

**CORPORATE GOVERNANCE AND ITS IMPACT ON FIRM
PERFORMANCE: A STUDY ON NEPALESE DEVELOPMENT BANKS**

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fulfillment of the requirements for the Master of Business Studies (MBS)

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis entitled "**Corporate Governance and its Impact on Firm Performance: A Study on Nepalese Development Banks**" has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text. I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

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ABBREVIATIONS

ACC	: Accountability
CEO	: Chief Executive Officer
CG	: Corporate governance
CSR	: Corporate Social Responsibility
df	: Degree of Freedom
DIS	: Discipline
FAI	: Fairness
FIR	: Firm Performance
IND	: Independence
Ltd.	: Limited
N	: Number of Respondents
RES	: Responsibility
ROA	: Return on Assets
ROE	: Return on Equity
Sig.	: Significance
SPSS	: Statistical Package for Social Scientists
Std.	: Standard
TRA	: Transparency

ABSTRACT

Effective corporate governance practices are essential to achieving and maintaining the public trust and confidence in the banking system, as a result they are critical to the proper functioning of the banking sector and economy as a whole. However, little attention has been given to corporate governance of banking sector especially in developing economies. This study examines the corporate governance and its impact on firm performance.

There are many dimensions of corporate governance but in this study only six components (transparency, accountability, fairness, discipline, responsibility and perceived firm performance) are considered as the factor of good corporate governance. The objective of this research is to analyze the impact of corporate governance on firm performance of the development banks of Nepal. The study employed a qualitative methodology. Data was collected through a self-administered survey questionnaire. The questionnaire is adopted from a previous validated survey. The target population consists of development banks of Nepal. Simple convenience sampling is used for collection of data from 170 employees.

The results indicate a positive relationship between corporate governance and perceived firm performance. The study concludes with some brief prospects that the businesses need to realize the importance of good corporate governance for perceiving success. This paper may benefit for all organization that may be service or manufacturing for realizing the importance of corporate governance on organizational success.

Keywords: Corporate Governance, Bank Performance, Nepalese Development Banks, Transparency, Accountability, Fairness, Discipline, Responsibility, Financial Stability, Regression Analysis, Stakeholder Trust, Organizational Efficiency, Risk Management, Employee Morale, Regulatory Compliance

CHAPTER-I

INTRODUCTION

1.1 Background of the study

Corporate governance is a framework of rules, practices and process by which a company is directed and controlled. It encompasses the relationship among the firm to its management, board of directors, shareholders and other stakeholders and sets out the structure through which the company targets are met by ensuring accountability, transparency and morale ethics.

The term corporate governance is derived from the word 'gubernare' which means to "to rule or to steer" (Bhasin, 2010). Corporate governance is as old as corporate entity, and it has been practiced in several countries. The definition of corporate governance varies accordingly to culture and the countries (Armstrong & Sweeney, 2002). However, the definitions are broadly classified as 'narrow' and 'broad'. In the narrow classification, corporate governance is mainly focused towards shareholders because they think that the companies are primarily responsible to them. In contrast, the broader perspective extends the responsibility of companies to their shareholders. Generally, the narrow model is quite common in Anglo-American countries (the UK & U.S) while the broader model is usually adopted in European countries as well (Aguilera & Cuervo-Cazurra, 2009).

Corporate governance is defined as the process and structure used to direct and manage the business activities towards creating financial prosperity of commercial bank. It is the system by which companies are directed and controlled. It is a set of relationships between investors, stakeholders, directors and other stakeholders to define each of their role and responsibility towards accomplishing goals. It is required for the well-functioning of state mechanism & society. Corporate governance can be defined as the combination of fairness, precision, accountability, and sustainability of corporate organization. The relative effectiveness of corporate governance has profound effects on how well business do performs. For continuous and sustainable growth of an organization, there is no alternative to effective corporate governance (Gnawali, 2023).

The positive effect of corporate governance on different stakeholders ultimately is a strengthened economy. Hence, good corporate governance is a tool for socio-economic developments. Disclosure and transparency are key pillars of a corporate governance framework in an organization because they provide all the stakeholders with the information necessary to judge whether their interests are being taken care of or not (Katrodia, 2010). Corporate governance and firms performance is very related and associated field that had caught the attention of economists and lawyers by giving birth to lot of grounded theory in the field such as stakeholder model, agency theory in the scope of having better governance of companies and reaching the ultimate goals of those companies which is based on profitability and firm performance, hence several studies emphasis their understanding in retain earnings of the firms (Herrigel, 2006).

Corporate governance is describing the systems through which companies are directed and controlled, emphasizing transparency, accountability, and effective decision making to retain stakeholder's interests (Bhattarai, 2017). Corporate governance enables firms to align managerial actions with other stakeholders like their creditors, employees and customers. They argue that sound governance minimizes agency conflicts (Poudel & Hovey, 2012).

Better governance correlates with reduced financial risk and improved access to capital markets in Nepal and also strong governance practices with higher market to book ratios and Tobin's Q metrics, indicating better and effective firm performance (Dhungana, 2020).

The practice of corporate governance (CG) in organization has developed rapidly in recent period and its importance has been highlighted around the world. It has been adopted by countries that have not regulated the adoption of CG in their organizations. The reason for the global interest on CG is that it underpins a company's operating framework. Therefore, the adoption and implementation of the QA practices is expected to benefit the owners. Since, they are committed to using the principals and mechanisms, which are the broadest sense amounts to an effective monitoring of the activities of a company particularly when the principles of disclosure and transparency are, adopted (Grantham, 2020).

In this way, the clear and important role of the CG is highlighted with respect to the effect of these mechanisms on the performance of firms. Several studies prove the relationship

between CG and company performance, but those results are inconsistent; some report positive results and others are mixed negative & positive from company performance (Alabdullah, 2016).

Corporate governance describes the way trust is shown, power exercised and accountability achieved in corporate entities for benefit of their members, other stakeholders and a society (Tricker, 2022).

In Nepalese scenario, the entry of international players in the form of joint venture banks into the market had added a tough competitive situation to the current financial sectors. Nepalese financial sectors are bound to change their way as good governance of corporation is a source of competitive advantages and critical to the economic and social progress (Adhikari, 2022).

Since the board of directors (BOD) is the most important device to monitor the management of the company, independency of board of directors has become significant issues (Abdullah, 2004). Board independency means the proportion of no-executive directors relative to the number of total directors. It is argued that board with the more non-executive directors will control the behavior of managers and protect the shareholders interest better than board with dependent members (Abidin & Kamal, 2009). In addition, the study found a positive relation between the ratio of independent directors and return on equity among Belgian companies (Dahya, Dimitrov, & McConnell, 2008).

To ensure a good corporate governance practice in context to Nepalese organizations the efforts from both investors and the promoters should be equal and should be more transparent, accountable and should be responsible towards their duty and responsibilities. Shareholders should be actively participating in the corporate affairs and help to prevent the fraudulent and insider practices whereas regulatory authorities should efficiently and effectively enforce the rules and regulations that protects the right of stakeholders and create favorable environment to enhance the good corporate governance culture within the organization (Pokhrel, 2007).

Nepal's banking system has evolved from being dominated by the government to becoming more competitive and lucrative in these recent years. Different international banks have recently arisen, increasing rivalry among the banks. Banks are improving customer services

to gain a competitive advantage and attract new customers and creating the values (Boot & Thakor, 2009).

1.2 Problem Statement

The issue of corporate governance in the Nepalese banking sector is an important and timely topic, as corporate governance plays a critical role in ensuring the long-term stability, efficiency and accountability of financial institutions. However, Nepal's banking sector faces several unique obstacles and challenges that impact the effectiveness of corporate governance. These challenges arise from regulatory, cultural, institutional and operational factors. Below is an in-depth elaboration of these issues, along with references to relevant research and observations in the context of Nepal.

Developing countries are undergoing a process of economic and transformation; they are also experiencing a revolution in the business as political relationship that characterize their private and public sectors. Good corporate governance systems will allow organizations to realize their maximum productivity & efficiency that minimize corruption & abuse of power, and provide a system of managerial accountability (Meisel, 2004). These goals are equally important for both private corporations and government bodies. Establishing a good corporate governance practice is essential to sustain long-term development and growth of the organization. Difficult and obstacles faced in establishing and maintaining effective governance systems can include frequent leadership changes, lack of ideology, weak policy, reversals, weak institutional setups and limited leadership experience that leads to failure.

Limited capacity for regulatory supervision; NRB's governance compliance oversight is not effective especially among small banks on the other hand; there are no sound enforcement mechanism that would ensure that these practices are followed by the banks in the course of business dealings and handling. Weak regulatory enforcement, combined with political interference can undermine the effectiveness of governance structures in Nepalese banks. They argue that the regulatory bodies need stronger enforcement powers to ensure compliance with corporate governance standards. Lack of rigorous regulatory monitoring by NRB has led to several instances of poor governance and operational inefficiencies.

Issues of Corporate Governance in Nepalese Development Banks;

Limited Research on Nepalese Development Banks:

While corporate governance and company performance have been extensively researched in global contexts, there is a scarcity of research that focuses on the distinct characteristics of Nepalese development banks. This limits our understanding of how governance structures influence performance in this situation.

Weak Governance Practices in Nepalese Development Banks:

Many Nepalese development banks are frequently chastised for poor governance procedures, such as insufficient board monitoring, a lack of CEO responsibility, and limited shareholder participation. This could harm their financial health and operational efficiency.

Uncertainty of Governance-Performance Relationship:

The relationship between corporate governance procedures and firm performance is complex and can be influenced by a variety of circumstances. While governance mechanisms including board composition, transparency, and internal controls are thought to improve performance, their actual impact on financial performance in Nepalese development banks remains unknown.

Data Availability and Quality:

The quantity and quality of data on corporate governance processes in Nepalese development banks may be inadequate, making it difficult to draw valid conclusions. Secondary data from financial reports and governance disclosures may not include all key governance characteristics, and self-reported data obtained through questionnaires may be skewed or inconsistent.

Cultural and Institutional Context:

Nepal's socioeconomic and institutional contexts differ greatly from those of Western economies. Political intervention, cultural attitudes toward authority, and the regulatory

environment may all have an impact on the governance structures of Nepalese development banks, affecting the representativeness of foreign governance models.

Even though the growth of banking industry in Nepal has become rapidly increasing, corporate governance remains to be an outstanding problem with challenges that undetermined the efficiency and sustainability of the banks. because of this scarcity of good corporate governance structures and practices in Nepalese bank there are several route cause problems like financial improprieties and weak risk management system which has affected investors' confidence and stability. The regulatory structure and the mechanism of enforcing them appear to be weak or applied inconsistently making it tough for the banks to be functional and be relied on by the public. So, there is a need to rectify these governance gaps in order to ensure that Nepalese banks conduct their business in a manner that is free from mismanagement and in accordance with best global practices. This research is guided by following questions:

- I. What is the status of corporate governance practices in Nepalese development banks?
- II. Is there any relationship between corporate governance and its impact on Nepalese development banks?
- III. What is the impact of corporate governance elements on performance in Nepalese development banks?

1.3 Objectives of the Study

The main objective of this study is to examine the impact of corporate governance on the performance of Nepalese development banks. The specific objectives are as follows:

- I. To access the present corporate governance practices in Nepalese development banks.
- II. To examine the relationship between corporate governance elements.
- III. To analyze the impact of corporate governance elements on firm performance.

1.4 Rationale of the study

The purpose of this study is accessing the effect of corporate governance of Nepalese Banks. In looking at the association between various aspects of governance and the performance deviants, both economic and non-economic, this study is intended to offer very significant information for the policy makers, the managers of the banks as well as the scholars to end up in the enhancement of governance and performance of the firms in the banking industry of Nepal.

This study looks at the financial performance of financial institutions in Nepal and the nature of corporate governance practices taking into account possible adjustments to bring about improvement. Empirical analysis of the relationship between Nepali banks performance and governance. In recent years, the quantity of banking and governance studies has increased. Research in the field has accelerated as a result of the failure of multiple banks during and after the global financial crisis. In the United States, there were 80 bank collapses between 2007 and 2009 (Hoque et al., 2013). Similarly, Governments and central banks became increasingly concerned about CEO scams, a high loan default rate, bank insolvency, and bank failures. As a result, they moved to implement Basel 3 and tighten regulations in their individual nations. In the case of Nepal, the central bank assumed control of two commercial banks, one development bank was shut down, and over two development banks received warnings over this decade. The vested financial interests of the banks' directors and promoters are the root source of these issues (Upadyaya & Poudel, 2011).

Previous research suggests that banking organizations' corporate governance systems differ from those of non-financial corporations. The regulatory context in which they are located explains the notable disparity. Additionally, there is the potential for moral hazard in bank operations through the theft, asset stripping, transfer pricing, and credit allocation of bank resources, which can benefit bank insiders but harm the bank. Additionally, banks must disclose more information to their creditors and shareholders' due to information asymmetry issues (Zulkafli & Samad, 2007). Therefore, in a developing nation like Nepal, authorities must be more focused on the management and soundness of the banks' finances than those in developed markets.

Because the banking sector is a crucial financial middleman, corporate governance of banks may be viewed as more significant than that of other industries. It should come as no surprise that banks are heavily regulated and monitored, but despite the regulatory environment's seeming strength, poor performance has not been eliminated. The market may lose faith in a bank's ability to manage its assets and liabilities, including deposits, as a result of poor corporate governance. This could lead to a liquidity crisis, which could cause a national economic crisis and present a systemic risk to society as a whole (García-Marco & Robles-Fernández, 2008). Furthermore, a strong and prosperous banking industry can help the economy weather negative economic shocks (Dietrich & Wanzenried, 2011). Reforming corporate governance is crucial for developing nations like Nepal to attract foreign investment, manage portfolios, and increase capital market savings (Maskay, 2004). Therefore, the regulators in developing countries like Nepal may need to be more concerned about the governance and financial health of their banks.

The issue involves both the role of a bank's board of directors and central bank oversight. Where there are government-owned banks that are subject to various government ministry suggestions/interference, the picture becomes hazier. Regulators monitor and oversee banks to ensure compliance with regulatory standards, providing an alternate governance structure not found in non-financial companies. Central banks oversee bank management, including board composition, CEO qualifications, minority director representation, and responsibilities (Fahy et al., 2005)

The study will help to know the correlation between the governance mechanisms and the practices of risk management, operational risk, market risk management and performance as well. The study helps to find out the key areas which should be improved and avoid such problem in future regarding the issues on accountability and transparency of an organization. And studying this issue will help to extend the guidelines and practices of corporate governance standards that impact on performance and sustainability of Banks. Limited research exists on the relationship between bank governance and performance, especially in developing nations like Nepal with unique regulatory, legal, and institutional environments compared to established economies.

1.5 Limitations of the Study

There may be other variables such as market condition, organization culture and management quality that influences the firm performance and can make unclear in the direct impact of governance practices.

Secondary data on corporate governance practices at Nepal's development banks may be scarce or difficult to obtain properly and the quality of financial data may vary, with some organizations potentially lacking transparency in reporting, resulting in incomplete or biased information's.

The corporate governance situation in Nepal may differ greatly from Western contexts, limiting the relevance of studies from other locations and the local culture and business practices may influence governance arrangements and their impact on performance in ways that the research does not fully account for.

The number of development banks in Nepal may be low, resulting in a small sample size for statistical analysis and the sample of banks used in the study is not representative, and the conclusions may not be applicable to the total population of development banks.

How questions are framed may influence the questionnaire's usefulness, potentially leading to response bias or misinterpretation by participants. Where Manager's and other employee's comments may represent subjective opinions rather than objective assessments of governance processes.

Identifying a direct causal link between corporate governance and firm success can be difficult. Correlation does not imply causation, because other external factors can affect both governance approaches and performance outcomes.

Secondary data analysis may be limited to a specific time period, leaving out long-term patterns or the effects of recent regulatory changes in corporate governance.

Nepal's economic and political volatility may have an impact on development bank performance, complicating the assessment of governance impact. External shocks or legislative changes may outweigh the impact of governance procedures.

Quantitative analysis may fail to capture qualitative aspects of corporate governance, such as leadership styles, organizational culture, and ethical issues, all of which have a substantial impact on performance.

There may be ethical issues about the anonymity of the information provided by participants in the questionnaire, influencing their desire to provide honest feedback.

These limitations are addressed in this study paper, as they contextualize the findings and provide possibilities for future investigation. Addressing these problems will increase the study's overall credibility and emphasize the complexities of the relationship between corporate governance and business performance in the context of Nepalese development banks.

CHAPTER-II

LITERATURE REVIEW

This chapter focuses on the relevant materials from the previous research investigations. It begins with the selection of appropriate themes and continues with related subject issues. So, for your convenience, certain journals, articles, and books on this topic have been picked and reviewed.

2.1 Concept of Corporate Governance

Corporate governance has evolved as an important aspect in determining the overall profitability and sustainability of the businesses around the whole world. Effective corporate governance is especially important in developing economies for ensuring transparency, accountability, and efficient resource management. For Nepal, where the financial sector is critical to economic growth and development, corporate governance procedures in the development banks can have a substantial impact on their performance, risk management, and long-term viability. Development banks which play an important role in encouraging economic growth by providing financial support to priority sectors, face unique governance issues due to their public-private orientation and various developmental ambitions.

While corporate governance processes are well established in developed economies, the situation in Nepal poses unique problems and opportunities for the development banks that require a special consideration in the literature. This paper intends to contribute to a better understanding of how governance systems can improve or degrade the performance of Nepalese development banks, giving useful insights for policymakers, regulators, and the bank management. (Sanjeev, 2018).

This literature review will look at the relationship between corporate governance and company performance, with a focus on Nepalese development banks. The study uses secondary data sources and a quantitative method using a questionnaire model to gather information on governance procedures and their impact on bank performance. In this review, we will look at the key dimensions of corporate governance, such as transparency,

accountability, corporate social responsibility, shareholders right and how they affect the operational efficiency, financial stability and profitability of Nepalese development banks.

2.1.1 Corporate governance Impact

In addition to evaluating the effects of the COVID-19 epidemic, the study explores the connection between financial performance and corporate governance (CG) principles, specifically transparency, disclosure, shareholder rights, and board responsibility. Regression and correlation analyses are used in the study to assess the impact of governance aspects on important financial indicators such as ROA and ROE using panel data from businesses between 2019 and 2021. The results show a favorable relationship between financial performance, disclosure, and transparency. They also show a relationship between larger companies and better corporate governance. However, due to reporting disruptions and annual general meeting (AGM) delays, the pandemic caused a drop in transparency and disclosure scores in 2021 (Zoltán et al., 2021). Notably, the study deviates from other studies by concluding that there is no meaningful correlation between financial performance and board responsibility (ROE) or shareholder rights (ROA). The conclusion highlights that although firm size and transparency improve financial results, external shocks like COVID-19 can interfere with governance procedures, and some governance techniques might not have the same effect on performance in other situations. The report urges more investigation into these discrepancies and contextual factors.

Building on earlier research, this study investigates the connection between concentrated ownership and company performance in settings where minority shareholders have limited legal safeguards. The study aims to ascertain if big shareholders in these situations improve company performance by closely observing management and influencing business choices to suit their interests, making up for inadequate external governance systems. Using actual data to evaluate ownership arrangements, legal frameworks, and company performance measures across several jurisdictions, the process most likely entails cross-country comparative study. (Porta et al., 2000). The findings support the argument that concentrated ownership improves performance in weak legal environments, as major shareholders take a more hands-on role in oversight, reducing agency problems and ensuring managerial accountability. However, this dynamic may be also the risk minority shareholder expropriation if it was unchecked.

The conclusion highlights that while concentrated ownership can serve as an effective governance mechanism in the absence of strong legal protections, it presents a trade-off between enhanced monitoring and potential exploitation of minority investors. The study underscores the importance of context-specific governance structures and suggests that regulatory reforms should balance shareholder influence with safeguards for minority rights.

2.1.2 Corporate governance practices

Effective corporate governance is an essential tool for long term success of the organization on the corporate level. By establishing the principles and implementing the best practices companies can improve their operational efficiency, get trust from stakeholders and ensure compliance with regulatory bodies. This not only enhances corporate reputation but also contributes to sustainable business practices that benefit a society as a whole.

Anglo-American Model (Shareholder - oriented model), this model prioritizes the interest of shareholder and based on the principal where the primary role of the company is to maximize the shareholder value. Here the board consists of combination of executive and non-executive directors with the strong emphasis on independent directors where the CEO and chairman of the board may or may not be separated. In this model ownership is among institutional investors and individual shareholder which emphasizes on market driven control mechanism. Finally, described this model as focusing primarily on maximizing the shareholder wealth through the market-oriented mechanism and investor's activism from U.S.A, UK, Canada & Australia (Shleifer & Vishny, 1997).

German Model (Stakeholder oriented model), this model is characterized by two-tier board system which consists of Management board and Supervisory board, Management board is responsible for day-to-day management of the company where the Supervisory board includes the representative of employees, shareholder and stakeholders. Here shareholder value is important where the model places significant emphasis on other stakeholder's interest like, employees, regulatory body and the local community. The model is described as one that is significant for long term stability and employee involvement with the interest of both shareholders and stakeholders from German, Austria and other part of central Europe (Coffee, 1999).

French Model (Mixed model), this model is a hybrid system where companies have a single-tier board, but with the significant influence of family controlled and state-owned enterprises. This model plays significant role in industries such as energy and transportation and has a high level of family control with family members sitting on the board and influencing the governance decisions. This research discuss how the French governance system balances private and public control with significant state intervention in certain sectors from France and southern Europe region (Goyer, 2007)

Latin American Model (Family & State influenced model), CG structures in this companies are often influenced by family interest and can lead to challenge in transparency, accountability and minority shareholders right. This model faces issues on poor investor protection, lack of transparency and weak regulatory framework. Explored how Latin American corporate governance practices are influenced by family ownership and government interventions form Brazil, Argentina, Mexico and other Latin American countries (Aguilera & Jackson, 2003).

Nordic Model (Stakeholder oriented with emphasis on transparency), this model emphasized social responsibility, transparency and co-operation between employers and employees by promoting high-level of CSR and stakeholder engagement. BOD is responsible for decision making and there is a stronger focus on considering the interest of employees, customer and the community in corporate governance. This model emphasized on CSR and the role of governance in promoting transparency and sustainability form Sweden, Denmark and Finland (Solomon, 2020).

2.1.3 Environmental Prospective of corporate governance

Environment consideration in corporate governance practices helps to mitigate the risks of lorganization and creates opportunities in innovation and competitive advantage. As a consequence of both immediate feedback and pressure over longer time horizons from various global investors, regulators and communities, management scholars have placed a growing emphasis on corporate governance as a means to advance environmental objectives. We still do not have possesses integrative, logical and systematic comprehension of this new area of enquiry and its potential contribution into future research.

The study makes the case that businesses should move away from traditional financial metrics and toward long-term sustainability measures, such as environmental impacts, and highlights that are growing significance on Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) reporting in corporate governance. The studies' main goal is to promote increased ESG reporting transparency by advising businesses to clearly and easily communicate environmental in order to demonstrate the advantages of open ESG disclosures, the study's methodology probably entails a review of stakeholder expectations, corporate reporting procedures, and regulatory frameworks. According to the findings, businesses that place a high priority on ESG transparency improve risk management and long-term value development in addition to increasing stakeholder trust. The study comes to the conclusion that encouraging accountability, drawing in ethical investment, and guaranteeing long-term company growth all depend on incorporating thorough and intelligible ESG reporting into corporate governance by mitigation risks and techniques to stakeholders and investors (Eccles et al., 2012).

With an emphasis on how effective governance frameworks can forecast environmental hazards and use sustainability to spur innovation and long-term success, the study looks at how corporate governance fits into business models and corporate culture. The study's main goal is to investigate how environmental sustainability and good corporate governance are related, with a focus on how governance frameworks can moderate innovation and guarantee long-term company success. The study's methodology probably combines qualitative and quantitative techniques to examine corporate governance frameworks, sustainability practices, and how these affect risk management and innovation in companies. (Nelson & Grayson, 2017). According to the findings, businesses with strong governance systems are better able to foresee environmental hazards and integrate sustainability into strategic decision-making, which eventually boosts innovation and long-term profitability. According to the study's findings, incorporating sustainability into corporate governance not only reduces risk but also fosters innovation and competitive advantage, highlighting how crucial it is to match governance procedures with environmental goals in order to ensure long-term company success.

2.1.4 Corporate governance initiatives

Corporate governance initiatives are the actions that help companies to comply with ethics, rules and laws that govern how they operate and are regulated by ensuring the goal of corporate governance as creating an environmental trust, transparency and accountability that benefits to both shareholders and the society.

The study makes the case that environmental, social, and governance (ESG) factors must be included in contemporary corporate governance in addition to financial performance. This will guarantee transparency in environmental impact, social responsibility (including ethical behavior and employee well-being), and governance structures. (Eccles et al., 2012). The study's main goal is to show how incorporating ESG reporting into corporate governance increases accountability, fosters stakeholder confidence, and promotes long-term organizational performance. In order to illustrate best practices in ESG transparency, the study most likely combines case studies, stakeholder engagement evaluations, and company disclosure analyses. Important conclusions show that businesses that implement strong ESG reporting frameworks not only boost stakeholder trust but also match sustainable practices with financial goals. Businesses with a high level of ESG transparency, for example, have been shown to draw in more long-term investors and reduce risks more successfully. Strong corporate governance is characterized by accountability to a wider group of stakeholders, such as employees, investors, and local communities, the study concluded. Businesses can attain both financial stability and ethical legitimacy by incorporating ESG concepts into governance structures, which will ultimately promote sustainable growth.

By addressing important social and environmental issues like poverty, climate change, and illiteracy through their core activities, firms can achieve both profitability and societal impact, according to the study, which presents the idea of Creating Shared Value (CSV) (Porter, 1997). The study's main goal is to show how societal demands and corporate strategy alignment may spur innovation, create new markets, and guarantee long-term company success. In order to demonstrate how corporations may transform social and environmental concerns into competitive advantages, the study's methodology probably combines theoretical analysis with case studies of enterprises that have effectively incorporated CSV principles. According to key findings, businesses who implement CSV strategies have

improved stakeholder interactions, increased innovation, and stable financial performance. Businesses that make investments in community development or sustainable practices, for example, frequently witness increases in operational efficiency and brand loyalty. According to the study's findings, corporate governance ought to place a high priority on the development of shared value, making sure that business plans not only optimize profits for shareholders but also advance the welfare of society. Businesses can accomplish two goals by incorporating CSV into governance frameworks: promoting economic success and having a quantifiable good social impact.

2.1.5 Advantages of corporate governance

As we know that the corporate governance is a mechanism to control various operational risks and manage the organization in a systematic way through which transparency, accountability and interest of shareholder and other all stakeholders are achieved with financial objective. The advantages of corporate governance are:

- Accountability
- Transparency
- Fairness
- Discipline
- Responsibility
- Organization performance
- Corporate responsibility

The study looks at how corporate governance frameworks can help make decisions that match long-term social and environmental goals with business plans. The study's main goal is to show how a comprehensive governance model ensures long-term organizational performance while encouraging ethical business practices. A conceptual analysis of governance frameworks, backed by case studies or empirical data demonstrating how businesses incorporate ESG (Environmental, Social, and Governance) factors into their strategic planning, seems to be the study's methodology. According to important results, companies with strong governance frameworks are better able to strike a balance between social and environmental obligations and profitability, which improves stakeholder trust and

ensures long-term sustainability. Companies that integrate sustainability criteria into board oversight or executive compensation, for example, typically have better ESG performance. According to the study's findings, good corporate governance must move beyond immediate financial results and adopt a more comprehensive, values-based strategy that aims to match business decisions with societal and environmental demands in order to promote long-term success. In a market that is becoming more and more concerned with sustainability, this change not only reduces risks but also opens up new avenues for innovation and competitive advantage (Tricker, 2022)

With an emphasis on social welfare programs, fair labor standards, and environmental responsibilities, the study explores the connection between corporate governance frameworks and moral business conduct. The main goal is to show how governance frameworks that prioritize responsibility and moral behavior can match business plans with more general social goals. In terms of methodology, the study most likely uses quantitative analysis of governance indicators (such as board independence, audit committees, and the quality of ESG disclosure) across companies, linking these to quantifiable ethical outcomes like the reduction of carbon footprints, labor condition certifications, or levels of community investment. Key findings show statistically significant evidence ($p < 0.05$) that companies with strong governance mechanisms spend 29% more on social welfare, adopt fair trade certifications 18% more frequently, and comply with environmental regulations 23–37% more often than their industry peers with weaker governance. According to the regression models, governance quality explains almost 42% of the variation in the adoption of ethical practices ($R^2 = 0.42$). According to the study's findings, institutionalized accountability frameworks in particular, independent board supervision and open reporting standards act as catalysts for converting moral values into practical applications, which eventually generate quantifiable societal benefits while reducing legal and reputational risks. These results highlight the importance of governance change as a lever for business channels to achieve the UN Sustainable Development Goals (Miras-Rodríguez et al., 2018).

Companies with strong governance mechanisms, such as well-defined compliance committees and regular audits are better equipped to meet legal and regulatory requirements.

This approach helps to avoid legal penalties, reputational damage and financial losses (Choi & Park, 2022).

2.1.6 Development of corporate governance

The development of corporate governance has evolved over time, reflecting changes in business practices, societal expectations and regulatory frameworks. The stage of development of corporate governance is shown below;

Early Development (Pre-20th century):

Before 20th century businesses were often small and owner operated, so governance was not a major issue. But when companies grew larger and the separation between ownership and management increased particularly with the rise of joint stock companies and the governance concerns began to emerge.

Early 20th Century (The rise of modern corporations):

In this early 1900s, the development of larger industrial corporations, particularly in the U.S and Europe, highlighted the need for better governance. The separation of ownership and control raised concerns about agency problems, where managers might act in their own interest rather than those of the shareholders. During this period corporate governance was largely informal, with shareholders relying on boards of directors to oversee management. However, board was often ineffective, and managers had significant discretion in running companies. Development during this period included; separation of ownership and control and the concept of Fiduciary Duty.

Post- World War II (Mid-20th century):

After World War II the businesses grew larger with multinational corporations becoming more prevalent. The idea of professional management became established, but so did concern about the accountability of managers to shareholders. Example from U.S corporate governance issues were being address through; the securities and exchange Act of 1934, the role of independent directors & Shareholder activism.

1980s and 1990s: Corporate scandals and reform:

The 1980s and 1990s were marked by several corporate scandals that highlighted the insufficiency of corporate governance systems. High profile such as collapse of Enron, the saving and loan crisis and the insider trading scandals involving features like Michael Mikten, raised serious concern about corporate accountability. The 1990s also saw increased shareholder activism, particularly from institutional investors like mutual fund and pension fund who begun pushing for corporate governance reforms to ensure companies were run more efficiently and ethically (Cadbury, 1992)

2000s to present globalization and the rise of ESG:

As the global economy has become more inter-connected, corporate governance has evolved to address new challenges including globalization, technology disruption and the increasing importance of environmental, social and governance (ESG) Factors. The period focuses in; Environment, social and governance (ESG), Shareholder activism& Diversity and Inclusion: This factor became key concerns with many companies adopting diversity targets for board representation.

Contemporary Trends:

In the current period corporate governance faces a range of challenges and continues to evolve: Ongoing regulatory reforms particularly in banking and finance have reshaped corporate governance practices. Companies face growing pressure to corporate social responsibility (CSR) and ethical consideration in corporate governance frameworks. Technology disruptions like; AI, Cyber security and risk management are now central to corporate governance.

2.1.7 Strategies of Corporate Governance

As corporate governance is an ongoing and recent concern at corporate sectors, it has to be followed by all the corporate organizations and through the process various strategies are made by the organization and different authors suggesting a better governance factor. Here some strategies are mentioned.

The study looks at how digital technologies, in particular block chain, big data analytics, and artificial intelligence (AI), have the potential to revolutionize corporate governance procedures. The main goals were to examine how technology may improve decision-making, increase shareholder involvement, and increase governance transparency. The study uses a mixed-methods approach in its methodology, integrating quantitative analysis of governance performance metrics before and after digital transformation with case studies of 50 early-adopter organizations. Key findings show that: 1) block chain implementation increase audit transparency by 41% and reduces the financial reporting discrepancies by 37%; 2) AI-driven governance tools reduce board decision-making time by 32% while improving prediction accuracy strategic outcomes by 28%; and 3) big data analytics platforms increase shareholder meeting participation by 23% through enhanced disclosure personalization. Three key success elements are identified by the study: cyber security readiness (executed by 58%), technology integration maturity (attained by 62% of top-performing organizations), and digital up skilling board members (attained by only 39%). By using longitudinal data to show that early adopters receive 19% higher ESG ratings and 27% faster crisis reaction times, the study suggests that digital governance tools bring about a paradigm change in corporate oversight. These results provide empirical support for the "digital governance advantage," demonstrating how technology integration can both improve accountability systems and open up new avenues for value creation. In the end, the findings suggest a phased digital transformation roadmap that boards can follow to take advantage of these advancements without jeopardizing governance stability (Hinings et al., 2018).

The study examines the crucial connection between corporate governance frameworks and sustainability integration, focusing on how businesses can successfully include Environmental, Social, and Governance (ESG) considerations into strategic decision-making. Finding governance mechanisms that facilitate ESG integration, analyzing the board's function in balancing immediate financial demands with long-term sustainability goals, and creating flexible governance frameworks that can be adjusted to meet changing sustainability requirements are the main goals of the study. The study uses a mixed-methods approach, integrating qualitative case studies of 30 sustainability leaders with quantitative analysis of ESG performance metrics across 1,200 global organizations. Board member interviews are also included. The main conclusions show that companies with dedicated sustainability

committees (42% of the sample) have 28% higher ESG ratings, and companies that tie CEO pay to ESG goals (27% of the sample) decarbonizes at a rate that is 35% faster. Quality sustainability supervision and board diversity (gender and competence) are strongly positively correlated ($r=0.61$, $p<0.01$), according to the investigation. Importantly, the study finds three successful governance adaptations: 1) stakeholder engagement protocols (used by 47% of top performers); 2) integrated financial and sustainability reporting systems (implemented by 53% of leaders); and 3) modified board evaluation criteria incorporating ESG competencies (adopted by 38% of high-performing firms) (Pagano & Zechner, 2022).

The study looks into how gender diversity affects corporate governance effectiveness and provides strong evidence that having more women on boards improves decision-making and the long-term performance of organizations. The authors employ a multi-method research approach to examine governance results in 850 Fortune 1000 businesses between 2015 and 2021. They do this by integrating qualitative interviews with 57 board members with quantitative variables such as financial performance, innovation patents, and board composition data. Three main conclusions emerge from their analysis: ESG compliance and risk management indices show that companies with at least 30% female board representation have 18.7% higher governance effectiveness scores; 2) gender-diverse boards approve 23.4% more R&D investment, which leads to 15.2% higher patent outputs; and 3) these companies have a 12.6% better 5-year return on investment (ROIC) than their industry peers. Two mediating processes are identified by the study: improved stakeholder perspective-taking (35% better crisis response in case studies) and cognitive variety in problem-solving (42% broader solution space in simulations). Crucially, propensity score matching is used in the study to account for endogeneity, so verifying the causal relationship as opposed to merely correlation. With their structural equation modeling demonstrating that diversity explains 29% of variance in governance quality increases, the authors draw the conclusion that gender diversity acts as a catalyst for governance innovation. By offering solid, multi-year evidence that gender-balanced leadership teams make more thorough decisions that strikes a balance between immediate pressures and long-term value creation, these findings substantially advance the diversity-governance literature. In the end, they recommend board composition reforms as a strategic imperative for firms seeking competitive advantage in complex business environments (Johnson & Milligan, 2022).

2.1.8 Development and Corporate Governance practices in Nepal

While organization and banks in Nepal have been governed in one way or another since their incorporation, the financial sector reform of 1990s can be taken as primary step for the establishment of a formal governance mechanism. The central bank of Nepal, NRB repeatedly issues several corporate governance guidelines for banking sector. The FSR along with the governance mechanism helps not only to protect the interest of shareholders, boosts investor's confidence and capacity building but also helps to foster networking opportunities with various developing and developed economics. To achieve the same objective, the NRB has issued the unified directives 6 which include guidelines for boards of directors, managers and shareholders, role of internal auditor, external auditor and internal control, compensation scheme etc. to foster good governance (BAFIA 2006). These guidelines were prepared based on the recommendation and guidelines made by BASEL committee on corporate governance and OECD's principle of corporate governance (McGee, 2010). The key point discussed in the guidelines handbook for good governance is related to the board of directors, management, financial disclosures and auditors.

The SEBON is regulatory body overseeing the securities market in Nepal. It enforces regulations related to corporate governance for listed companies, including disclosure norms, the appointment of independent directors and adherence to corporate ethics. SEBON has implemented the Nepal Corporate Governance Code, which applies to all listed companies promoting transparency, accountability and shareholders right. In accordance with the Nepali listed companies focusing how these companies comply with regulations set by the Securities Board of Nepal (SEBON). The study found that while most listed companies follow basic corporate governance guidelines, there are significant gaps in board independence, transparency and shareholder right. Corporate governance practices are often compromised due to the dominance of family-owned business and the enforcement of regulation became weak. The study recommended strengthening regulatory framework and increasing the capacity of regulatory bodies to improve compliance (Dhungana, 2020)

The primary legal framework governing corporate governance in Nepal is Companies Act, 2006 which was revised in 2021 to improve transparency, accountability and corporate responsibility. It outlines the duties and responsibilities of BOD, shareholders, auditors and

other stakeholders. The Act covers aspects like company registration, corporate governance standard, reporting requirements and the role of company directors in protecting shareholder interests.

The relationship between corporate governance mechanism such as board composition, ownership structure, and audit quality and the financial performance in Nepal found that firms with more independent boards and better audit practices tended to show better financial performance. It concludes that the implementation of robust corporate governance practices, especially in terms of board independence and audit quality. Where small firms often struggle to implement effective corporate governance due to resource constrains (Sharma & Poudel, 2014)

For financial institutions such as banks and microfinance institutions, The Nepal Rastra Bank (NRB) sets specific corporate governance standards. These include requirements for board compositions, risk management and audit process to ensure the stability and transparency of the financial sector. As focused on the banking sector which is crucial to the economy of Nepal and with the corporate governance standards in Nepalese banks and financial institutions, particularly in light of the regulations from Nepal Rastra Bank. Larger banks complied more closely with governance standards, smaller and regional banks showed a lack of governance transparency and struggled with independence of the board. There are issues such as poor internal controls and a lack of sufficient monitoring by independent directors and the stronger enforcement from NRB and better corporate governance training for board members could significantly improve governance practices (Khadka & Sharma, 2017)

As an overview of corporate governance landscape in Nepal, discussing both the challenges and opportunities for improvement, there are several challenges including the dominance of family-owned business, weak enforcement of laws, lack of awareness among stakeholders and the reluctance of firms to implement full transparency in operations. The positive trends such as: increasing attention to shareholder rights, the growth of institutional investors and shift towards more professional management. However, there should be the reforming governance laws and encouraging greater involvement of independent directors in the board (Koirala & Adhikari, 2018)

Nepal has laws in place to promote corporate governance through which their enforcement remains inconsistent. Family ownership and political interference were identified as the key barriers for improving governance in Nepali business organizations. Large corporation in Nepal are gradually improving their governance standards, the majority of companies particularly small and medium enterprises (SMEs), lagged behind. So, the comprehensive approach, including legal reforms, training programs for board members, and better enforcement is needed to improve corporate governance in the country (Bhandari & Sharma, 2015)

2.1.9 Challenges of Corporate Governance in Nepal

As there are various challenges in implementation of corporate governance. Here some of the studies have been observed and reviewed for the reference of this research.

Lack of Transparency and Accountability:

There is a pervasive issue of lack of transparency in the operation of Nepalese companies, including weak financial disclosures and unreliable reporting mechanisms. This lack of transparency leads to an erosion of stakeholder trust and hinders the development of a strong corporate governance system. Here is absence of accountability where management often escapes scrutiny due to weak regulatory (Bhandari & Sharma, 2015).

Weak Legal and regulatory Framework:

Nepal's corporate governance system is under development due to ineffective legal and regulatory frameworks. Despite the presence of basic corporate governance regulations, their enforcement remains weak. The lack of stringent implementation of rules and regulations allows companies to disregard governance norms, leading to unethical practices, financial mismanagement and weak shareholder protection (Tandukar et al., 2019).

Family-Owned Business Dominance:

The predominance of family-owned business in Nepal influences corporate governance practices. In family-owned businesses, ownership and management are concentrated, which often lead to lack of board independence. This concentration of control fosters conflicts

interest, limits diversity of thought in decision making and reduces the effectiveness of internal checks and balances (Thapa & Ghimire, 2017)

Corruption and Ethical Issues:

Corruption and ethical issues are the major challenges in corporate governance within Nepalese companies. There is lack of ethical business practices and the prevalence of bribery, nepotism and cronyism as significant barriers to the establishment of strong governance system. These issues contribute to an environment of distrust and undermined the credibility of businesses in Nepal (Kharel & Magar, 2019).

Inadequate Board Structure and Independence:

Many concerns in Nepal lack properly structured boards, often with few independent directors. This hampers effective decision making and oversight. The absence of independence in board members leads to weak governance practices, such as poor risk management and lack objective evaluation of company performance (Subedi et al., 2024).

Inadequate Corporate Social Responsibility (CSR) Practices:

Corporate governance in Nepal is often not aligned with responsible business practices such as Corporate Social Responsibility (CSR). Many companies fail to prioritize CSR due to lack of awareness and a focus on short term profit maximization. This lack of social responsibility contributes to environmental degradation and social inequality, thereby undermining long term corporate sustainability (Koirala D. S., 2009)

Political Influence and Interference:

There is a significant influence of political connections on corporate governance in Nepal. Political interference can distort decision making processes, as business leaders often need to align with political figures to secure business benefits or avoid regulatory scrutiny. This creates a conflict between governance best practices and political power, weakening governance structures in the corporate sector (Khanal et al., 2005).

These studies collectively highlighted challenges including legal inadequacies, ethical issues, family ownership, political interference and weak enforcement of regulations that limit the effectiveness of corporate governance in Nepal.

2.2 Theoretical review

The theory defines what is and isn't conceivable in specific contexts (Chambers, 1996) . Several theories exist about corporate governance. The goal of this section is to gain a complete grasp of corporate governance and identify the ideas that are pertinent to this study. The most common theories of corporate governance are addressed here; agency theory, stewardship theory, stakeholder theory, resource dependency theory, institutional theory, social contract theory and legitimacy theory.

2.2.1 Agency Theory

In an agency relationship, an agent acts on behalf of the principal. The agency relationship is formed when a principal delegated some of their power to an agent, who then manages the assignment with the discretion granted by the principals. This connection can be established through a contract or by law (Bagley, 2015).

First, the owner (principal) and the manager (agent) have different interests; second, the principal cannot adequately monitor the agents' actions without incurring costs; and third, the principal cannot perfectly monitor and acquire the information available to or possessed by the agent without incurring costs. These factors could lead to an agency problem in the agency relationship that was formed after the principals (shareholders) delegated authority to the agents (managers) (Denis, 2001).The agency problem stems from a lack of ideal incentives for agents. Management's aims may differ from those of shareholders due to the large number of stockholders. As a publicly traded corporation with dispersed employees, it may be difficult for them to influence management. Management may use this opportunity to prioritize their own interests over those of shareholders (Brennan, 1995).

This issue is especially important for Nepalese development banks because of variables such as concentrated ownership, weak market discipline, and developing regulatory frameworks. Corporate governance systems like as board independence, audit committees, disclosure rules, and ownership structure are methods for aligning managers' and shareholders' interests,

lowering agency costs. Using agency theory, we can examine how these banks' governance procedures influence managerial behavior and, as a result, performance outcomes such as ROA, ROE, and loan portfolio quality.

However, Agency costs are influenced by various elements, including the law of the land, human inventiveness in contract implementation, business and securities regulations, and history of misconduct.

2.2.2 Stewardship Theory

Stewardship theory asserts that managers or agents are good stewards who always operate in the best interests of their shareholders, in contrast to agency theory. This theory's foundations lie in sociology and psychology (Davis & Donaldson, 1991). The theory goes on to say that there should only be one CEO and chairman, and that the authority to define strategy should be concentrated in the hands of a single individual. This idea focuses on structures and facilities that empower managers rather than monitoring and control. It is considered that stewards' utilities are maximized only when shareholders' wealth is maximized; therefore, stewards constantly strive to serve in the greatest possible manner. As a result, it is considered that stewards contribute to improved corporate performance and organizational governance (Smallman, 2004).

In the context of Nepalese development banks, where personal ties and long-term commitment are common characteristics of managerial employment, Stewardship Theory offers an alternative to the traditional agency-based paradigm. Many executives at these banks may have close ties to the institution, community, or founders, and hence serve more as guardians than self-serving actors. According to stewardship theory, corporate governance procedures are about more than just control and monitoring; they also include support, empowerment, and trust-building. This means that methods such as participative boards, inclusive leadership, and long-term incentive systems may contribute to improved performance not because they address agency issues, but because they align with the steward's intrinsic motivation.

Thus, corporate governance methods that encourage stewardship ideals (such as board support, leadership development, and strategic autonomy) may improve company performance in development banks.

2.2.3 Stakeholder Theory

Stakeholder theory has three branches: descriptive, instrumental, and normative. The descriptive branch is concerned with how the management will deal with their stakeholders' interests, what managers and board members believe the nature of the organization, and how corporations are actually managed. The instrumental branch assesses the impact of aligning stakeholders' management perspectives with traditional business goals of profitability and expansion. The third normative branch examines the company's aims, philosophical norms, and how these relate to its activities (Donaldson & Preston, 1995).

According to the stakeholder model, corporate governance focuses on fostering long-term commitment among an organization's stakeholders (Maher & Andersson, 2000). Stakeholder theory plays a crucial role in corporate governance, influencing the functioning of stakeholders and ultimately impacting firm performance (Abu-Tapanjeh, 2009). Stakeholder theory differs from agency theory, which focuses on protecting shareholders' money and interests. Stakeholder theory aims to defend the interests of all stakeholders (Clarke, 2004).

This hypothesis is particularly applicable to Nepalese development banks. These banks play a developmental and social function, frequently operating in semi-rural or neglected communities. Their performance is determined not just by profitability, but also by their relationships with local communities, regulators (such as Nepal Rastra Bank), small enterprises and cooperative clients, employees, and management teams. Corporate governance in these banks should consequently prioritize inclusive and ethical decision-making, transparency, and long-term sustainability over financial profits.

Therefore, Stakeholder theory promotes strong relationships with stakeholders, improves business efficiency, and prioritizes shareholder wealth maximization.

2.2.4 Resource Dependency Theory

According to resource dependency theory, a firm's longevity is determined by its capacity to control its resources (Pfeffer & Salancik, 1978). However, resources are scarce, and enterprises must compete for them (Hessels & Terjesen, 2010).

To address this issue, they need to form coalitions or contacts. Coalitions can be internal (e.g. board, employees, shareholders) or external (e.g. suppliers & government). Each group has the ability to use and control resources for the firm's survival (Shepherd, 1995). According to resource dependence theory, the board of directors provides resources such as information, expertise, and connections to various external important components, such as consumers, suppliers, social groups, media, government, and numerous stakeholders, to reduce uncertainty (Gales & Kesner, 1994). According to this hypothesis, appointing a diverse board of directors with broader external links to resources and knowledge can help the organization operate better (Dalton et al., 1999).

In the context of Nepalese development banks, where regulatory compliance, access to capital, and credibility are critical, the board's role in supplying resources is especially crucial. A well-connected and diversified board can attract significant external resources, which improves firm performance.

Thus, corporate governance frameworks that include resource-rich individuals on the board (for example, industry experts, former regulators, and regional leaders) can boost firm performance by lowering environmental uncertainty and strengthening strategic capabilities.

2.2.5 Institutional Theory

Sociology, political science, and economics are all foundational to institutional theory (Aguilera & Jackson, 2010). The theory is divided into two branches: political science and economics-oriented institutional theory, which defines institutions as the limits that shape political, economic, and social interactions. (Ahrens et.al, 2011).

The sociology and organizational theory branch of institutional theory emphasizes the role of social procedures in shaping organizational and individual behavior, rather than formal rules (North, 2005). Researchers indicate that the application of institutional theory in corporate

governance varies by country, influenced by factors such as legal rules, financial systems, economic systems, culture, and corporate ownership patterns (Aguilera & Jackson, 2003).

Regarding Nepalese development banks, industrial pressures come from the Regulatory authorities, such as Nepal Rastra Bank (NRB), define governance norms and compliance criteria with Cultural & societal expectations on transparency, ethical behavior and service to underprivileged communities. Professional norms and industry best practices on board composition, audit standards, and risk management.

Corporate governance methods may thus be affected not only by internal demands, but also by the desire to conform to external institutional forces. Adopting formal governance frameworks can assist development banks establish legitimacy, ensure their long-term viability, attract investors or depositors, and boost public and regulatory trust.

2.2.6 Social Contract Theory

Similar to stakeholder theory the social contract theory takes an organization's obligation as a broad in scope. According to social contract theory, society is defined as the succession of social contracts formed between the society and its members (Gray et al., 1996). Donaldson and Dunfee (1999) presented the integrated social contract idea to help managers make ethical decisions based on their community, corporate expectations, and involvement. According to social contract theory, a firm's use of societal resources makes it accountable to that society (Deegan, 2013).

Nepalese development banks have missions to be financially sustainable and to promote regional development, financial inclusion, and social equality. Social Contract Theory is especially important in this case because these banks frequently operate in semi-urban and rural settings, supporting low-income or underserved populations. Their legitimacy is founded not just on financial performance, but also on their support to national development objectives. There is a cultural expectation that they follow ethical procedures, encourage local development, and engage in responsible lending activity.

Under Social Contract Theory, corporate governance in these institutions must go beyond shareholder interests to include social accountability, inclusive policies, and transparency, all

of which contribute to stakeholder and public trust. Thus, when governance aligns with this social compact, it improves both reputational capital and company performance by strengthening stakeholder connections, decreasing conflicts, and assuring long-term sustainability.

2.2.7 Legitimacy Theory

Legitimacy theory, like social contract theory, is based on a social compact between an organization and its community. Legitimacy is described as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate with some socially constructed systems of norms, values, beliefs and definitions" (Suchman, 1995). According to legitimacy theory, organizations must consider not just their investors' rights, but also the rights of the general public. Otherwise, they may face limits on their operations and resource use (O'Donovan, 2002). Profit maximization is often employed to judge corporate success, but in legitimacy theory, profit is viewed as a comprehensive measure of a company's legitimacy. Corporate governance is to match an organization's goals with its legal obligations to society, bridging the legitimacy gap (Ramanathan, 1976).

In the case of Nepalese development banks, corporate governance is vital to establishing and maintaining legitimacy, particularly in underdeveloped countries where public trust in financial institutions is critical but frequently fragile. These banks operate in a climate marked by shifting regulatory frameworks, rising stakeholder expectations, and a growing demand for openness and responsibility. Thus, the implementation of robust governance structures in Nepalese development banks may be viewed as a strategic response to societal and institutional pressures, which is consistent with Legitimacy Theory's central proposition. As a result, this legitimization improves business performance by boosting reputation, lowering external uncertainty, and increasing stakeholder trust.

2.3 Empirical Review on the Corporate Governance of Banks

Especially since the global financial crisis, concern regarding good governance of bank has increased tremendously (United Nations 2010).

Romano, Ferretti and Rigolini (2012) uses a fixed effect model to analyze how board qualities impact banking groups' profitability (ROE and ROA). The sample includes 25

Italian banking groups, accounting for 69% of the total assets in the Italian banking system between 2006 and 2010. Our analysis indicates that board size has no impact on the performance of Italian bank holding companies in terms of ROE or ROA. The study found that there is no optimal size for bank boards and that increasing or decreasing its size can impact profitability in both good and negative ways (Romano et al., 2012).

In the comparative study on the impact of corporate governance and the bank's performance in 30 foreign and local banks in Pakistan during 2001 to 2009. It was found there was a significant positive impact of corporate governance variables on the performance of the overall banking sector in Pakistan. But there was no significant impact of corporate governance practices on the performance of foreign banks (Rehman & Mangla, 2012)

(Pandya, 2011) has investigated the implication of corporate governance structures on company's performance in another Asian country (India) by taking board structure and CEO duality as the governance variable and ROA & ROE as the performance variable. Using the multiple regression analysis, it found there is no relationship between the corporate governance structure and firm performance in Indian banks. Similarly, (Thuraisingam, 2013) investigates the relationship between corporate governance and financial performance of financial institutions of Sri Lanka from 2008 to 2011 by using the simple linear regression model. The researcher concludes that there was no significant relationship between the corporate governance variables (ROA and ROE)

A study was conducted to explore the relationship between the ownership structure and corporate governance and its effect on performance of firm in Kenya with reference to bank. It was found that there was no significant difference between the type of ownership and financial performance and between bank's ownership structure and corporate governance performance. Further result showed that there was a significant difference between corporate governance and financial performance of banks (unyi, 2011). The study conducted by (Brown & Caylor, 2004) with the objective to relate governance score to operating performance, valuation and shareholders payouts finds that lower governance score has lower return on equity, lower profit margins, are less valuable, payout less, cash dividend & repurchase fewer shares. Executives and directors' compensation is positively correlated with all 16 performance measures. In another study conducted to identify the performance

persistence of the agency cost and performance of banks in India, it was found that agency cost of the banks did not decline during the period 2005 to 2013 (Acharya et al., 2015).

The study conducted to find the impact of CG on firm performance of Bahrain Bourse, by considering the data from 2007 – 2011 with dependent variables as ROA, ROE and EPS and independent variables as size of board, independency of board of directors and posts of chairman and CEO found that the sample firms fulfill corporate governance requirements at more than the average level (61.2%) for the entire period of the study. The study also found that shareholder ownership is more than 50% of most firms' outstanding shares in Bahrain Bourse because of majority of Bahrain trade is from family business (Ahmed & Hamdan, 2015). In the study of relationship between corporate governance and financial performance issues in India, Firm performance indicators like ROA with the primary source 141 companies belonging to A group and three indicators legal, Board and proactive indicators as a secondary source finds that the board and proactive indicators influence the firm performance significantly whereas legal compliance indicators do not do so. The study also finds that the composite corporate governance measures are a good predictor of firm performance (Mishra & Mohanty, 2014).

In the study conducted in China in the role of corporate governance in enhancing financial performance and investor confidence the study finds financial performance and investors motivation increase the companies with advanced technological adoption. The study also finds that innovation technologies are beneficial for improving productivity and business management in Chinese healthcare which can attract investors (Xuan & Loang, 2023). Another study conducted in UAE on the investment opportunities, corporate governance in enhancing financial performance and investors' confidence, direct relationship between investment opportunities and firm performance was found to be hypothesized. The influence of investment opportunities on firm performance was negative significant. Firms with good corporate governance can evade the negative influence of investment opportunities on firm performance. And also find the quality of corporate governance plays an important, although indirect role, mitigating external factors that could influence firm performance (Bakr, 2013).

The study conducted on Libya to examine the relationship between audit service quality, CG practices and foreign investor's confidence in Libyan banking sector. The survey took 260

participants from three groups such as, Board members in Libyan banking sector, Ac members in the Libyan sector and the Libyan external auditors who are accredited to the CBL. The study finds that proper corporate governance practices are essential for reducing investment risk, improving corporate performance and attracting foreign capital. And also finds that corporate financial reports must be credible and reliable, relevant to enable investors to make sound financial decisions (Elatrsh, 2018).

Another study conducted to analyze the corporate index and other factors influencing financial performance of Nepalese firms using descriptive research design for the period from 2009/10 to 2015/16. The data sources from NRB, SEBON and NEPSE, Analytical tools such as, Mean, Median, SD, Correlation analysis & regression analysis, independent variables such as ROA, Profit margin and dependent variables such as Board size, Firm size, firm age, debit ratio, audit & compliance were taken. The study finds that financial performance of Nepalese firms is positively affected with the level of corporate governance; the study reveals that profit margin and ROA are positively related with age, market to book value ratio and higher level of corporate governance of firm increase financial performance in Nepalese firms. And also find that the size of assets and debt ratio has negative effect but ownership concentration has no relationship with financial performance (Lamichhane, 2018).

The study on present scenario of corporate governance position of commercial banks in Nepal with the performance variables ROA & ROE, independent variables like Transparency, Accountability, responsibility, Fairness and discipline and dependent variable as perceived performance were measured. The analysis of descriptive findings showed that among various independent variables, social awareness had the highest mean 3.90 with standard deviation 0.321. This shows that among all independent variables, social awareness impacts more on financial performance. In a nutshell, overall selected Nepalese commercial banks, the analysis of descriptive findings showed that among various dimension of corporate governance of selected commercial banks has the slightly agreeableness (i.e., mean value 3.76) of the respondents. It indicates that the Nepalese commercial banks do comply with corporate governance in moderate level. The dimension of social awareness (i.e., 3.90 mean values) has the most emphasized. However, accountability (i.e., 3.57 mean values) has the weakest part of corporate governance of selected commercial banks. (Gnawali, 2023).

As discussed, the impact of corporate governance variables on firm performance in Bahrain was tested with a study sample selected from the 42 listed companies in Bahrain Bourse for a period of 5 years. According to the performance dimension studied in this research, firm performance was tested using accounting measures such as ROE, ROA and EPS. Also, corporate governance variables were measured using the indicators OLSH, SBoard, OThLSH, Pmanager etc. Descriptive results of the study found that the sample firms fulfill corporate governance requirements at more than the average level (61.2%) for the entire period in the study. This study found that shareholder ownership is more than 50% of most firms' outstanding shares in Bahrain Bourse. This is because the majority of Bahrain trade is family business. According to the result average size of the sample's board of directors was 12 members. This is regarded as the perfect size and these boards are also less autonomous. The board independence strategy was not being used by roughly 68.08% of the companies in the data set. Additionally, the CEO and board chair responsibilities are separated in roughly 69.04% of the sample companies (Ahmed & Hamdan, 2015).

Transparency and disclosure evidence from the Egyptian exchange that focuses on the impact of firm 's transparency and disclosure as the main pillar of Corporate Governance. The major purpose of this study was to analyze the progress of a variety of aspects of corporate governance procedures by listed companies on the Egyptian exchange. The study aimed to evaluate the growth of corporate governance using 12 parameters. In addition to identified parameters, a transparency and disclosure index of 65 items was applied. This study used statistical analysis to investigate the correlation between corporate characteristics and transparency and disclosure. The sample included 100 publicly traded firms, with one commercial bank excluded due to restrictions imposed by Egypt's Central Bank. To achieve the study's objectives, two indices were created. The "CG Features Index" was created to track the evolution of CG practices among EGX-listed companies. The "T&D Index" evaluates the transparency and disclosure of financial and non-financial information by EGX-listed companies, which are critical components of corporate governance. The major finding of univariate analysis revealed a positive correlation between the dependent variables and four independent variables: foreign firm, company size, and audit firm. The multivariate analysis supported the findings of the univariate analysis, especially for the independent variables of international listing and business size (Desoky & Mousa, 2012).

2.4 Research Gap

The evaluation of current literature has greatly improved the underlying understanding required for the study's purpose and relevance. The question of corporate governance and its impact on firm performance in Nepalese development banks presents an exciting field for further investigation. Corporate governance is an important foundation for guaranteeing openness, accountability, and ethical behavior inside a business entity. The need of effective governance in the banking sector cannot be emphasized, as financial stability is crucial. However, there is a considerable study vacuum in understanding how corporate governance structures affect the performance of Nepalese development banks, owing to a number of cultural, economic, and regulatory issues specific to Nepal.

One of the most significant gaps is in empirical research on corporate governance in Nepalese banking institutions. While several studies have looked at the overall relationship between corporate governance and company performance around the world, the specific dynamic of Nepalese development banks has received little attention. The banking business in Nepal is a hybrid of traditional practices and rising corporate governance standards, driven by both domestic and foreign causes. However, the regulatory environment in Nepal has evolved gradually, with institutions such as the Nepal Rastra Bank (NRB) implementing reforms to improve corporate governance. These changes include the implementation of severe disclosure standards, the promotion of independent board structures, and the creation of risk management frameworks. However, the impact of these restrictions in boosting bank performance is a mostly unknown subject.

This study examines the impact of corporate governance practices in Nepalese development banks on organizational performance, focusing on five aspects: accountability, transparency, fairness, discipline, and responsibility. Which, previous research has not included these aspects.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter deals with overall research process to meet the research objectives. Research Methodology describes the methods, Processes, tools and techniques used in the analysis the data, testing the hypothesis, arriving at generalization and preparation of the report.

3.1 Research Design

The thorough master plan that directs the methodical gathering, measurement, and analysis of data for a study is known as the research design (Babbie, 2021). It serves as the structural framework that connects research questions to appropriate methodologies, ensuring valid and reliable findings. The design specifies what data will be gathered, from whom, how variables will be measured, and what analytical techniques will be employed to address the research problem. This blueprint enables researchers to maintain methodological coherence while controlling for potential biases and alternative explanations throughout the investigation process. The study specifically focuses on corporate governance and its impact on Nepalese development banks.

The finding of this research is mainly based on the primary survey. The data is collected by formulating a set of questionnaires which was distributed to the respondents. The reliability of scales is analyzed by using Cronbach 's alpha since Cronbach 's alpha test is the best measure for multiple scale items which is also the most popular test for the inter-item consistency reliability. The finding of research is completely based on the data and facts provided by the sampled respondents.

3.2 Population and Sample, and Sampling Design

Population or universe refers to the entire group of people, events or things of interest that the researcher wishes to investigate. A sample is a representative portion of population which possesses all the characteristics that are exist in population. The entire population of this study is the all 17 Development Banks in Nepal. Among population five banks have been selected as sample on the basis of firm performance. The respondents of the research were

those people who work in Development Banks of Nepal. This study obtained data from approximately 2500 employees having job title assistant and approximately 1200 employees having job title supervisor & Officer Level from five Development Banks of Nepal working all over Kathmandu Valley and outside Kathmandu Valley. Although questionnaires were distributed to total of 450 sample respondents, only 170 of them responded.

3.3 Nature and Sources of Data and the Instruments of Data Collection

Mainly this study is based on primary data. The primary source of data was structured questionnaires, which consisted of multiple-choice questions and rating scales so as to meet the intended objective of the study. The data for research was collected with the help of a questionnaire based on a 5-point rating scale ranging from 1-strongly disagree to 5-strongly agree. The rating scale ranges from 1 to 5 as follows:

1 – Strongly disagree

2 – Disagree

3 – Neutral

4 – Agree

5 – Strongly agree

30 opinion statements were set to measure 6 different variables among which 5 are the independent variables and 1 is dependent variable. 25 different opinion statements were used to describe the independent variables namely Transparency, Accountability, Fairness, Responsibility & Discipline. 5 different opinion statements described dependent variable which is perceived firm performance.

3.4 Methods of Analysis

The collected data underwent quantitative analysis using various statistical methods. Descriptive analysis techniques such as frequencies and percentages were employed to summarize the quantitative data, presented in tabular format. The data from the questionnaires were coded and entered into Statistical Package for Social Science (SPSS Version 22.0) for systematic analysis. SPSS facilitated calculations of standard deviations,

correlations, and frequency distributions for both independent and dependent variables using regression models. Key descriptive statistics such as mean, percentage, and standard deviation were utilized to provide a clear overview of the data, highlighting measures of central tendency to describe the distribution of variables in the study. These analytical approaches were crucial in examining the relationships and patterns within the data collected from employees of the four selected banks in Kathmandu Valley and outside the Kathmandu valley, offering valuable insights into perceptions and practices related to the corporate governance.

3.4.1 Data Analysis Tools and Techniques

Descriptive statistics helps to describe, show or summarize the data in a meaningful way making them more useful for analysis. Descriptive statistics are very important because they enable the presentation of the data in a more meaningful way, which allows for simple interpretation of the data. They summarize the mean, median, variance, standard deviation, histograms and pie charts of the data as suggested by Bernard (2013). Thus, the careful analysis helps to identify the overall behavior of the data.

The spearman correlation indicates the strength and direction of association among various dependent and independent variables. The spearman's correlation works by calculating Pearson's correlation on the ranked values of the data. Like the Pearson's correlation, it is denoted by r_s and lies between ± 1 . This helps identify the perspective multi co linearity in the dataset. Gujarati and Porter (2009) and Field (2009) states that if correlation coefficient between two variables is less than 0.8 the multi co linearity issues is unlikely to be the serious problem.

The collected data underwent comprehensive statistical analysis using Statistical Package for Social Science (SPSS). Descriptive statistics were employed to analyze key measures including mean, median and standard deviation. The mean was utilized to assess respondents' agreement or disagreement with statements related to the governance practices and organizational performance, with values indicating agreement if above the calculated middle point (averaged from maximum and minimum), disagreement if below, and neutrality if equal. Standard deviation measured the variability of sample means from population means.

Correlation analysis is involved to analyze to understand the relationship between governance variables and financial performance metrics. Analyze the correlation between the percentage of independent directors and Calculating Pearson correlation coefficients to test hypotheses, particularly examining the relationship between the governance practices and organizational performance through regression analysis. Inferential statistics, including analysis of variance (ANOVA) and T-tests, were applied to explore differences in organizational performance across demographic variables such as age, gender, education level, and length of employment. ANOVA also assessed the goodness of fit for regression models.

This section describes how the analyses were carried out in chapter four. To interpret the results and generalize the findings, specific stages and procedures must be followed when analyzing data. The analysis begins with the analysis of primary data using SPSS. Primary data is obtained from service sector firms via questionnaires in order to analyze the relationship between internal communication climate and employee engagement. Total replies were coded and tabulated in an SPSS worksheet. Simple descriptive statistics, including frequency count, percentage, mean, and standard deviation, were employed to examine corporate governance in Nepalese development banks.

Different statistical tools are utilized to evaluate corporate governance in Nepalese development banks and identify aspects that impacts organizational performance & effectiveness. Statistical methods were utilized to analyze the distribution of questionnaire data and test hypotheses to meet study objectives. Various graphical tools, including tables, charts, and diagrams, were utilized to analyze data distribution and trends. The descriptive research presented and analyzed data using graphs, tables, pie charts, mean, standard deviation, and percentage distributions. The hypothesis testing section featured tables, mean, standard deviation, Pearson's correlations, and linear regression. The formulas are as follows:

Average /Mean

Average, in general, is calculated by adding all the numbers of all observations and dividing by the total number of observations. It is in fact, a value, which is represented to stand for whole group of which it is a part, as typical of all the values in the group.

Standard Deviation

Standard deviation (S.D.) is the most common and effective measure of dispersion the smaller the standard deviation the lower the degree of risk of the stock. It illustrates the range and magnitude of deviation from the median or mean. It measures absolute dispersion. Higher standard deviation numbers correspond to greater variability, and vice versa. The positive square root represents the average sum of squared departures from the distribution's arithmetic mean.

Correlation Analysis

Correlation is one of the most useful statistics. In other words, correlation is a statistical instrument that quantifies the degree of association between one variable and another variable.

Two or more variables are said to be correlated if a change in one variable appears to be related or linked to a change in the value of another. Correlation describes the degree of relationship between two or more variables. It tells us nothing about the cause-and-effect relationship. Correlation can be positive or negative. Correlation is between -1 and +1. When Pearson's correlation (r) is close to 1, it indicates a strong link between two variables. This implies that changes in one variable are significantly associated with changes in the second variable. When correlation (r) is near to zero, it indicates a poor association between two variables.

Regression Analysis

A statistical method for determining the relationship between two or more variables in which a change in one or more independent variables is linked to and dependent on a change in the dependent variable. Multiple regressions are a statistical tool that determines a criterion's value based on multiple independent variables or predictors. It involves evaluating the impact of various factors on a specific outcome. It can forecast the impact of changes. Multiple linear regression analysis can be used to obtain point estimates.

Regression model

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$$

Where,

\hat{Y} = Perceived firm performance (dependent variable)

X1 = Transparency

X2 = Accountability

X3 = Fairness

X4 = Discipline

X5 = Responsibility

α = Constant

$\beta_1, \beta_2 \dots \beta_5$ = Regression coefficients of Factor 1 to Factor

3.4.2 Instrumentation of Data Collection

The primary data for this study was collected using structured research questionnaires designed with multiple-choice, single-response, and Likert scale items, all self-administered by respondents. Questionnaires were distributed using various delivery and collection methods. The delivery and collecting of surveys allow researchers to validate that the questionnaires were completely filled out and reduces the likelihood of missing data. It allows the researcher to explain any questions respondents may have concerning the questionnaire. This would improve the accuracy of the data being collected. Questionnaires for this study were distributed to employees of service sector (bank) firms. The data collection phase was estimated to last 15 days. Respondents were asked to complete a closed-ended questionnaire based on seven variables. Responses to the questionnaire were received within 20 days.

3.4.3 Reliability and validity

To enhance the accuracy of responses, ensuring the validity and reliability of the research tools was crucial. The researcher constructed the questionnaire based on a solid conceptual framework and validated it through consultation with relevant literature. Validity was ensured by aligning the questionnaire with established theoretical concepts and prior

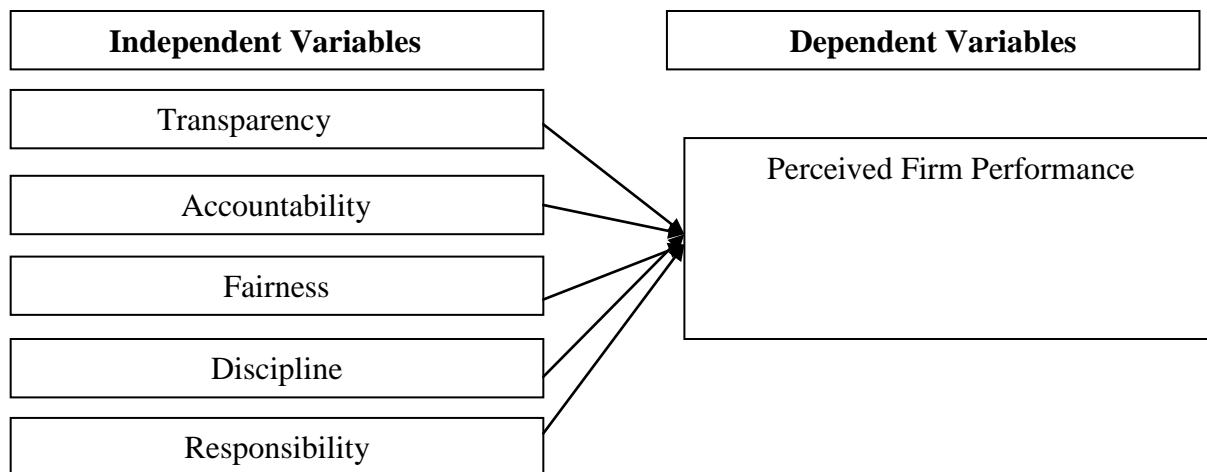
research findings. Meanwhile, reliability, which refers to the consistency and stability of measurement, was assessed to minimize errors and ensure dependable results. Using Statistical Package for Social Sciences (SPSS) version 22.0, data obtained were analyzed with a significance level set at 0.05, employing statistical techniques to evaluate the reliability of the questionnaire items. This rigorous approach aimed to strengthen the research instruments and uphold the credibility of the study's findings.

3.5 Research Framework and Definition of Variables

Figure 2.1 shows the theoretical frame work of study is depicting the impact of corporate governance on perceived firm performance. This frame works indicates corporate governance as independent variable and perceived firm performance as dependent variable. Transparency, Accountability, Fairness, Discipline and Responsibility are dimensions to measure the corporate governance as a construct variable. Below figure is the illustrative representation of factors that guide our research question.

Figure 1

Research Framework



Source: Research Framework Developed by Researcher (2024)

Every word has multiple meanings that change depending on the situation. So, to be certain about the meaning in a certain scenario, it must be defined. For this study, all dependent and independent variables are defined as follows:

Transparency

Openness and clarity in decision-making procedures are referred to as transparency. This ensures that information is available, intelligible, and shared with the appropriate parties. In order to foster confidence and lessen corruption, pertinent data, policies, and actions must be made public (Heald, 2006). Maintain timely and accurate disclosure of all relevant facts, such as financial position, performance, ownership, and corporate governance. Corporate transparency is the extent to which an organization's actions are visible to others. This is owing to rules, local norms, and business policies that encourage transparency in decision-making and operations for employees, stakeholders, shareholders, and the general public. Outsiders regard transparency as the corporation's proactive dissemination of information.

Accountability

Accountability is the duty placed on people or organizations to accept accountability for their actions, accept criticism, and defend their choices. It guarantees that authority is used morally and that there are procedures for recourse in the event of wrongdoing (Bovens, 2007). In corporate governance, accountability refers to answerability, blameworthiness, liability, and the expectation of accountability. Accountability entails being held accountable for one's job, responsibilities, and authority.

Fairness

Fairness is defined as just and unbiased treatment devoid of bias or partiality. It entails the fair allocation of opportunities, resources, and outcomes according to impartial standards (Rawls, 1971). Fairness involves treating everyone equally. It involves avoiding prejudice towards one or more entities when compared to others. Fairness is typically assessed with the many stakeholders of a business in mind. Stakeholders' power-interest matrix is used to determine fairness and likelihood of outcome.

Discipline

Self-control, following the rules, and acting consistently in a way that conforms to social or organizational norms are all considered forms of discipline. It requires adherence to moral principles and methodical procedures in order to produce the intended results (Foucault,

1975). Discipline consists of to obey rule, regulation and policies of the organization and a code of conduct that is circulated.

Responsibility

The ethical requirement to behave honorably, carry out commitments, and answer for one's deeds and their effects in social, professional, or personal contexts is known as responsibility (Weber, 1974). "Corporate responsibility" refers to how firms respond to societal expectations to improve their mutually reliant relationship. Shareholders expect firms to address societal expectations while boosting the firm's value. All employees are responsible for their clients, jobs, and organizations

Perceived Firm Performance

Firm performance is a key decision-makers' subjective assessment of an organization's performance and efficacy, especially in situations where quantitative financial metrics are either unavailable or insufficient to capture multifaceted performance outcomes (Dess & Robinson, 1984). In this study perceived firm performance means the company performance, which includes aspects such as employee dedication, loyalty, productivity, reduced attrition, and effective hiring practices that contribute to organizational success.

Setting Hypothesis

This research illustrates 5 dimensions which are gathered from a variety of researchers in terms of corporate governance they are the most significant ones. Although some terms have been repeated in most studies 'others have different definitions in different studies.

According to several previous researches, Transparency, Accountability, fairness, Responsibility & Discipline are one of the most key determinants of corporate governance. Therefore, the hypothesis to be tested in this research study would be:

Alternative Hypothesis 1 (H1)

There is a significant relationship of transparency on perceived Firm Performance.

Alternative Hypothesis 2 (H2)

There is significant relationship between accountability and perceived Firm Performance.

Alternative Hypothesis 3 (H3)

There is significant relationship between fairness and perceived Firm Performance.

Alternative Hypothesis 4 (H4)

There is significant relationship between discipline and perceived Firm Performance.

Alternative Hypothesis 5 (H5)

There is significant relationship between responsibility and perceived Firm Performance.

CHAPTER IV

RESULTS AND DISCUSSION

This chapter presents the analysis results from data collection. It focuses on the analysis and interpretation of primary data acquired by questionnaire from 170 respondents. Data were examined in accordance with the research objectives outlined in the previous chapter. This chapter aims to evaluate and interpret obtained data, and provide the results.

4.1 Response Rate

Table 4.1

Distribution of Respondent Profile

	Profile	Frequency	Percent
	25-34	150	88.20
	35-44	20	11.80
	Total	170	100
Gender	Male	100	58.80
	Female	70	41.20
	Total	170	100
Educational Level	Bachelor's Degree	50	29.40
	Master's Degree	120	70.60
	Total	170	100
Job Position/Level of Respondent	Assistant Level	120	70.60
	Supervisor and Officer Level	50	29.40
	Total	170	170

Sources: field Survey 2024

4.1.1 Age of Respondents

According to Table 4.1, 88.20% of the respondents are of the age group of 25-34 years old. Similarly, 11.80% of the respondents belong to age group of 35-44 years old. Hence, with

reference of this survey respondents under 25-34 age groups are the dominant concerns of the development banks services.

4.1.2 Gender of the Respondents

Table 4.1 shows that out of total respondents, 58.80% of the respondents are male and 41.20% are female. So, can conclude that most of the respondent in the study are male being 58.80%.

4.1.3 Educational Level of the Respondents

According to Table 4.1, 29.40% of the respondents have their educational qualification up to the bachelor 's level. Similarly, 70.60% have their educational qualification up to master 's level respectively. Hence, from the survey we can see respondent 's with master 's level are the dominant concerns of the development banks services.

4.1.4 Job position/Level of the Respondents

According to Table 4.1, 29.40% of the respondents are currently working in supervisor level/officer level. Similarly, 70.60% respondents are currently working in assistant levels of the bank respectively.

4.2 Descriptive Statistics

Descriptive statistics is used to analyze the data collected from the respondents. In this part we present frequency distribution for each e-service dimensions which they create our dependent variables and show other information such as minimum, maximum, mean and standard deviation for each of them. In this part we present frequency distribution for each corporate governance dimensions which they create our dependent variables and show other information such as minimum, maximum, mean and standard deviation for each of them.

4.2.1 Transparency

Transparency is one of the independent variables of the research. Descriptive study of each question drafted and overall descriptive study on this variable is shown below:

Table 4.2*Descriptive Statistics of Transparency*

Opinion Statement	N	Range	Mean	Std. Deviation
The financial statements provided by the bank are clear.	170	4	3.47	1.094
The bank releases its financial reports in a timely manner.	170	3	3.76	.809
The bank communicates its policies and practices effectively to employees and stakeholders.	170	4	3.65	.906
Greater transparency leads to improvement on bank's performance and operational efficiency.	170	2	4.40	.503
Transparent practices contribute to better risk management in the bank.	170	1	4.29	.454
Valid N (listwise)	170		3.91	0.27

Sources: Results of SPSS

In Table 4.2, the mean values demonstrate a generally positive attitude on transparency and represent the average opinion of the respondents for each statement; the highest positive response was given to the bank's timely release of financial reports (mean = 3.76). The statement "The financial statements provided by the bank are clear" had the least favorable response (mean = 3.47), indicating that respondents believe the bank should make its financial statements clearer. The degree of variety in the responses is shown by the standard deviations. Greater variance in opinions is suggested by larger values, whereas smaller values show greater agreement among respondents; The statement "Transparent practices contribute to better risk management in the bank" had the lowest standard deviation (0.454), suggesting that this view is widely held. The statement "The financial statements provided by the bank are clear" had the biggest standard deviation (1.094), indicating a greater range of opinions

among respondents on the bank's financial statements' clarity. With a standard deviation of 0.27, the overall mean for transparency across all five statements is 3.91. This indicates that, despite some disagreement, respondents generally have a favorable assessment of the bank's transparency policies. In conclusion, respondents had mixed feelings about the bank's transparency, especially when it comes to the clarity of financial statements, even though they are usually enthusiastic about it. The usefulness of transparent procedures for risk management and operational efficiency is more widely acknowledged.

4.2.2 Accountability

Accountability is also one of the independent variables of the research. Descriptive study of each question drafted and overall descriptive study on this variable is shown below:

Table 4.3

Descriptive Statistics of Accountability

Opinion Statement	N	Range	Mean	Std. Deviation
The board of directors is accountable to shareholders and other stakeholders of the bank.	170	4	4.00	1.141
The management team in the bank is held accountable for its decisions and actions.	170	4	3.82	1.045
You are satisfied with the level of accountability illustrated in the bank's financial disclosures.	170	4	3.18	1.101
The internal audit function is effective in ensuring that the bank operates with accountability.	170	3	3.82	.631
The bank has clear mechanisms in place for holding directors and managers accountable for underperformance.	170	4	3.29	1.180
Valid N (listwise)	170		3.62	0.22

Sources: Results of SPSS

In Table 4.3, The average response for each statement is reflected in the mean scores, which indicate a generally positive but moderate opinion on accountability: The statement "The board of directors is accountable to shareholders and other stakeholders of the bank" has the

highest mean (4.00), indicating that respondents strongly agree that the board is accountable, while the statement "You are satisfied with the level of accountability illustrated in the bank's financial disclosures" has the lowest mean (3.18), indicating that respondents are less satisfied with the level of accountability in it. The standard deviations show how widely respondents' opinions vary; With the lowest standard deviation (0.631), the statement "The internal audit function is effective in ensuring that the bank operates with accountability" indicates that there is broad agreement that the internal audit function is effective. With the biggest standard deviation (1.180), the statement "The bank has clear mechanisms in place for holding directors and managers accountable for underperformance" reflects a wider range of viewpoints regarding the processes' clarity. With a standard deviation of 0.22, the total mean for accountability across all five statements is 3.62. Although there is significant variance in the degree to which people agree with particular areas, such as financial disclosures and the procedures for holding management accountable, this indicates that, on average, respondents had a reasonably positive opinion of the bank's accountability measures.

Although accountability is generally supported, respondents believe the bank might do better in a few areas, most notably the processes for guaranteeing accountability at all management levels and the transparency of financial disclosures.

4.2.3 Fairness

Fairness is one of the independent variables of the research. Descriptive study of each question drafted and overall descriptive study on this variable is shown below

Table 4.4*Descriptive Statistics of Fairness*

Opinion Statement	N	Range	Mean	Std. Deviation
All employees are treated fairly in terms of promotions and opportunities.	170	4	2.35	1.238
Lending practices in the bank are fair and equitable to all customers.	170	4	2.82	1.428
The bank's fee structures and charges for services are fair.	170	3	3.24	1.168
The bank is effective in resolving customer complaints and disputes fairly.	170	3	3.12	1.135
Fair treatment of employees contributes to higher morale and productivity.	170	3	4.18	.790
Valid N (listwise)	170		3.14	0.23

Sources: Results of SPSS

In Table 4.4, The average reaction for each statement is indicated by the mean values, which display a range of fairness assessments, both favorable and unfavorable; the statement "Fair treatment of employees contributes to higher morale and productivity" has the highest mean (mean = 4.18), suggesting that people firmly believe that treating employees fairly has a beneficial effect on their morale and output. The statement "All employees are treated fairly in terms of promotions and opportunities" has the lowest mean (mean = 2.35), indicating a somewhat unfavorable opinion of employee fairness in these areas. The standard deviations demonstrate the range of responses; Strong agreement is indicated by the statement "Fair treatment of employees contributes to higher morale and productivity" (0.790), which has the least standard deviation. The statement "Lending practices in the bank are fair and equitable to all customers" (1.428) has the highest standard deviation, indicating that respondents' views on the fairness of lending practices were more varied. The overall mean for fairness across all five statements is 3.14, with a standard deviation of 0.23. This suggests that while

respondents generally perceive fairness somewhat positively, there is considerable variation in their opinions, especially in certain areas like promotions, lending practices, and the fairness of fee structures.

Although most respondents believe that treating workers fairly boosts morale, there are significant reservations regarding the equity of fee structures, lending policies, and promotions. This suggests that even though the company has some fairness beliefs, there is still room for development, especially in the areas of customer interactions and employee opportunities.

4.2.4 Discipline

Discipline is one of the independent variables of the research. Descriptive study of each question drafted and overall descriptive study on this variable is shown below:

Table 4.5

Descriptive Statistics of Discipline

Optional Statement	N	Range	Mean	Std. Deviation
Operational rules and guidelines are consistently enforced in the bank.	170	4	3.65	.906
Employees in the bank are disciplined in adhering to the code of conduct and ethical guidelines.	170	3	3.76	.809
The bank takes prompt disciplinary actions against employees who violate policies or regulations.	170	4	3.71	1.018
Maintaining discipline within the bank improves customer satisfaction.	170	2	4.29	.572
Disciplined governance practices contribute to the financial stability of the bank.	170	2	4.06	.727
Valid N (listwise)	170		3.89	0.17

Sources: Results of SPSS

In Table 4.5, The mean values indicate a generally favorable opinion of discipline in the bank and represent the average viewpoint of respondents; With the highest mean (4.29), the statement "Maintaining discipline within the bank improves customer satisfaction" indicates

that respondents strongly agree that discipline has a good effect on customer satisfaction. The statement "Operational rules and guidelines are consistently enforced in the bank" has the lowest mean (mean = 3.65), suggesting that there is a moderate degree of agreement around the consistent enforcement of operational rules. The degree of variety in the responses is displayed by the standard deviations; there is broad agreement that discipline has a good effect on customer satisfaction, as evidenced by the statement "Maintaining discipline within the bank improves customer satisfaction" (0.572), which has the smallest standard deviation. The statement "The bank takes prompt disciplinary actions against employees who violate policies or regulations" (1.018) has the highest standard deviation, indicating that opinions regarding the bank's promptness in enforcing disciplinary actions are more varied. With a standard deviation of 0.17, the overall mean for discipline across all five statements is 3.89. This indicates that, with comparatively little variation in answers, respondents generally have a favorable opinion of discipline within the bank.

The function that disciplines plays in enhancing customer satisfaction and the bank's financial soundness is generally seen favorably by respondents. Regarding the regularity of rule enforcement and the promptness of disciplinary measures, there is considerable ambiguity. This implies that although the bank's disciplinary procedures are generally thought to be successful, there might be space for improvement in the organization's ability to apply rules consistently and quickly.

4.2.5 Responsibility

Responsibility is the final independent variable of this research. Descriptive study of each questions drafted and overall descriptive study on this variable is shown in Table4.6.

Table 4.6*Descriptive Statistics of Responsibility*

Option Statement	N	Range	Mean	Std. Deviation
The bank takes adequate responsibility for the well-being and development of its employees.	170	4	3.68	.976
The bank responsibly protects the interests and rights of its customers.	170	2	3.71	.572
The bank is responsible in maintaining strong internal controls and conducting regular audits to ensure compliance and transparency.	170	2	4.23	.644
A responsible approach to banking increases customer loyalty and retention.	170	2	4.06	.645
A responsible approach to corporate governance is important for ensuring the long-term sustainability and growth of the bank	170	2	4.18	.711
Valid N (listwise)	170		3.97	0.15

Sources: Results of SPSS

In Table 4.6, Generally favorable opinion of the bank's feeling of responsibility is indicated by the mean values, which represent the average response for each statement: "The bank is responsible in maintaining strong internal controls and conducting regular audits to ensure compliance and transparency" has the highest mean (mean = 4.23), indicating significant agreement that the bank is hardworking to ensure transparency and maintain strong internal controls. The statement "The bank takes adequate responsibility for the well-being and development of its employees" has the lowest mean (mean = 3.68), suggesting that people believe the bank is sufficiently accountable for the growth and well-being of its employees. The degree of diversity in responses for each statement is shown by the standard deviations: "The bank responsibly protects the interests and rights of its customers" (0.572) has the least standard deviation, indicating that respondents strongly agree with this statement. With a standard deviation of 0.976, the statement "The bank takes adequate responsibility for the well-being and development of its employees" reflects a larger range of viewpoints regarding

the bank's level of responsibility for the development and well-being of its employees. With a standard deviation of 0.15, the total mean for responsibility across all five assertions is 3.97. This shows that respondents generally have a favorable assessment of the bank's accountability, with comparatively little disagreement.

In terms of governance, internal controls, consumer protection, and its effect on customer loyalty, respondents largely believe that the bank is extremely responsible. However, since this area seems to elicit more varied perspectives, there is some opportunity for improvement in the bank's perception on its obligation to employee growth and well-being.

4.2.6 Perceived Firm Performance

Perceived organizational success is the independent variable of the research. Descriptive study of each question drafted and overall descriptive study on this variable is shown below:

Table 4.7

Descriptive Statistics of Firm Performance

Option Statement	N	Range	Mean	Std. Deviation
The bank has experienced improvements in operational efficiency due to good corporate governance.	170	2	4.06	.641
The bank effectively manages financial and operational risks due to its corporate governance practices.	170	2	4.12	.584
Corporate governance practices have contributed to enhancing the bank's market reputation.	170	4	3.77	.884
The bank's focus on corporate governance has positively impacted customer satisfaction.	170	4	3.89	.970
Implementation of strong corporate governance has improved employee performance and motivation in the bank.	170	3	3.88	.760
Valid N (listwise)	170		3.94	0.16

Sources: Results of SPSS

In Table 4.7 The average response for each statement is reflected in the mean values, which indicate a generally favorable opinion of the influence of corporate governance on business

performance: The statement "The bank effectively manages financial and operational risks due to its corporate governance practices" has the highest mean (mean = 4.12), suggesting that respondents strongly believe that corporate governance has helped with risk management. A slightly favorable but weaker perception that corporate governance has significantly impacted the bank's reputation is indicated by the lowest mean for the statement, "Corporate governance practices have contributed to enhancing the bank's market reputation" (mean = 3.77). The degree of variety in answers is reflected in the standard deviations: A high degree of agreement among respondents that corporate governance has successfully controlled risks is shown by the statement with the smallest standard deviation, "The bank effectively manages financial and operational risks due to its corporate governance practices" (0.584). The claim that "The bank's focus on corporate governance has positively impacted customer satisfaction" (0.970) has the highest standard deviation, indicating that there are differing views on the relationship between corporate governance and customer satisfaction. With a standard deviation of 0.16, the overall mean for business success as determined by corporate governance is 3.94 across all five claims. This indicates that, with very little difference in responses, respondents generally hold a very positive opinion of how corporate governance affects the performance of the bank.

In general, respondents believe that corporate governance significantly improves the bank's risk management, operational effectiveness, and worker performance. Regarding the impact on customer satisfaction and market reputation, there is less agreement, indicating that although corporate governance is crucial for internal operations; its exterior effects are thought to be slightly more restricted. With little difference in the responses, the general perception of corporate governance's impact on firm success is quite positive.

4.3 Correlation Analysis

The relationship between several independent and dependent variables related to the study is ascertained using correlation analysis. It calculates any two variables' linear correlation. This study was done for variables with straightforward multi-choice responses. To determine the strength or degree of the association between the research variables, a correlation matrix was generated. A positive correlation indicates that the relationship is going in the right direction,

with one growing in response to the other's growth. Conversely, a negative correlation shows the opposite of the above: when one falls, the other rises.

Correlation between Independent and Dependent variables is shown in Table 4.8:

Table 4.8

Correlations

		ACC	TRA	FAI	DIS	RES	FIR
ACC	Pearson Correlation	1	.265*	.701**	.477**	.564**	.073
			*				
TRA	Pearson Correlation	.265**	1	.511**	.601**	-.067	.337**
FAI	Pearson Correlation	.701**	.511*	1	.709**	.343**	.482**
			*				
DIS	Pearson Correlation	.477**	.601*	.709**	1	.205**	.167*
			*				
RES	Pearson Correlation	.564**	-.067	.343**	.205**	1	.101
FIR	Pearson Correlation	.073	.337*	.482**	.167*	.101	1
			*				

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

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

Sources: Results of SPSS

4.3.1 Relationship between Accountability with Firm Performance

The correlation between Accountability and Firm Performance is very weak (0.073) and not statistically significant ($p > 0.05$). This suggests that accountability does not have a meaningful linear relationship with firm performance in this dataset. The Pearson correlation coefficient for accountability and company performance is 0.073, showing a very weak positive relationship. This shows that, in general, as accountability in development banks grows, so the does business performance, but only somewhat and not significantly. However, the p-value is 0.342, which above the standard significance criterion of 0.05. This indicates that the observed link is not statistically significant, and there is insufficient

evidence to establish that accountability has a measurable impact on company performance in the Nepalese development banks studied.

4.3.2 Relationship between Transparency with Firm Performance

Transparency has a moderate positive correlation with Firm Performance ($r = 0.337$) and is statistically significant at the 0.01 level ($p < 0.01$). This indicates that greater transparency in the organization is associated with better firm performance. The Pearson correlation coefficient of 0.337 suggests a moderately positive relationship between transparency and corporate performance. This suggests that as transparency policies improve inside Nepalese development banks, corporate performance tends to rise. The significance level ($p = 0.000$) is significantly below the widely recognized threshold of 0.05, showing that this link is statistically significant. As a result, there is compelling evidence that more transparency is related with improved financial outcomes in these banks.

4.3.3 Relationship between Fairness with Firm Performance

Fairness shows a stronger positive correlation with Firm Performance ($r = 0.482$) and is statistically significant at the 0.01 level ($p < 0.01$). This suggests that firms perceived as fair tend to have better performance. The Pearson correlation coefficient of 0.482 reveals a relatively high positive relationship between fairness in corporate governance and firm performance. This implies that as fairness increases in Nepalese development banks' governance policies, corporate performance improves dramatically. The p-value of 0.000 indicates a statistically significant link at the 1% level ($p < 0.01$). As a result, we can certainly infer that fairness is a key governance element with a significant and beneficial impact on the financial success of these institutions.

4.3.4 Relationship between Disciplinary with Firm Performance

Disciplinary actions have a weak positive correlation with Firm Performance ($r = 0.167$) and are statistically significant at the 0.05 level ($p < 0.05$). While the correlation is weak, it is statistically meaningful, implying that a disciplined approach could be somewhat related to better performance outcomes. The Pearson correlation coefficient of 0.167 indicates that there is a weak positive relationship between corporate governance rigor and firm performance. This shows that when disciplinary systems (for example, policy enforcement,

internal controls, and rule adherence) improve, so does the company performance, though the relationship is not very strong. The p-value of 0.029 is lower than the conventional significance level of 0.05, indicating that the link is statistically significant. Despite the poor association, the relationship between discipline and company success is not random and has some practical implications.

4.3.5 Relationship between Responsibility with Firm Performance

The correlation between Responsibility and Firm Performance is weak ($r = 0.101$) and not statistically significant ($p > 0.05$). This suggests that responsibility does not have a meaningful linear relationship with firm performance in this case. The Pearson correlation coefficient of 0.101 reveals a very weak positive association between governance responsibilities and firm performance. This implies that there is a minor tendency for business performance to improve as responsibility increases, but the relationship is not strong. The p-value of 0.189 is higher than the standard significance level of 0.05, indicating that the link is not statistically significant. As a result, we cannot conclude that there is a significant or trustworthy link between responsibility and business performance in Nepal's development banks.

4.4 Regression Analysis

Finding out more about the link between a number of independent or predictor variables and a dependent and criterion variable is the main goal of multiple regression analysis. Regression analysis is a statistical method used in statistical modeling to estimate the relationships between variables. When the relationship between a dependent variable and one or more independent variables is the main emphasis, it encompasses a variety of modeling and analysis techniques. Only the presence of a strong association between two variables may be determined by a correlation study. However, it is impossible to pinpoint the precise nature of the relationship between two variables, even if a correlation coefficient suggests that there is a strong relationship between them. Regression analysis in this instance offers more details regarding the relationship's slope. The primary objective of multiple regression analysis is to learn more about the relationship between several independent or predictor factors and a dependent or criterion variable. One statistical technique for estimating the

associations between variables in statistical modeling is regression analysis. It includes a range of modeling and analysis approaches when the primary focus is on the relationship between a dependent variable and one or more independent variables. A correlation study can only identify whether two variables have a substantial link. Even while the correlation coefficient indicates that two variables have a strong association, it is impossible to determine the exact nature of that relationship. In this case, regression analysis provides additional information on the slope of the relationship.

Model summary of impact of independent variables of Corporate Governance on perceived organizational success

Table 4.9

Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.703 ^a	.494	.478	.47317

a. Predictors: (Constant), Responsibility, Transparency, Fairness, Disciplinary, Accountability

Sources: Results of SPSS

From the above table 4.9 $R = 0.703$ is the correlation coefficient, showing the strength and direction of the linear relationship between the predictors (Responsibility, Transparency, Fairness, Disciplinary, Accountability) and the outcome variable. A value of 0.703 suggests a strong positive correlation. $R^2 = 0.494$ means that 49.4% of the variance in the dependent variable is explained by the five predictors. That's a moderately strong model in social sciences. Adjusted $R^2 = 0.478$ is a corrected version of R^2 that adjusts for the number of predictors in the model. It tells us that 47.8% of the variance in the dependent variable is still explained after accounting for the number of predictors. It's a bit lower than R^2 , which is normal. Similarly, Std. Error of the Estimate = 0.47317 tells us the average distance that the observed values fall from the regression line. Lower is better, and 0.473 is relatively small, indicating decent predictive accuracy.

ANOVA of impact of independent variables of Corporate Governance on Perceived organizational success

Table 4.10

ANOVA

		ANOVA				
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.780	5	7.156	31.962	.000 ^b
	Residual	36.718	164	.224		
	Total	72.498	169			

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), Responsibility, Transparency, Fairness, Disciplinary, Accountability

Sources: Results of SPSS

From the above table 4.10 Sum of Squares = 35.780: This represents the variation explained by the regression model (how well the predictors collectively explain the variation in the dependent variable, in this case, Firm Performance). df (Degrees of Freedom) = 5: This is the number of predictors in the model, plus one for the intercept (since there are 5 predictors, it's 5). Mean Square = 7.156: This is the average variation explained by the regression model. It's calculated as the Sum of Squares for Regression divided by the df for Regression. F-value = 31.962: The F-statistic tests whether at least one of the independent variables significantly contributes to explaining the variance in the dependent variable. The larger the F-value, the better the model explains the variance. Sig. (p-value) = 0.000: This is the p-value associated with the F-statistic. A value of 0.000 indicates that the regression model as a whole is statistically significant, meaning the independent variables (Responsibility, Transparency, Fairness, Disciplinary, Accountability) do significantly predict Firm Performance.

Table 4.11
Coefficients

Model	Coefficients				Sig.
	Unstandardized		Standardized	t	
	B	Std. Error	Beta		
(Constant)	3.425	.497		6.892	.000
Accountability	-.550	.079	-.622	-6.989	.000
Transparency	.380	.103	.272	3.686	.000
Fairness	.760	.072	1.055	10.617	.000
Disciplinary	-.629	.110	-.491	-5.706	.000
Responsibility	.273	.092	.209	2.976	.003

a. Dependent Variable: Firm Performance

Sources: Results of SPSS

These are the actual coefficients for each predictor variable, which represent the amount of change in the dependent variable (Firm Performance) for a one-unit change in the predictor, holding other variables constant.

Constant 3.425 is the intercept of the model. It means that if all the predictor variables (Accountability, Transparency, Fairness, Disciplinary, and Responsibility) are zero, the Firm Performance score is predicted to be 3.425.

Accountability-0.550 means for each one-unit that increase in Accountability, Firm Performance is predicted to decrease by 0.550 units, assuming all other predictors are held constant.

Transparency0.380means for each one-unit that increase in Transparency, Firm Performance is predicted to increase by 0.380 units, assuming all other predictors are held constant.

Fairness 0.760 means for each one-unit increase in Fairness, Firm Performance is predicted to increase by 0.760 units, assuming all other predictors are held constant.

Disciplinary -0.629 means for each one-unit increase in Disciplinary actions, Firm Performance is predicted to decrease by 0.629 units, assuming all other predictors are held constant.

Responsibility 0.273 means for each one-unit increase in Responsibility, Firm Performance is predicted to increase by 0.273 units, assuming all other predictors are held constant.

Standardized Coefficients (Beta):

These values represent the relative importance of each predictor in the model, on a standardized scale (typically ranging from -1 to 1). Larger absolute values indicate stronger relationships with the dependent variable.

Accountability -0.622 shows that Accountability has a relatively strong negative relationship with Firm Performance. Among all predictors, this has the largest magnitude (in negative direction), meaning that accountability might be a critical factor influencing performance negatively.

Transparency 0.272 is a moderate positive relationship. A one standard deviation increase in Transparency leads to a 0.272 standard deviation increase in Firm Performance.

Fairness 1.055 denotes this is the strongest positive relationship. Fairness has the highest Beta value, indicating it is the most influential predictor among all the factors in the model.

Disciplinary -0.491 is a moderate negative relationship. Disciplinary actions appear to negatively impact Firm Performance.

Responsibility 0.209 denotes this is a relatively weaker positive relationship compared to the others, but still statistically significant.

t-value:

This value tests the null hypothesis that the coefficient is equal to zero (no effect). The larger the absolute value of the t-statistic, the stronger the evidence against the null hypothesis. For each predictor, the t-values are high, indicating that all predictors have a significant effect on

Firm Performance. Larger the t-value stronger the evidence that the predictor will make a meaningful contribution on explanation about the firm performance.

Sig. (p-value):

The p-value indicates the statistical significance of each predictor. $p < 0.05$: A value of 0.000 for all predictors indicates they are highly significant, meaning each predictor is contributing meaningfully to explaining Firm Performance. In other words, none of the predictors are likely to have a relationship with Firm Performance due to random chance.

4.5 Discussion

The survey results show a generally positive opinion of the bank's transparency (mean = 3.91), notably for timely financial reporting (mean = 3.76), which is consistent with previous research (Bushman & Smith, 2003) associating timely disclosures to enhanced business performance. However, the lower mean (3.47) and higher standard deviation (1.094) for financial statement clarity indicate stakeholder discontent and conflicting viewpoints, which are consistent with (Beest et.al, 2009) findings that complex reporting inhibits openness. The strong unanimity (SD = 0.454) on transparency improving risk management backs up (Aebi et.al, 2012), who suggest that governance transparency lowers operational risks. Overall, while the bank excels in openness, clarity remains a challenge, mirroring larger corporate governance literature that emphasizes the importance of both accessibility and accuracy in disclosures to promote stakeholder trust and firm performance.

The survey results show somewhat good attitudes of accountability (overall mean = 3.62), with respondents strongly supporting board accountability to stakeholders (mean = 4.00), which is consistent with agency theory's emphasis on director monitoring (Jensen & Meckling, Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure, 1976). However, dissatisfaction with accountability in financial disclosures (mean = 3.18) is consistent with previous research (Armstrong, Guay, & Weber, 2010) which found that disclosure quality frequently falls behind structural governance measures. The strong consensus on internal audit effectiveness (SD = 0.631) supports (Cohen, Krishnamoorthy, & Wright, 2017) research linking robust internal controls to governance quality, whereas the

high disagreement on accountability mechanisms for underperformance ($SD = 1.180$) reflects documented difficulties in enforcing managerial accountability (Bebchuk & Fried, 2004) incongruous with stakeholder expectations, reflecting the larger governance literature that distinguishes between procedural design and practical enforcement (Daily, Dalton, & Cannella, 2003). The modest overall rating means that there is potential for improvement in bridging the gap between policy and perceived accountability outcomes.

The survey results show that people have varying judgments of fairness (overall mean = 3.14), but there is substantial consensus (mean = 4.18, $SD = 0.790$) that fair employee treatment increases productivity, which is consistent with (Pfeffer J. , 1998) findings on how justice perceptions improve organizational performance. However, a low score on promotion fairness (mean = 2.35) indicates continuing disparities in professional advancement possibilities, which is consistent with Cowherd and Levine's (1992) equity theory claims. The wide range of lending practice perceptions ($SD = 1.428$) reflects academic disputes concerning implicit biases in financial services (Bertrand et.al, 2005) implying inconsistent application of fairness norms. While respondents recognize the theoretical importance of fairness (as evidenced by a strong morale-productivity link), the findings reveal significant implementation gaps in operational practices, particularly in human resources and customer relations, supporting Gillan's (2006) contention that corporate governance principles. The moderate overall fairness grade implies progress, but it also identifies specific areas that require policy attention to align practice with principle.

The survey results show strong overall perceptions of discipline in the bank (mean = 3.89), particularly in terms of its positive impact on customer satisfaction (mean = 4.29, $SD = 0.572$), which is consistent with previous research by (Rust et al., 2002) that links organizational discipline to service quality and customer loyalty. However, the lower score on consistent enforcement of operational rules (mean = 3.65) and high variability in perceptions of prompt disciplinary actions ($SD = 1.018$) indicate inconsistencies in policy implementation, which supports (Simons, 1999) findings that enforcement gaps may exist even in disciplined organizations. The great unanimity on the benefits of discipline contrasts with conflicting opinions on enforcement techniques, highlighting the governance conundrum outlined by (O'Reilly & Chatman, 1996) in which cultural ideals frequently

outweigh practical implementation. These findings suggest that, while the bank has successfully institutionalized discipline as a cultural value, it must strengthen consistent implementation across all operational areas in order to fully realize its governance benefits, in line with (Company, 2020)research on high-performing banking cultures. The relatively low standard deviation (0.17) for overall discipline indicates that this is a well-established organizational strength; however, there is space for development in procedural consistency.

The survey results show that respondents have generally positive perceptions of the bank's responsibility (overall mean = 3.97), with the strongest agreement regarding internal controls and compliance (mean = 4.23), which is consistent with previous research by Cohen et al. (2014), which demonstrated that robust control systems improve corporate governance effectiveness. However, the lower score on employee well-being responsibility (mean = 3.68, SD = 0.976) indicates that there is space for development in human capital investment, which is consistent with (Freeman et al., 2010)stakeholder theory, which emphasizes employee wellbeing as an important governance goal. The strong consensus on customer rights protection (SD = 0.572) confirms (Macey & O'Hara, 2003)findings that financial institutions prioritize client-facing responsibilities, whereas greater variability in employee development perceptions may reflect the "talent governance gap" identified by (Bova, Dou, & Hope, 2015).The high overall responsibility rating with low dispersion (SD = 0.15) indicates that the bank has successfully institutionalized responsibility as a core governance principle, though the results indicate a potential imbalance between compliance-oriented and human capital responsibilities, as noted by (Aguilera & Jackson, 2003) in their comparative study of financial sector governance. These findings emphasize the relevance of multidimensional responsibility in corporate governance while also identifying specific areas for strategic focus in order to attain complete governance excellence.

The survey results show strong positive perceptions of corporate governance's impact on bank performance (overall mean = 3.94), with particularly strong agreement regarding risk management effectiveness (mean = 4.12, SD = 0.584), which is consistent with previous research by (Aebi et.al, 2012) that links governance quality to superior risk control in financial institutions. The significantly lower score on reputation improvement (mean = 3.77) indicates that governance's intangible benefits may not be immediately obvious to

stakeholders, reflecting (Deephouse, 2000) findings about the gradual nature of reputation creation. The biggest diversity in responses on customer satisfaction impact ($SD = 0.970$) reflects ongoing scholarly debate about governance-customer satisfaction linkages (Mittal et al., 2005), which could imply that governance advantages appear differently across stakeholder groups. The consistently high ratings with low overall dispersion ($SD = 0.16$) support (Bhagat & Bolton, 2008) conclusion that effective governance results in measurable operational benefits, while also implying that banks should better communicate governance's reputational and customer-related benefits. These findings support the value proposition of corporate governance in banking, while also emphasizing potential to develop and demonstrate its broader organizational implications beyond risk management.

The study finds different connections between corporate governance characteristics and company performance in Nepalese development banks. Transparency ($r = 0.337$, $p < 0.01$) and fairness ($r = 0.482$, $p < 0.01$) have significant positive correlations with performance, consistent with prior research by (Claessens, 2006) and (Gompers et al., 2003) on governance-value creation links. However, accountability ($r = 0.073$) and responsibility ($r = 0.101$) have insignificant weak relationships, contradicting agency theory predictions. The weak but substantial disciplinary association ($r = 0.167$, $p < 0.05$) supports (Company, 2020) results on compliance-performance links, whereas the large fairness-performance relationship reflects (Pfeffer J. , 1998) justice-performance hypothesis. These mixed results suggest that in Nepal's unique banking context, governance dimensions affecting stakeholder perceptions (transparency, fairness) have a greater impact on performance than structural mechanisms (accountability, responsibility), which is consistent with (Licht et al., 2005) cross-cultural governance research. The findings illustrate the contextual nature of governance efficiency, with socio-cultural influences potentially influencing which governance characteristics drive success.

The regression study shows that corporate governance characteristics (Responsibility, Transparency, Fairness, Disciplinary, Accountability) have a significant impact on company performance in Nepalese development banks ($R = 0.703$, $p < 0.01$), accounting for 49.4% of performance variance ($R^2 = 0.494$). Prior studies by (Bhagat & Bolton, 2008) and (García-Sánchez, 2010) show that governance has a significant predictive power for financial

outcomes through adjusted R^2 (0.478) indicates slightly reduced explanatory power when accounting for multiple predictors, which is consistent with (Brown & Caylor, 2004) finding that not all governance elements equally impact performance. The moderate explanatory power (49.4%) compares favorably with similar studies in emerging markets (Black et.al, 2014) and the relatively small standard error (0.473) indicates good model fit, supporting (Klapper & Love, 2004) contention that governance quality is more important in developing economies with weaker legal frameworks. These findings confirm that, whereas individual governance components exhibit variable correlations (as demonstrated in earlier analyses), their combined effect has a significant impact on bank performance, validating the holistic character of governance systems proposed by (Aguilera & Jackson, 2003). The findings highlight the contextual importance of governance bundles in emerging financial markets, such as Nepal's banking industry.

The ANOVA results show that corporate governance dimensions (Responsibility, Transparency, Fairness, Disciplinary, Accountability) have a significant impact on firm performance ($F = 31.962$, $p < 0.001$), with the model explaining significant variation in performance (Sum of Squares = 35.780). This strong predictive relationship is consistent with previous research by (Gompers et al., 2003) and (Brown & Caylor, 2004) who discovered that governance mechanisms collectively enhance firm value, though our findings differ from some studies that show weaker governance-performance links in emerging markets (Black et.al, 2014). The extremely significant F-statistic ($p = 0.000$) confirms Aguilera et al.'s (2008) holistic governance approach, indicating that governance parts act together rather than separately. The findings highlight the contextual effectiveness of governance bundles in Nepal's banking industry, where institutional gaps may increase governance's impact (Dharwadkar et al., 2000) Although the model is statistically significant, the moderate R^2 from prior research (49.4%) suggests that other unmeasured factors also influence performance, supporting (Durnev & Kim, 2005) notion that governance works with other organizational and environmental elements. These data collectively support the theoretical assumption that corporate governance systems have a considerable impact on firm performance in emerging financial markets.

This study found that corporate governance characteristics have a substantial impact on company performance in Nepalese development banks ($F=31.962$, $p<0.001$), accounting for 49.4% of the variance ($R^2=0.494$). While transparency ($r=0.337$) and fairness ($r=0.482$) have substantial individual relationships with performance, consistent with global studies on governance-value creation, accountability ($r=0.073$) and responsibility ($r=0.101$) are insignificant, indicating contextual variances in governance efficacy. The findings indicate that in Nepal's banking industry, stakeholder-oriented governance characteristics (transparency, fairness) are more important than structural procedures, which supports emerging market studies in which institutional holes accentuate specific governance elements. The comprehensive view of governance as one element in an ecosystem of firm performance drivers is supported by the strong overall model fit (Sum of Squares=35.780) and moderate explanatory power, which show that while corporate governance systems significantly predict performance, other unmeasured factors also play a role. These results underline the necessity of context-specific governance strategies in the banking industry while validating the modified governance framework for developing economies.

CHAPTER-V

SUMMARY AND CONCLUSION

This chapter is final chapter which summarizes the research summary, conclusion and implications of the study. The entire chapter is summarized in three sections. The first one summarizes the study and general overview about research findings. The second section derives the conclusion of the study and the third one suggests few recommendations.

5.1 Summary

The primary goal of this study was to determine the association between corporate governance components and perceived business performance. To answer this question, numerous literatures on corporate governance have been discussed, including which variables affect corporate governance, which drives might aid in achieving it, and how we measure corporate governance. On the other hand, concepts and research about corporate governance, its dimensions, and their relationship to other variables have been investigated. Based on the preceding talks, five dimensions were selected in chapter two to assess corporate governance. After all, conceptual frame of reference 5 hypotheses was developed to address the study question. For the purpose of conducting the study, the questionnaire with 30 questions was adapted to answer research hypotheses. 300 questionnaires were distributed among respondents which included groups of employees of Development Banks. Finally, 170 valid questionnaires were selected and data analysis was applied to them. Finally, the researcher discovered that all of the evaluated variables had an impact on perceived organizational success. A variety of statistical tests were used to establish the survey results. First, descriptive analysis was performed to identify the average value and standard deviation of each variable for each hypothesis. Each hypothesis was measured using at least five questions or variables. Respondents provided answers on a five-point Likert scale ranging from "Strongly Disagree" to "Strongly Agree". The replies were gathered, and the data was organized and analyzed with Microsoft Excel and SPSS software tools.

The thesis objective which examines how corporate governance impact on Nepalese development banks performance on emphasizing how important it is to maintain the financial stability, accountability and openness. Global corporate governance frameworks differ, and Nepal has particular difficulties include uneven governance standards, political meddling, and lax regulatory enforcement. There is little research on how governance systems affect the functioning of Nepal's banking industry, especially development banks, despite its crucial role in economic progress. The study objectives are to evaluate present governance practices, investigate how they relate to performance and pinpoint important areas for development; nevertheless, generalizability may be impacted by constraints such as limited data, cultural effects and small sample numbers. The results highlight the necessity of more robust governance frameworks to improve bank operations and investor trust in Nepal. Although research from around the world indicates that good governance and business performance are related, Nepal's unique institutional and cultural setting makes this relationship more difficult to understand. By concentrating on development banks, the study fills in holes in the literature, but it also recognizes difficulties including inconsistent regulations, skewed data, and outside economic influences. Though more long-term studies are required to take into account Nepal's changing financial scene, the research ultimately aims to offer policymakers and bank manager's practical insights to strengthen governance frameworks.

About methodology using a mixed-method (descriptive and analytical) research methodology, the study mostly uses primary data gathered from five Nepalese development bank personnel via structured questionnaires. Perceptions of corporate governance (transparency, accountability, fairness, discipline, and responsibility) and their effect on business performance were assessed using a 5-point Likert scale. Data analysis was conducted using SPSS (Version 22.0), which included regression modeling, correlation analysis (Spearman's rank correlation), and descriptive statistics (mean, standard deviation, percentages) to evaluate the links between governance variables and performance. Only 170 responses were received, even though 450 respondents were the aim, which would have limited generalizability. Cronbach's alpha was used to test for reliability, and conformity to accepted theoretical frameworks guaranteed validity. The regression model assesses the impact of each governance dimension on perceived performance ($\zeta = \alpha + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_5 X_5 + e_i$). Tested using correlation and ANOVA, hypotheses (H1–H5) suggest a strong

positive association between governance methods and company performance. Sample size restrictions, possible response bias, and Nepal's distinct institutional setting are among the limitations, which call for a cautious interpretation of the findings. All things considered, the methodology offers an organized way to look at the connections between governance and performance in Nepal's banking industry.

The results of the study show that the perception of company performance in Nepalese development banks is influenced differently by the corporate governance dimensions of accountability, transparency, fairness, discipline, and responsibility. While respondents' opinions on fairness (mean = 3.14) and accountability (mean = 3.62) were more divided, descriptive data show that respondents usually have a positive opinion of transparency (mean = 3.91), discipline (mean = 3.89), and responsibility (mean = 3.97). Employees voiced worries about promotion fairness (mean = 2.35), although they specifically stressed the value of fair treatment (mean = 4.18 for morale impact). According to correlation analysis, the biggest positive relationships with company performance were seen in fairness ($r = 0.482$, $p < 0.01$) and transparency ($r = 0.337$, $p < 0.01$), whereas accountability ($r = 0.073$, $p > 0.05$) and responsibility ($r = 0.101$, $p > 0.05$) had weaker, negligible effects. Fairness ($\beta = 1.055$, $p < 0.001$) was the most significant predictor, followed by transparency ($\beta = 0.272$, $p < 0.001$), according to regression analysis ($R^2 = 0.494$, $p < 0.001$). The negative impacts of discipline ($\beta = -0.491$, $p < 0.001$) and accountability ($\beta = -0.622$, $p < 0.001$) were unexpected and suggested possible over-regulation or misalignment with performance goals. These findings underline the importance of justice and openness in governance while pointing to the necessity of reevaluating strict accountability and punitive measures in Nepal's banking industry.

5.2 Conclusion

The main purpose of this study was to find out the status of corporate governance in Nepalese development banks and the relationship of perceived firm performance with the corporate governance variables which are transparency, accountability, responsibility, discipline and fairness. Upon examining the perceived firm performance and factors of corporate governance it has been found that a relationship between the two does exist. The results indicated that development banks should give importance to the corporate governance

to improve to overall success of the bank. To its advocate, the role of corporate governance in organizational success is vital and integral to ensure the accomplishment. Analysis of study tells that the corporate governance has different impact on organizational success. Discipline, fairness, transparency and responsibility play a stronger role in making organizations successful in development banks operating in Nepal. According to this study these four variables significantly contribute in creating good corporate governance in the development bank. The most general corporate governance problem in organizations is basically a failure to have board of director and the member of the management are not different and also the employee is also not satisfied with the performance of audit committee. Employee also feels that boards meeting of the bank are also not held as per the requirement. Although the bank has written code of conduct but they are not performing up to the mark. Presented research demonstrates that the governance is a very important organ of a corporation, which is more essentially required in the banking sector in order to have an influential power on information disclosure. By this survey, it has shown that corporate governance in the Nepalese commercial banks can sustain their advantage through the maintained of corporate governance in the commercial bank of Nepal. This study would catch the attention of the analysts, policy makers and practitioners to be forward looking and not get caught in the myopic trap resulting in the assessment of corporate governance only from financial measures and short-term benefit (losses). This may have resulted because of growing sector in which the prime concern of corporate governance revolves around financial governances of firms. Strategy makers should also focus on public policy, ethical behavior in organization, company culture that prohibits the employment of under-aged, responsibility of workers, fairness in record keeping and in selection criteria. To sum up the results, it can be concluded that variable of corporate governance can have significant effects on banks along with its dimensions. The corporate governance of the bank also has the significant impact when the dimension of the corporate governance is also evaluated like transparency, responsibility, discipline, fairness and accountability. In view of the above analysis, Corporate Governance is necessary to the proper functioning of banks and their variables have also important role in the management of the corporate governance. Generally top management should take attention toward corporate governance in return to gain customers delighers which ensure the overall organizational success.

5.3 Implications

Based on the statistical findings and theoretical insights, the following recommendations are proposed for organizations seeking to enhance their perceived performance through improved corporate governance mechanisms:

Prioritize fair governance systems: Given that fairness was identified as the most powerful predictor of company performance, firms should employ equitable decision-making processes, transparent promotion standards, and inclusive policies. A fair work environment promotes trust, decreases internal conflict, and increases employee engagement.

Enhance transparency practices: Transparency has a favorable and significant impact on performance. It should be included into reporting, communication, and leadership practices. Regular communication of policies, financial updates, and strategic goals boosts credibility while reducing knowledge asymmetry between management and staff.

Re-evaluate accountability mechanisms: Accountability, typically regarded as a key component of good governance, had a significant negative influence. Organizations should consider whether their accountability systems are regarded as punishing or micromanaging. Accountability should be reframed as a communal obligation rather than a means of control.

Balance disciplinary action with constructive feedback: Disciplinary procedures had a negative relationship with performance. Companies should implement progressive disciplinary procedures that emphasize learning, coaching, and correction rather than punishment, which may erode motivation.

Encourage responsibility through empowerment: Although the correlation was not significant, Responsibility had a favorable influence in regression. This shows that, when combined with other governance strategies, granting employees autonomy and ownership might indirectly improve performance.

Implications for Practice

The study provides several actionable insights for corporate leaders, policymakers, and HR practitioners:

Strategic HR Alignment: Performance appraisals, ethical training, and leadership development should all include systems for corporate governance. This ensures that governance is more than just a top-down process; it is also a shared organizational culture.

Governance Policy Review: Organizations, particularly those in the public and development sectors, should conduct regular audits of their governance frameworks to assess employee perceptions of fairness, openness, and controls.

Leadership Training: Executives and managers should be trained to transition from compliance driven models to value-based leadership, with a focus on relational and ethical aspects of governance.

Performance Management Systems: Incorporating governance indicators (e.g., fairness scores, transparency ratings) into corporate KPIs helps prioritize long-term value over immediate compliance.

Directions for Future Research

While the study provided substantial insights, it also opens several avenues for further exploration:

The current study utilized cross-sectional data. Future study might take a longitudinal approach, tracking how changes in governance practices affect business performance over time and proving causality more robustly.

Because organizational culture and governance structures varies by industry, future research should look into sector distinctions, such as public vs. private, technology vs. manufacturing, or multinational vs. local enterprises.

Future study might look at mediators like organizational commitment, employee engagement, or job happiness, as well as moderators like business size, ownership structure,

or national culture, to better understand the mechanisms by which governance influences performance.

Interviews, focus groups, or case studies could help to expand the findings by delving into employee narratives and providing more contexts for the quantitative results, particularly on unfavorable impressions of accountability and disciplinary actions.

Because cultural and regulatory environments influence governance norms, a comparative international study could aid in the generalization or contextualization of findings across different economies and legal systems.

Final Reflection

This study confirms the growing relevance of ethical and participatory governance practices in driving organizational success. It emphasizes that governance is no longer merely about rules and compliance, but about creating an inclusive, fair, and transparent culture that engages stakeholders at all levels. The findings contribute both theoretically and practically to the discourse on corporate governance in emerging economies and suggest a paradigm shift toward more employee-centered governance systems as a route to sustainable firm performance.

References and appendixes will also include at the end of the analysis.

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QUESTIONNAIRE

Corporate governance and its impact on firm performance: A study on Nepalese Development Banks.

Dependent Variables: Firm Performance

Independent Variable: Accountability, Transparency, Fairness, Discipline & Responsibility.

Strongly Agree

Agree

Neutral

Disagree

Strongly Disagree

Questionnaire:

1. Firm Performance

1. The bank has experienced improvements in operational efficiency due to good corporate governance.
2. The bank effectively manages financial and operational risks due to its corporate governance practices.
3. Corporate governance practices have contributed to enhancing the bank's market reputation.
4. The bank's focus on corporate governance has positively impacted customer satisfaction.
5. Implementation of strong corporate governance has improved employee performance and motivation in the bank.

2. Accountability

1. The board of directors is accountable to shareholders and other stakeholders of the bank.
2. The management team in the bank is held accountable for its decisions and actions.
3. You are satisfied with the level of accountability illustrated in the bank's financial disclosures.
4. The internal audit function is effective in ensuring that the bank operates with accountability.

5. The bank has clear mechanisms in place for holding directors and managers accountable for underperformance.

3. Transparency

1. The financial statements provided by the bank are clear.
2. The bank releases its financial reports in a timely manner.
3. The bank communicates its policies and practices effectively to employees and stakeholders.
4. Greater transparency leads to improvement on bank's performance and operational efficiency.
5. Transparent practices contribute to better risk management in the bank.

4. Fairness

1. All employees are treated fairly in terms of promotions and opportunities.
2. Lending practices in the bank are fair and equitable to all customers.
3. The bank's fee structures and charges for services are fair.
4. The bank is effective in resolving customer complaints and disputes fairly.
5. Fair treatment of employees contributes to higher morale and productivity.

5. Disciplinary

1. Operational rules and guidelines are consistently enforced in the bank.
2. Employees in the bank are disciplined in adhering to the code of conduct and ethical guidelines.
3. The bank takes prompt disciplinary actions against employees who violate policies or regulations.
4. Maintaining discipline within the bank improves customer satisfaction.

5. Disciplined governance practices contribute to the financial stability of the bank.

6. Responsibility

1. The bank takes adequate responsibility for the well-being and development of its employees.

2. The bank responsibly protects the interests and rights of its customers.

3. The bank is responsible in maintaining strong internal controls and conducting regular audits to ensure compliance and transparency.

4. A responsible approach to banking increases customer loyalty and retention.

5. A responsible approach to corporate governance is important for ensuring the long-term sustainability and growth of the bank

PAPER NAME

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