicate that although the executive CEO has little bearing on return on assets, board size and total assets have a positive substantial influence.

2.3 Research Gap

The difference between earlier and current research is referred to as the "research gap." A prior study on the corporate governance structure and performance of Nepalese commercial banks was carried out by a variety of specialists, academics, and students. It was discovered that no study using these sample banks and data had been done during the examination of earlier theses and articles. Based on data taken from ten representative commercial banks, this research was conducted.

Along with other financial indicators including board size, independent directors, bank size, earnings per share, capital adequacy ratio, and others, this research also looks at the effects and relationships between corporate governance structure and bank performance in terms of return on equity (ROE) and return on assets (ROA). The Bank Age. This research used statistical approaches such as regression analysis and coefficient of correlation to analyze secondary data from 2014/15 to 2022/23.

CHAPTER III

RESEARCH METHODOLOGY

3.1. Research Design

The framework, arrangement, or configuration of the connections between study variables and the investigative strategy used to gather empirical data on those relationships are expressed by the research design, which also represents the structure of the research issue (Copper & Schindler, 2009). The purpose of this research is to examine the state of corporate governance procedures today and how they relate to bank performance. For this, two study designs—descriptive and causal comparative—have been used. Studies using more defined designs, known as descriptive designs, are used to characterize the phenomena or traits related to the variables of interest. It facilitates the discovery of the truth (Copper & Schindler, 2009). In addition to bank performance metrics like ROE and ROA, a descriptive study approach has been used to explore the average features of the corporate governance structure and procedures. In a similar vein, respondents' views and impressions of the corporate governance structure and procedures in place have been evaluated. Furthermore, the cause and effect link between the corporate governance characteristics and bank performance has been examined using a causal comparative study approach. Understanding the directions, magnitudes, and shapes of the observable relationships is aided by it. Additionally, a study has been conducted to investigate the relationship between the corporate governance characteristics and bank performance. Further methodological concerns related to this investigation are addressed in general in the next sections.

3.2. Population and Sample

The term "population" also refers to the universal sample, which encapsulates all of the traits and qualities of the whole population. Commercial banks are the subject of this investigation. According to the NRB's provision, the financial or banking industry of Nepal may be broadly divided into 4 groups. Such a category or class of banks includes commercial banks, development banks, finance firms, and microfinance development banks. There are now 17 national development banks, 17 financing firms, and 20 commercial banks. Only ten banks have been chosen as a sample for this study. Random sampling is used to choose the banks. Nevertheless, banks have lately opted to consolidate. The research period for the list of chosen banks is shown in Table 3.

Table 3*Selection of commercial banks along with study period*

S.No.	List Of Banks	Study Periods
1	Laxmi Bank	2014/15-2022/23
2	Nabil Bank	2014/15-2022/23
3	Himalayan Bank	2014/15-2022/23
4	NMB Bank	2014/15-2022/23
5	Everest Bank	2014/15-2022/23
6	Nepal SBI bank	2014/15-2022/23
7	Nepal Investment Bank	2014/15-2022/23
8	Siddhartha Bank	2014/15-2022/23
9	Nepal Bank	2014/15-2022/23
10	Rastriya Banijya Bank	2014/15-2022/23

3.3. Nature and Sources of Data

The secondary data collected for ten commercial banks in Nepal between 2014/15 and 2022/2023 served as the study's foundation. The primary data sources are the yearly reports, websites, and other official and unofficial publications of the relevant commercial banks that are chosen for analysis.

3.4 Methods of analysis

Several statistical methods were used in the investigation. The following subsections provide a list of the statistical instruments that were used in this investigation to assess the data results.

3.4.1 Descriptive analysis

The primary characteristics of data collecting are quantitatively described by the descriptive analysis approach. This kind of data analysis is preliminary and is done on

the available dataset. The stages for description and interpretation are distinct. The linked variables' Mean, Standard Deviation, and Coefficient of Variation will be used to support the descriptive technique.

Mean

By dividing the sum of all values by the number of values, the mean is the arithmetic average of a range of values or quantities. It is the average from which the central tendency is derived. To calculate it, tally up all of the population's data points, then divide that total number of points.

$$\text{Mean} = \frac{\sum fx}{N}$$

Where, X=Sum of all the values of the variable

N= Number of observations or year

Standard deviation

The degree of variation or dispersion of a collection of data values may be measured using the standard deviation, which is a measure of dispersion. The positive square root of variance is one way to describe it. One helpful characteristic of the standard deviation is that, in contrast to variance, it has the same units of measurement as the data. Within the data collection, there is a larger deviation if the data points are further from the mean. Therefore, the standard deviation increases with data dispersion.

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where, X= Value of responses of each dependent or independent variable

X= Mean value of responses of each dependent or independent variable

N= Number of observations or year

Coefficient of variation (CV)

The statistical measure of how far apart data points are from the mean in a data series is called the coefficient of variation, or CV. The ratio of the standard deviation to the mean is used to compute it. This statistic works well for determining the degree of difference between data sets. The degree of data variability in a sample relative to the population mean is reflected in the coefficient of variation. Utilizing the risk/reward ratio to choose assets, the coefficient of variance is helpful. Investors may determine

how much risk, or volatility, they are willing to accept in proportion to the expected return on their investments by using the coefficient of variation in finance.

3.4.2 Inferential Analysis

Making a judgment or an inference from a study of a small but representative sample is the goal of statistical models. One kind of analysis used in research to examine various topic hypotheses depending on sample size from the subject group is inferential data analysis.

Inferential analysis includes Correlation analysis and Regression analysis of data.

Correlation Analysis

In this research, correlation analysis is also used. In essence, this design has been used to determine the strength and direction of the association between several sets of variables. Correlation analysis has been utilized for this purpose. It displays the degree of connection as well as the movement of two variables together. The Pearson correlation coefficient has been used to explain the link. The correlation coefficient has a value between -1 and +1. Two variables are said to have complete negative correlation if their correlation coefficient is precisely -1, meaning that they move in the exact opposite direction of one another. On the other hand, two variables are said to be fully positively connected if the correlation coefficient is precisely +1. The goal of the research was to determine and clarify the link between the profitability of the bank and a number of bank-specific factors.

$$r = \frac{N \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

Where, n= Number of responses

x =Value of independent variable

y = Value of dependent variable.

Regression Analysis

A statistical technique called regression looks for a relationship's strength between one or more independent variables and one or more dependent variables. It covers a wide range of methods for modeling and examining several variables in order to determine how they relate to one another. Regression analysis is used in this research to determine the direction of the association for each sample between the independent and dependent

variables. ROE provides an explanation for the econometric models. Below is an explanation of the models.

Regression line of ROE on Loan loss provision ratio, Loan and advances to deposit ratio, capital adequacy ratio, non-performing loan and size of bank. It is given by,

$$ROE = a + b_1BM + b_2ID + b_3BS + b_4EPS + b_5CAR + b_6BA + e$$

$$ROA = a + b_1BM + b_2ID + b_3BS + b_4EPS + b_5CAR + b_6BA + e$$

Where,

ROE = return on equity

ROA = return on assets

a = constant term

BM = Board member size

ID = Number of independent director

BS = Bank size (paid up capital)

EPS = Earnings per share

CAR = Capital adequacy ratio

BA = Bank Age

a = Regression constant with ROE of selected Bank

a = Regression constant with ROA of selected Bank

b_1 = coefficient of board member size

b_2 = coefficient of number of independent director

b_3 = coefficient of bank size (paid up capital)

b_4 = coefficient of earnings per share

b_5 = coefficient of capital adequacy ratio

b_6 = coefficient of Bank age

3.5 Research framework and definition of variables

This section explains the variables that were utilized in the research and the hypothesis behind the variables' relationships. In terms of the factors that are covered, the schematic diagram may be used to explain the primary goal and extent of this investigation. The following illustrates how dependent and independent variables are related:

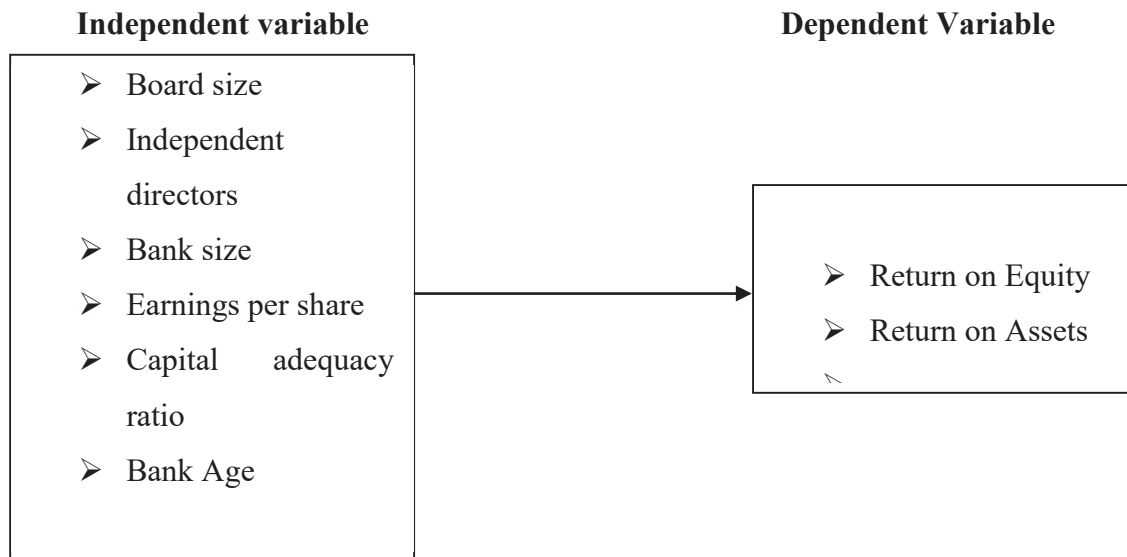


Figure 1: Research Framework

3.5.1 Definition of Variables

a . Board Size

The capacity of a board of directors to carry out its primary duty of overseeing and managing business activities in order to maximize the firm's value and safeguard the interests of shareholders has been significantly impacted by the size of the board. Turki's (2012) finding on the negative correlation between board size and return on equity is noteworthy.

b. Independent directors

The directors who guarantee that their choices protect the interests of common shareholders are known as independent directors. They ensure that no choices made by directors pose an excessive danger to the interests of shareholders and other stakeholders. Many institutions and organizations have collapsed as a result of directors' misguided attempts to maximize earnings by taking on dangerous ventures. Independent directors are crucial to the board's ability to correct enthusiastic decisions made by the directors and preserve the banks' strong performance. The independent board of directors can successfully oversee a company's operations since they are not reliant on management and are not connected to the company's top executives (Fama & Jensen, 1983; Beasley, 1996; Christensen et al., 2010).

c. Bank Size

A company's skill, diversity, and number of manufacturing capabilities, as well as the amount and multiplicity of services or businesses it may concurrently provide to its clients, are all indicators of its size. Strictly speaking, the best measure of a company's size is the size of its management team or the total quantity of assets it has in comparison to other companies in the same sector (Sritharan, 2015). The return on equity and bank size have a positive correlation, suggesting that a bank with substantial capital and reserves would also have strong financial performance. It has a noteworthy association with ROE. It also exhibits a favorable correlation with CAR and EPS, but a negative correlation with the other variables. There is a modest correlation with the capital adequacy ratio and a high negative correlation with independent directors and board members.

$$\text{Bank Size} = \text{Log of Total Assets}$$

d. Earnings per share

Return on equity and earnings per share have a positive relationship. It implies that a rise in EPS will coincide with an improvement in the bank's performance, or a rise in the ROE. ROA and ROE have a very strong, positive link. The research also shows that there are positive and negative relationships between it and board member capital adequacy ratio, bank size, and independent directors. There is a noteworthy inverse correlation between it and BM positive with ID, ROE at 0.01 level, and CAR at 0.05 level.

e. Capital adequacy ratio

The capital strength ratio, or CAR for short, is the ratio of equity to total assets. Since well-capitalized banks are less likely to go bankrupt, their financing costs and risks are also projected to decrease, the equity to total assets ratio is predicted to positively correlate with performance (Berger, 1995). The amount of equity and other reserves that a bank has put aside to offset its riskier assets is referred to as capital adequacy. The return on equity is positively correlated with the capital adequacy ratio. The correlation between ROE and positivity is noteworthy. Similarly, it has a negative correlation with the number of board members and a positive correlation with independent directors, profits per share, and bank size. It and bank size have a strong positive correlation.

f. Bank Age

grasp a bank's operating dynamics, performance, and reputation requires a grasp of its age. Older banks have advantages such as stability, expertise, and consumer trust, but they also need to constantly innovate and adapt in order to be competitive. It also describes how long a bank has been in business since it was founded. It is crucial to comprehending the several facets of a bank's stability, performance, and position.

Dependent Variables

a. Return on Equity (ROE)

Any bank's goal is to make a lot of money. The bank can only make its greatest profit if it makes appropriate use of its equity. A bank's own capital is known as equity capital. The degree to which a bank is effective in mobilizing its equity is indicated by the return on equity. It serves as a gauge for profitability. A high ratio shows that the bank has been successful in raising equity capital, and vice versa. DeYoung (2005) states that ROE may be computed by dividing net income by average stockholder's equity, which is determined by dividing the total amount of equity held by shareholders at the start and end of the year by two.

$$\text{ROE} = \frac{\text{Net income}}{\text{Stockholder equity}} \times 100$$

b. Return on Assets (ROA)

One important number that shows a bank's profitability is ROA. It is the proportion of total assets to income. It evaluates the bank management's capacity to generate overall revenue via the use of available firm assets. It also shows how well the business is managed in terms of producing net revenue using all of the institution's resources. Greater ROA indicates more effective resource use by the business.

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Total assets are the total amount of assets shown on the balance sheet, while net income is the entire amount received after taxes are deducted and is displayed in the profit and loss account.

CHAPTER IV

RESULTS AND DISCUSSION

4.1. Results

The analysis of secondary data pertaining to the impact of corporate governance on bank performance is the aim of this section. To assess the secondary data, descriptive, correlational, and regression analyses have been carried out. The purpose of the secondary data is to reveal how corporate governance factors and bank performance are related.

4.1.1. Descriptive statistics

The descriptive statistics, including the maximum, minimum, mean, and standard deviation for each variable, are shown in Table 4 for the impacts of different independent factors on bank performance.

Table 4

Descriptive statistics

	Minimum	Maximum	Mean	Std. Deviation
BM	5.00	9.00	7.0556	1.17427
ID	0.00	1.00	0.7222	0.45041
BS	8.26	11.65	10.5388	0.86959
ROE	0.02	0.34	0.1481	0.06340
EPS	7.48	78.04	29.8237	13.84944
CAR	0.05	0.17	0.1284	0.01834
ROA	0.00	0.04	0.0160	0.00501
BA	13.00	86.00	33.7000	19.18769

Descriptive statistic- minimum, maximum, mean, and standard deviation for the variables associated with 10 sample banks for the period 2014/15 to 2022/23. BM refers to number of board members in board committee, ID refers to number of independent directors in board committee, ROE refers to return on equity, ROA refers to return on assets, CAR refers to capital adequacy ratio, EPS refers to earnings per share, BS refers to bank size and BA refers to bank age.

As shown in Table 4, ROE ranges from 0.02 to 0.34 with an average of 0.1481. The standard deviation for ROE is 0.06340. The Board of directors or member in board committee ranges from 5 to 9 members with mean of 7.0556 members. Similarly, the number of independent director ranges from 0.00 to 1.00 with mean number of 0.7222 independent directors. Capital adequacy ratio ranges from 0.05 to 0.17 with mean of 0.1284 and standard deviation of 0.01834. The earnings per share of banks range from Rs 7.48 to Rs 78.04. The mean and standard deviation of earnings per share is 29.8237 and 13.84944 respectively. The bank size ranges from 8.26 to 11.65 with an average of 10.5388 and standard deviation of 0.86959. ROA ranges from 0.00 to 0.04 with an average of 0.0160. The standard deviation for ROA is 0.00501 and finally, bank age ranges from 13 to 86 with an average of 33.700 and standard deviation of 19.1876.

4.1.2 Correlation analysis

A statistical method called correlation analysis is used to ascertain the degree of link between two variables in order to explain a variable's direction in the event that the original data should change or stay the same. The direction of movement between the variables is thus indicated by the degree of correlation. The research can forecast how one variable will affect the direction of another by using correlation. It is important to note that correlation just indicates the direction of the change or movement—it does not imply causation. A high or strong correlation indicates a significant association between two or more variables, while a low or weak correlation indicates little to no relationship at all. The following table displays the results of the computation of the Pearson correlation.

Table 5*Pearson's correlation matrix dependent and independent variables*

	BM	ID	BS	ROE	EPS	CAR	ROA	BA
BM	1							
ID	-0.098	1						
BS	-.447**	.242*	1					
ROE	.506**	-.218*	-.577**	1				
EPS	0.103	-0.183	-.466**	.646**	1			
CAR	-.305**	0.165	.399**	-.309**	-0.107	1		
ROA	.414**	-0.042	-.409**	.561**	.431**	-.272**	1	
BA	-0.187	0.014	0.193	-0.062	0.007	-0.034	0.085	1

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

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

This Table presents the vicariate Pearson coefficients between the variables. The correlation coefficients are based on the data from 10 banks with for the period of 2014/15 through 2022/23. Here are some variables like BM refers to number of board member, ID refers to independent director, ROE refers to return on equity, ROA refers to return on assets, EPS refers to earning per share, BS refers bank size, CAR refers to capital adequacy ratio and BA refers to bank age.

In Table 5, The table is symmetric with respect to the diagonal (from top-left to bottom-right), meaning the correlation between variable X and variable Y is the same as between variable Y and variable X where each cell in the table represents the correlation coefficient between two variables. The correlation coefficient ranges from -1 to 1. Similarly 1 indicates a perfect positive correlation (as one variable increases, the other also increases by a proportional amount) and -1 indicates a perfect negative correlation (as one variable increases, the other decreases by a proportional amount) also 0 indicates no correlation (the variables are independent of each other). Correlation is

significant at the 0.05 level (2-tailed) means the correlation coefficient is significant at the 5% level of significance and correlation is significant at the 0.01 level (2-tailed) means the correlation coefficient is significant at the 1% level of significance. Hence if there's no annotation, the correlation is not statistically significant at the conventional levels (typically $p > 0.05$).

The number of board member in banks has positive relationship with the performance of banks. Here, it has significant positive relationship with ROE 0.506 which were considered as measure of bank performance in this research. The study revealed that the positive relationship with ROE is strong and significant at the 0.01 level. Similarly, the board member has positive relationship with ROA 0.414 and significant at the 0.01 level and negative correlation with bank size and capital adequacy ratio having 0.447 and 0.305 where significant at the 0.01. Other variables such as independent directors, earning per share and bank age has not significant at the 0.05 level.

The independent directors have a weak negative correlation between ID and BM (-0.098), but it is not statistically significant. However, there is the correlation of ID (1) with itself, which is always 1. There is a statistically significant positive correlation between ID and BS. The statistically significant negative correlation between ID and ROE (-0.218). Thus there is a weak negative correlation between ID and EPS (-0.183), ID and CAR (0.165), ID and ROA (-0.042) and there is virtually no correlation between ID and BA (0.014), and it is not statistically significant. Therefore, the correlations for "ID" suggest that it has significant relationships with BS and ROE (both significant at the 5% level).

Capital adequacy ratio has negative significant correlations with several variables such as BM, ROE, and EPS, indicating that as CAR increases, these other variables tend to decrease, or vice versa. There is a strong positive correlation (.506) between ROE (Return on Equity) and BM (Board Members) at the 0.01 significance level, indicating a positive relationship between these two variables. Similarly, there is a strong negative correlation (-.447) between BS (Bank size and BM (Board Members) at the 0.01 significance level, suggesting that these two variables move in opposite directions.

The earnings per share is positively related with return on equity (ROE) and return on assets (ROA). It means that with the increase in EPS there will also be increase in performance of bank i.e. the ROE (0.646) and ROA (0.431) of bank will raise where

both significant at the 1% level. The study also further reveals that its relationship with bank size, independent director, bank age and capital adequacy ratio is negative and positive with board member, earning per share, return on equity and return on assets. This is the correlation of EPS with itself, which is always 1. There is a weak correlations with BM, ID, CAR, and BA, none of which are statistically significant at the conventional levels. A significant negative correlation with BS is at significant at the 1% level.

The bank size has various significate status that there is a statistically significant negative correlation between BS and BM (-0.447), BS and EPS (-0.466), BS and ROA (-0.409) and also there is a statistically significant strong negative correlation between BS and ROE (-0.577) where the correlation of BS 1 with itself, which is always 1. The correlation with BA (0.193) is positive but not statistically significant at the conventional levels.

The bank age has shows weak correlations with other variables. Likewise, it has a negative correlation (-0.187) with BM (Board Member), which is significant at the 0.05 level (indicating a weak negative relationship). BS (Bank Size) has a positive correlation (0.193) which is also significant at the 0.05 level (indicating a weak positive relationship). Thus, the correlations with other variables (ID, ROE, EPS, CAR, ROA) are very close to zero, suggesting little to no linear relationship.

4.1.3 Regression analysis

When a research uses regression analysis to analyze secondary data based on a regression model, it may be used to determine how independent factors affect the dependent variable. In essence, it works with the regression results from different model specifications to look at the estimated relationships between the dependent variables, return on equity and return on assets, and the independent variables, earning per share, capital adequacy ratio, bank size, and bank age. The tables below show the results of the regression.

4.1.3.1 Regression result of return on equity and independent variable

The regression of independent variable on return and equity are presented in the following Table 6

Table 6*Effect of corporate governance on ROE*

Model		Unstandardized		Standardized		t	Sig.
		Coefficients		Coefficients			
		B	Std. Error	Beta			
1	(Constant)	0.067	0.088		0.769	0.444	
	BM	0.020	0.004	0.371	4.882	0.000	
	ID	-0.006	0.010	-0.040	-0.590	0.557	
	BS	-0.009	0.007	-0.125	-1.382	0.171	
	EPS	0.002	0.000	0.534	6.982	0.000	
	CAR	-0.280	0.257	-0.081	-1.091	0.279	
	BA	8.416E-05	0.000	0.025	0.369	0.713	

a. Dependent Variable: ROE

The results are based on regression analysis data of 10 banks for the period of 2014/15 to 2022/23 by using linear regression model. The model is $ROE = \beta_0 + \beta_1 BM + \beta_2 ID + \beta_3 BS + \beta_4 EPS + \beta_5 CAR + \beta_6 BA + e$, where BM, ID, BS, BA, EPS and CAR are board member size, independent directors, bank size, bank age, earnings per share and capital adequacy ratio.

A one unit increase in BM (Board member size) is associated with an increase in ROE by 0.020 units, holding other variables constant. This relationship is statistically significant ($p < 0.05$). Similarly, EPS is also a unit increase by associated with an increase in ROE by 0.002 units, holding other variables constant. This relationship is highly statistically significant ($p < 0.001$). Independent directors (ID), Bank size (BS), Capital adequacy ratio (CAR), Bank age (BA) where these all variables do not show

statistically significant relationships with ROE at the conventional significance level ($p > 0.05$).

Based on these results, both Board member size (BM) and Earning per share (EPS) appear to have statistically significant relationships with ROE. BM has a positive relationship, indicating that companies with higher Board member size ratios tend to have higher ROE. EPS also shows a positive relationship, suggesting that higher earnings per share are associated with higher ROE. The other variables (ID, BS, CAR, BA) do not show significant relationships with ROE in this model.

4.1.3.2 Results of multiple regression coefficients

The results of multiple regression coefficients shows below mentioned Table 7

Table 7

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.798 ^a	0.637	0.611	0.03956

As above Table 7, the model as a whole (all predictors together) explains a significant amount of variance in the dependent variable ($R^2=0.637$) where the adjusted R^2 suggests that even when accounting for the number of predictors, the model still explains a substantial proportion of the variance (Adjusted $R^2=0.611$). However the standard error of the estimate (0.03956) indicates the average amount that predictions deviate from the actual values.

Since the predictors listed as BA, EPS, CAR, ID, BM, and BS the coefficients for these predictors would provide more detail on how each individual predictor contributes to the model's prediction of the dependent variable considering the influence of all other predictors.

4.1.3.3 Regression result of return on assets and independent variable

The regression of independent variables on return on assets is presented in following Table 8

Table 8*Effect of corporate governance on ROA*

Model		Unstandardized		Standardized	t	Sig.
		Coefficients				
		B	Std. Error	Beta		
1	(Constant)	0.010	0.009		1.078	0.284
	BM	0.001	0.000	0.339	3.391	0.001
	ID	0.001	0.001	0.096	1.063	0.291
	BS	-0.001	0.001	-0.109	-0.913	0.364
	EPS	0.000	0.000	0.352	3.499	0.001
	CAR	-0.027	0.027	-0.098	-0.998	0.321
	BA	4.242E-05	0.000	0.162	1.790	0.077

The results are based on regression analysis data of 10 banks for the period of 2014/15 to 2022/23 by using linear regression model. The model is $ROA = \beta_0 + \beta_1 BM + \beta_2 ID + \beta_3 BS + \beta_4 EPS + \beta_5 CAR + \beta_6 BA + e$, where BM, ID, BS, BA, EPS and CAR are board member size, independent directors, bank size, bank age, earnings per share and capital adequacy ratio.

The regression of independent variables on return assets shows that all independent variables (BM, ID, BS, EPS, CAR, BA) are zero, the estimated ROA is 0.010. However, since the p-value (0.284) is greater than typical significance levels (like 0.05), the intercept is not statistically significant at conventional levels. Thus a one-unit increase in BM is associated with a 0.001 unit increase in ROA. The t-value (3.391) indicates that this relationship is statistically significant ($p = 0.001$). However, ID, BS, EPS, CAR and BA shows similar interpretation applies to each of these variables based on their coefficients, standard errors, beta coefficients (if applicable), t-values, and significance levels (p-values). For each independent variable, the coefficient (B) indicates the

direction and magnitude of the relationship with ROA. Similarly, the t-values and corresponding p-values (Sig.) help determine the statistical significance of each coefficient. Generally, coefficients with p-values less than 0.05 are considered statistically significant. Also the Beta coefficients (Standardized Coefficients) show the relative importance of each independent variable in explaining ROA after standardizing all variables.

4.1.3.4 Results of regression coefficient

Table 9

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.610 ^a	0.372	0.327	0.00411

By above table shows that R (0.610) represents and indicates a moderate positive correlation between the predicted values of the dependent variable (ROA, as inferred from your previous query) and the actual observed values of ROA. Also R Square (Coefficient of Determination) indicates that 37.2% of the variance in the dependent variable (ROA) is explained by the independent variables (BA, EPS, CAR, ID, BM, BS) included in the model. The adjusted R² (0.327) suggests that after adjusting for the number of predictors, the model's explanatory power decreases slightly and the standard error of the estimate (0.00411) provides a measure of the accuracy of predictions made by the model.

While the model shows a moderate level of correlation and explains a substantial portion of the variance in ROA, it's important to interpret individual coefficients (as seen in your earlier query) to understand the specific contributions of each predictor variable. Additionally, assessing the statistical significance of each coefficient and checking model assumptions are crucial steps in ensuring the reliability of the regression model.

4.2 Discussion

According to the purpose of the study, research adopted theoretical framework to identify factors influencing probability of commercial banks and in this respect variables of board size member (BM), earning per share (EPS), capital adequacy ratio

(CAR), bank size (BS), bank age (BA), independent directors (ID), return on assets (ROA) and return on equity (ROE).

Corporate governance plays a crucial role in shaping the performance and sustainability of banks in Nepal, influencing everything from risk management to stakeholder confidence. Similarly, corporate governance is a prime variable that definitely lead to enhancement in performance and increased financial performance in commercial banks in Nepal. As per the study of Dr. Pradhan, on his article that corporate governance and bank performance in Nepal shows the result there is a significant impact of corporate governance on ROA as well as ROE in the financial institutions mainly Commercial Banks. Better corporate governance is supposed to lead to better corporate performance by preventing the expropriation of controlling shareholders and ensuring better decision making.

Corporate governance is important for the success of long term development in developed, developing, transitional and emerging market economies. The quality of governance in institutions matters greatly for development of nation as whole. Corporate governance in banks is different from other corporation or institutions. The level of negative impact in nation is much higher due to failure of corporate governance in banks than other non-financial institutions. Therefore, the corporate governance importance in financial institution is higher and needs to be properly regulated.

The current study shows that impact of corporate governance factors on the performance of bank is similar to other scholar's studies in their respective countries. The results in this research show that corporate governance factors can impact the performance of banks of all over the nation. Nepal Rastra bank has full responsibility to maintain the governance and create a healthy environment for banks. However, NRB has not able to achieve its objective completely. Banking sector of Nepal is still prone to the risk of failure due to failure of NRB to properly supervise the activities directors.

Overall, the findings highlight the intricate relationship between corporate governance practices, financial performance metrics (ROA and ROE), and the broader economic and regulatory environment in shaping the performance of Nepalese banks. Understanding these dynamics is essential for stakeholders, policymakers, and banking professionals to foster sustainable growth and resilience in the banking sector.

CHAPTER V

SUMMARY AND CONCLUSIONS

5.1 Summary

Corporate governance is an important concept which has been put into practice because of the needs of corporations to constantly be efficient and perform better; and it is this need that has made corporate governance so necessary today. Board member size, independent directors in board members, earnings per share, capital adequacy ratio, bank age and bank size for the study were taken after the literature review of various scholars for the independent variables. Corporate governance is the set of relationship between company's management, its boards, its shareholders and other stakeholders (OECD, 1999). The bank size does not have significant impact on the performance of banks in Nepal. Therefore, in Nepal, it is important to focus on other board directors, independent directors and earnings per share for the better performance of banks. As results shown in the independent variables on return on equity show that beta coefficient for independent director, capital adequacy ratio, earnings per share and bank size is positive. The banks and its functions are imperative for the soundness of the economy (Adnan et al., 2011). Banks conduct the payment systems, ensure flow of credit and provide financial intermediation which in fact is the backbone of any economy, developed or underdeveloped (Rose and Hudgins, 2008). Today, the well-known agency problems resulting from the separation of ownership from management still prevail in firms worldwide. Such separation incurs the agency costs that may reduce the performance. The problem of agency was first emphasized by Berle and Means in 1932. However, it was Jensen and Meckling (1976) which laid the solid foundations for contemporary studies concerning the governance of firms in verge of agency conflicts. Unlike non-financial firms, the structure and mechanism of the corporate governance of the banks are somewhat different (Caprio and Levine, 2002).

For this purpose, secondary data was collected and analyzed in systematic way to derive the findings. In the study, data was collected from different websites like banks official websites and NRB websites and analyzed using mean, standard deviation, correlation and regression. The study has used 10 observations from the year 2014/15 to 2022/23 of 10 sample banks out of which 20 are commercial banks. Among others, the study relies on descriptive and causal comparative research designs. However, causal

comparative research design has been emphasized more in order to investigate the relationship of corporate governance structure with performance of the banks. The analysis of data have been carried out using wide array of statistical tools like descriptive statistics, correlation analysis and regression analysis. In addition, structural analysis and portfolio analysis have also been undertaken to assess the trend and properties of the performance indicators of the sample banks over the period and across the different portfolios. The study obtained several results and findings about the current structure and mechanism of corporate governance in Nepalese banks and its impact on performance of the banks.

The number of board member in banks has positive relationship with the performance of banks. However, regression analysis helps to find out the impact of independent variables on the dependent variable where the study relies on secondary data analysis based on the regression model. The model is $ROE = \beta_0 + \beta_1 BM + \beta_2 ID + \beta_3 BS + \beta_4 EPS + \beta_5 CAR + \beta_6 BA + e$ and another $ROA = \beta_0 + \beta_1 BM + \beta_2 ID + \beta_3 BS + \beta_4 EPS + \beta_5 CAR + \beta_6 BA + e$ where BM, ID, BS, BA, EPS and CAR are board member size, independent directors, bank size, bank age, earnings per share and capital adequacy ratio. Thus the corporate governance plays a crucial role in shaping the performance and sustainability of banks in Nepal, influencing everything from risk management to stakeholder confidence.

The financial performance of the Banks are directly related with the good governance practices. The better the practices, the better the performance of the banks. Weaker corporate governance practices hampers the financial soundness of an organization. When the corporate governance practices are strong enough, it ultimately increases the ROA and ROE of an organization. Analysis was carried out using Statistical Package for Social Sciences (SPSS).

5.2 Conclusion

With the aim to evaluate the relationship and examine the impact of independent variables: board member size (BM), independent directors (ID), bank size (BS), bank age (BA), earnings per share (EPS) and capital adequacy ratio (CAR). And dependent variable profitability of commercial banks return on assets (ROA) and return on equity (ROE), the descriptive, correlation and casual design have been applied and secondary data is used for analysis. The data was collected from different websites like banks

official websites and NRB websites. The study is conducted on 10 commercial banks as a sample. In this study, data were evaluated using mean, correlation and regression analysis.

Corporate governance is of more importance to financial institutions in Nepal as there is huge competition in the industry. A sound corporate governance system is of vital concern to improve the financial performance of commercial banks in Nepal. The number of board member in banks has positive relationship with the performance of banks. Here the independent directors have a weak negative correlation between ID and BM (-0.098), but it is not statistically significant. Capital adequacy ratio has negative significant correlations with several variables such as BM, ROE, and EPS, indicating that as CAR increases, these other variables tend to decrease, or vice versa. The earnings per share is positively related with return on equity (ROE) and return on assets (ROA). It means that with the increase in EPS there will also be increase in performance of bank i.e. the ROE (0.646) and ROA (0.431) of bank will raise where both significant at the 1% level. The study also further reveals that its relationship with bank size, independent director, bank age and capital adequacy ratio is negative and positive with board member, earning per share, return on equity and return on assets. The bank size has various significant status that there is a statistically significant negative correlation. The bank age has shows weak correlations with other variables and the correlations with other variables are very close to zero, suggesting little to no linear relationship.

Hence Corporate governance has now become a global issue and global trend in most of the commercial industries of public concern the ever before. Corporate governance is of more significance in this century to address the concern of stakeholders on the ground of transparency, accountability and integrity.

5.3 Implications

This study has portrayed some crucial results and one avenue for the future research is to extend the study to other emerging market. This result is basically from "A" class financial institution of Nepal. Thus, the future study may incorporate other financial sectors such as development banks, insurance finance companies and micro-finance companies. The study is entirely based on secondary data. This study focuses on the variables that influences on profitability performance of banks. Banks are the backbone

of the country's economy. Without banks and other financial institutions, nation cannot achieve their economic growth.

The NRB should encourage banks to implement good corporate governance practices through enacting rules and regulations. Keeping the number of director in a bank board to a minimum size is recommended, so long as that minimum size enables the board to perform its supervision activities properly. Commercial banks should increase their branches as well as their size in order to improve profitability due to economies of scale. The study of corporate governance and performance is important and hence should be repeatedly done in certain time periods. When research in future is done, it is recommended that more sample size to be taken with longer period time. Similarly, the research can be done to compare the relationship between corporate governance and performance between commercial banks, development banks, finance companies and non-financial companies. It is also important to know how the central bank of Nepal has been supervising the banks and whether the policies and directives used by NRB are comparable to the Central Bank of other countries.

The study contributes to the body of knowledge that already exists in the field of what influences bank profitability and aims to fill a particular level of a gap. The financial sector of the economy will benefit or increase as a result.

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APPENDIX

1. Laxmi bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Board size	8	7	6	6	6	6	6	6	5
Independent directors	1	0	0	1	1	1	1	1	1
Bank size	9.4613759	9.6812313	9.9148535	9.9149599	11.029366	11.110248	11.182531	11.239009	8.2584551
ROE%	15.1	10.33	11.17	9.2	2.51	2.02	1.87	1.79	7.01
EPS	26.07	19.42	27.15	21.77	17.82	14.39	14.73	13.1	14.61
CAR%	11.91	10.81	11.15	13.58	11.83	13.02	12.15	12.75	12.76
ROA%	1.47	1.04	1.35	1.52	1.55	1.66	1.2	1.46	1.25
Bank age	13	14	15	16	17	18	19	20	21

Source: annual report of Laxmi Bank

2. Nabil bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Board size	5	7	7	7	7	6	6	6	5
Independent directors	1	1	1	1	1	1	1	1	1
Bank size	9.56	9.68	9.79	9.91	11.03	11.11	11.18	11.24	8.26
ROE%	22.73	25.61	22.41	20.94	17.76	13.61	15.19	10.19	15.04
EPS	57.24	59.27	59.86	51.84	50.57	36.16	33.57	22.86	75.2
CAR%	11.57	11.73	12.9	13	12.5	13.07	12.77	13.09	12.92
ROA%	2.06	2.32	2.69	2.61	2.11	1.58	1.71	1.27	1.4
Bank age	31	32	33	34	35	36	37	38	39

Source: annual report of Nabil bank

3. NMB bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Board size	9	9	9	9	7	6	6	7	7
Independent directors	1	1	1	1	1	1	0	0	0
Bank size	9.30103	9.4365387	9.6519487	9.9425204	11.269144	11.307547	11.364639	11.388188	11.649515
ROE%	14.86	33.82	20.52	13.65	13	8.92	11.04	11.17	6.69
EPS	25.05	22.1	22.24	21.86	23.54	17.03	22	20.74	13.92
CAR%	11.13	10.98	13.61	15.75	13.26	13.54	14.71	15.96	13.32
ROA%	1.83	1.8	1.82	1.92	1.4	1.19	1.56	1.55	0.83
Bank age	19	20	21	22	23	24	25	26	27

Source: annual report of NMB bank

4. Everest bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Board size	8	8	8	8	7	7	7	7	7
Independent directors	0	0	0	0	1	1	1	1	1
Bank size	9.2555619	9.3047705	9.7589948	9.9040045	11.230647	11.267226	11.327024	11.352918	11.398097
ROE%	28.4	22.8	18.37	18.05	17.33	13.5	9.38	10.88	13.25
EPS	78.04	65.97	44.32	32.78	38.05	29.71	19.91	26.3	31.43
CAR%	11.31	13.33	12.66	14.69	13.74	15.08	12.48	11.89	11.5
ROA%	1.85	1.61	1.72	1.97	1.94	1.42	1	1.13	1.41
Bank age	21	22	23	24	25	26	27	28	29

Source: annual report of Everest bank

5. Nepal SBI bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Board size	7	8	8	9	6	6	6	6	7
Independent directors	0	0	0	1	1	1	1	1	1
Bank size	9.4854459	9.5892497	9.8404131	9.9056289	11.073037	11.121894	11.139277	11.184983	11.269415
ROE%	22.85	21.51	22.16	14.84	16.2	10.44	6.26	9.57	10.77
EPS	34.48	36.78	33.46	25.16	27.13	17.23	10.15	16.19	19.44
CAR%	13.28	14.03	13.49	15.71	14.12	15.55	13.86	13.25	12.58
ROA%	1.64	1.59	1.57	1.97	1.94	1.17	0.7	1.07	1.06
Bank age	22	23	24	25	26	27	28	29	30

Source: annual report of Nepal SBI bank

6. Himalayan bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Board size	8	8	9	9	8	8	8	8	7
Independent directors	0	0	0	1	1	1	1	1	1
Bank size	9.65313	9.7670733	9.8123533	9.9092633	11.124345	11.192804	11.251616	11.335029	11.521652
ROE%	16.85	17.06	24.53	21.58	17.28	14.71	14.89	10.76	4.65
EPS	33.1	33.37	43.06	35.15	32.44	27.6	28.07	18.26	9.18
CAR%	11.29	11.14	11.84	12.15	12.6	14.89	13.93	11.75	12.31
ROA%	1.34	2.03	2.19	1.67	2.21	1.79	1.68	1.09	0.47
Bank age	22	23	24	25	26	27	28	29	30

Source: annual report of Himalayan bank

7. Nepal Investment Bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Board size	7	8	9	9	6	6	7	7	7
Independent directors	0	1	1	1	1	1	1	1	0
Bank size	9.6784273	9.8025001	9.9398685	9.9656898	11.269144	11.307547	11.357802	11.388188	11.649515
ROE%	24.8	24.8	16.65	14.71	13	8.92	11.04	11.17	6.69
EPS	30.9	29.3	29.31	35.66	26.43	17.03	22	20.74	13.92
CAR%	11.27	14.92	13.02	12.66	13.26	13.54	14.71	15.96	13.32
ROA%	1.9	1.97	2.06	2.13	1.79	1.19	1.56	1.55	0.83
Bank age	29	30	31	32	33	34	35	36	37

Source: annual report of Nepal investment bank

8. Siddartha Bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Board size	9	9	7	7	6	6	6	6	6
Independent directors	1	1	0	0	1	1	1	1	1
Bank size	9.3077484	9.4803056	9.7202304	9.9275954	11.159184	11.231941	11.359964	11.422142	11.456332
ROE%	23.41	20.74	14.89	15.34	15.71	13.81	15.68	13.82	13.5
EPS	38.36	37.77	41.63	26.45	23.07	19.55	26.04	20.6	22.48
CAR%	11.39	11.1	12.74	12.12	12.7	13.17	13.36	13	12.47
ROA%	1.62	1.45	1.51	1.47	1.49	1.26	1.25	1.18	1.15
Bank age	13	14	15	16	17	18	19	20	21

Source: annual report of Siddartha Bank

9. Nepal bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Board size	8	8	7	7	5	5	6	6	7
Independent directors	0	0	1	1	1	1	0	1	1
Bank size	9.8105687	9.8105687	9.9053998	9.9054063	11.234304	11.281403	11.347614	11.415103	11.47237
ROE%	18.71	17.27	25.17	13.51	8.87	7.77	8.92	8.24	9.41
EPS	18.08	7.48	38.77	39.98	26.99	20.68	23.43	20.29	23.39
CAR%	4.55	7.5	10.2	11.27	16.8	17.01	16.8	14.49	13.74
ROA%	2.79	1.73	2.41	0.53	1.51	1.22	1.33	1.12	1.81
Bank age	78	79	80	81	82	83	84	85	86

Source: annual report of Nepal Bank

10. Rastriya Banijya Bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Board size	9	9	9	7	5	6	7	6	6
Independent directors	1	1	1	0	0	0	1	1	1
Bank size	9.8371781	9.9339412	9.9339412	9.9544739	11.354896	11.426131	11.491344	11.518833	11.59552
ROE%	18.71	17.27	25.17	13.51	23.38	19.01	11.94	13.14	7.09
EPS	34.25	27.48	36.29	42.75	56.04	47.66	33.61	30.63	24.22
CAR%	10.16	10.46	10.39	11.47	13.39	12.64	13.46	13.29	12.92
ROA%	3.77	2.07	1.69	2.23	1.75	1.45	1.62	1.3	0.91
Bank age	49	50	51	52	53	54	55	56	57

Source: annual report of Rastriya Banijya Bank

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ABSTRACTS The purpose of this study was to know the relationship and impact of corporate governance structure and performance of Nepalese banks. This study investigates the effect of corporate governance structure and performance of Nepalese banks by using secondary data. Corporate governance is an important concept which has been put into practice because of the needs of corporations to constantly be efficient and perform better; and it is this need that has made corporate governance so necessary today. Secondary data has been collected from 10 sample banks from 2014/15 to 2022/23 has been collected from various secondary sources like annual reports of sample banks and consolidated financial reports prepared by Nepal Rastra Bank.

Descriptive statistics, correlation analysis and regressions analysis **have been carried out to examine the**