

# **CORPORATE GOVERNANCE PRACTICES AND CAPITAL STRUCTURE OF NEPALESE COMMERCIAL BANKS**

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fulfilment of the requirements for the Degree of Masters of Business Studies

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## **Certification of Authorship**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “Corporate Governance Practices and Capital Structure of Nepalese Commercial Banks”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

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

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## Report of Research Committee

Ms. Sabita Devkotahas defended research proposal entitled “Corporate Governance Practices and Capital Structure of Nepalese Commercial Banks” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per and submit the thesis for evaluation.

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## **Abbreviations**

ADBL:	Agricultural Development Bank Limited
BS:	Board Size
CB:	Commercial Banks
CEOD:	CEO Duality
EBL:	Everest Bank Limited
FS:	Firm Size
Ltd:	Limited
NABIL:	Nabil Bank Limited
NBL:	Nepal Bank Limited
NRB:	Nepal Rastra Bank
OD:	Outside Directors
RBB:	Rastriya Banijaya Bank Limited
ROA:	Return on Total Assets
SCB:	Standard Chartered Bank Nepal Limited
SD:	Standard Deviation
SPSS:	Statistical Package for Social Science
TU:	Tribhuvan University

## **Abstract**

This study investigates the relationship between corporate governance and leverage in Nepalese commercial banks, utilizing bivariate Pearson correlation coefficients and regression models to analyze the impact of governance factors on financial decision-making processes. Drawing from existing finance theories, the research examines various governance variables, including board size, CEO duality, presence of outside directors, bank size, and profitability. Findings suggest a diverse landscape of governance structures within the banking sector, with CEO duality emerging as a significant predictor positively associated with leverage. However, other governance factors such as board size and profitability do not demonstrate statistically significant relationships with leverage, highlighting potential nuances in the relationship. The study underscores the importance of further research to comprehend the complexities of capital structure decisions in Nepalese commercial banks and emphasizes the need for effective governance practices to promote transparency and accountability in the banking sector. These findings offer valuable insights for policymakers and industry stakeholders seeking to enhance governance frameworks and foster financial resilience in Nepal's banking industry.

*Keywords: Capital structure, corporate governance, profitability*



# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Corporate governance encompasses a system of laws and principles that oversee the direction and control of corporations, focusing on internal and external structures to monitor management and director actions and mitigate agency risks (LaPorta, 1999). This concept gained prominence following the collapse of numerous banks during and after the 2008 global financial crisis, sparking discussions on its effectiveness, even in advanced market economies (Rose & Mejer, 2003). The collapse of 80 American banks between 2007 and 2009 underscores the critical importance of robust corporate governance practices (Shleifer & Vishney, 1997). Corporate governance mechanisms allocate rights and responsibilities among various stakeholders, including the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders (LaPorta, 1999). It is essential for protecting shareholder rights, enhancing disclosure and transparency, and ensuring the efficient functioning of the board (Shleifer & Vishney, 1997).

The significance of corporate governance is particularly pronounced in the banking sector, given its crucial role as a financial intermediary in any economy, especially in developing countries (LaPorta, 1999). Poor governance in banks can erode market confidence, leading to liquidity crises and posing systemic risks to the economy (Low, 2003). Corporate governance reforms aim to enhance transparency and trust among stakeholders within the governance framework (Rezaee, 2009).

Corporate governance, therefore, encompasses a combination of policies and best practices adopted by corporations to achieve their objectives in relation to stakeholders (Oman, 2003). It involves a set of processes, cultural norms, policies, laws, and institutional values that affect a corporation's direction, administration, and control (Low, 2003). The ultimate goal of corporate governance reforms is to enhance transparency, protect shareholders' rights, and provide an efficient legal and regulatory framework (Shleifer & Vishney, 1997).

Corporate governance is a critical aspect of corporate management, especially in the banking sector, as it ensures transparency, protects stakeholder interests, and

maintains market confidence (Rezaee, 2009). Its importance has been underscored by the global financial crisis and the subsequent focus on strengthening governance practices to prevent future crises (Shleifer & Vishney, 1997). Through effective governance mechanisms, corporations can mitigate risks, enhance transparency, and foster trust among stakeholders, ultimately contributing to long-term sustainability and success (Low, 2003).

Capital structure refers to the mix of debt and equity financing that a company utilizes to fund its operations and investments (Myers, 1984). It is a crucial aspect of corporate finance, as it influences the risk profile, cost of capital, and overall financial performance of a firm (Modigliani & Miller, 1958). Effective corporate governance plays a significant role in shaping a company's capital structure decisions by ensuring transparency, accountability, and prudent financial management (LaPorta et al., 1997). Strong corporate governance practices enhance investor confidence, reduce agency costs, and facilitate access to capital markets, enabling firms to optimize their capital structure to maximize shareholder value (Shleifer & Vishny, 1997). Moreover, governance mechanisms such as board oversight and management incentives can influence the choice between debt and equity financing, as well as the level of leverage employed by a company (Jensen & Meckling, 1976).

The focus of this study is to examine the relationship between corporate governance practices and capital structure decisions in the context of commercial banks in Nepal. Nepal's banking sector is undergoing significant transformation and faces challenges related to governance, risk management, and financial stability (Thapa et al., 2017). By investigating how corporate governance mechanisms impact capital structure choices in Nepalese banks, this study aims to provide insights into the factors influencing financing decisions and risk management strategies in the country's financial sector. Specifically, the study will analyze the role of board composition, managerial incentives, and regulatory oversight in shaping capital structure dynamics, with implications for enhancing governance practices and promoting financial stability in Nepal's banking industry. Through empirical analysis and policy recommendations, this research seeks to contribute to the ongoing efforts to strengthen corporate governance frameworks and improve the resilience of Nepal's banking sector to external shocks and internal challenges.

## **12 Problem Statement**

Corporate governance encompasses the rules, regulations, processes, and laws that dictate the operation, regulation, and control of businesses. It serves as a framework that, in theory, benefits all stakeholders by ensuring adherence to ethical standards, best practices, and formal laws. Recent high-profile scandals involving abuse of corporate power and alleged criminal activity by corporate officers have brought increased attention to the importance of effective corporate governance. A crucial aspect of robust corporate governance includes provisions for civil or criminal prosecution of individuals engaging in unethical or illegal behavior on behalf of the organization. In the realm of academic inquiry and policy studies, corporate governance has become a topic of growing interest (Alghadi et al., 2022).

In the context of Nepal, where the securities market is undergoing development and transitioning from bank-centric to market-based corporate finance, the country is experiencing a period of institutional and governance reform. According to corporate governance policies for banks, the enactment of legislation aims to facilitate balanced risk-taking, enhance business prudence, and foster prosperity and corporate accountability. Ultimately, the goal is to achieve long-term shareholder value and maximize the interests of all stakeholders.

Furthermore, the unique institutional and governance landscape of Nepal poses challenges and opportunities that necessitate tailored research. The country's financial sector is undergoing institutional reforms, and commercial banks play a pivotal role in this transformation. Understanding how corporate governance mechanisms, such as board composition, ownership structure, and regulatory compliance, interact with capital structure dynamics in Nepalese commercial banks is crucial for informing policy decisions and enhancing financial stability.

Moreover, the absence of comprehensive studies addressing this issue leaves policymakers, regulators, and industry practitioners without evidence-based insights to formulate effective governance policies and strategies. As Nepal aims to strengthen its financial sector and attract investment, robust corporate governance practices are essential for building investor confidence and mitigating systemic risks.

The studies reviewed offer valuable insights into the relationship between corporate governance and capital structure decisions across different contexts. Key findings

highlight the significance of various corporate governance mechanisms and variables in influencing capital structure choices and firm performance. Specifically, variables such as board size, board independence, ownership concentration, managerial ownership, institutional ownership, and audit reputation, as identified in studies by Lestari et al. (2024), Alghadi et al. (2022), and Ertugrul (2023), emerge as important determinants of capital structure decisions. Board composition, including the presence of independent commissioners and diverse gender representation, as observed in studies by Bawuah (2024) and Amin et al. (2022), plays a crucial role in shaping capital structure dynamics. Moreover, the studies emphasize the nature of these relationships, with factors such as firm age, industry, and country-specific governance practices moderating the impact of corporate governance on capital structure decisions, as highlighted by Memom et al. (2019) and Ezeani et al. (2022). Additionally, the findings underscore the importance of considering firm-specific characteristics, such as size, profitability, and liquidity, in understanding the interplay between corporate governance and capital structure, as discussed in studies by Zhou et al. (2021) and Mandiri et al. (2023). The research offers valuable insights for policymakers, practitioners, and researchers aiming to optimize corporate governance practices and enhance firm performance.

The studies reviewed shed light on the intricate relationship between corporate governance and capital structure decisions across various contexts. However, despite the extensive research conducted, several key gaps and challenges persist in understanding this relationship comprehensively. While the studies provide insights into the impact of corporate governance on capital structure decisions, there is limited exploration of the mechanisms through which governance practices influence financial policies. Future research should delve deeper into the underlying mechanisms and channels through which governance variables affect capital structure decisions, thereby contributing to a more nuanced understanding of this relationship. So, the following research questions are raised:

- What is the current corporate governance practice in Nepalese commercial banks?
- What is relationship between board size, CEO duality, outside directors, size of the firm, profitability and leverage of Nepalese commercial banks?

- What is the effect of board size, CEO duality, outside directors, size of the firm, profitability on leverage of Nepalese commercial banks?

### **1.3 Objectives of the Study**

The main objective of the study is to examine the relationship between corporate governance and capital structure of commercial banks in Nepal. However, the specific objectives of the study are:

- To assess the current corporate governance practice in Nepalese commercial banks.
- To examine the relationship between board size, CEO duality, outside directors, size of the firm, profitability and leverage of Nepalese commercial banks.
- To analyze the effect of board size, CEO duality, outside directors, size of the firm, profitability on leverage of Nepalese commercial banks.

### **1.4 Rationale of the Study**

The research findings serve as valuable insights for policymakers, offering guidance in establishing regulations that ensure enterprises maintain an optimal capital structure, thereby reducing sensitivity to financial risks. By adhering to these findings, businesses can access more affordable and reliable sources of financing, ultimately bolstering profitability. Precise industry-specific debt limits can be implemented based on these findings, mitigating the risk of financial distress and subsequent loss of investor value. Furthermore, industry practitioners involved in financing decisions benefit from these findings as they provide a crucial reference point for determining and maintaining an optimal financing framework, safeguarding against financial difficulties during crises. This not only enhances the value of owners' assets but also fosters investor confidence in the market. Scholars and academics in the finance discipline can leverage the study's insights for further research, enriching the understanding of corporate governance and capital structure dynamics. Additionally, they may expand upon the study's techniques and findings in various areas, contributing to the advancement of finance research. This research enriches the existing body of knowledge on corporate governance and capital structure within Nepalese commercial banks, offering valuable implications for both academia and industry practitioners.

### **1.5 Limitations of the Study**

In the context of Nepal, data accessibility has always been the major problem for any purpose. So, this study is highly dependent on the response from the respondents.

- The study is limited in six commercial banks of Nepal including three public banks and three private banks.
- The study is limited to ten years of the study period from fiscal year 2013/14 to 2022/23.
- This study also ignores other financial institution such as development banks, finance companies, and co-operative banks and other hydropower companies and insurance companies.
- The data are obtained from the secondary sources. All the findings and analysis of data is based on the annual report of sample commercial banks.
- Out of the numerous affecting factors on capital structure, this study chooses only few factors that have high impact on the capital structure of the commercial banks such as board size, CEO duality, firm size and profitability. Researcher ignore other many factor that affect the capital structure of the commercial banks.

## **CHAPTER II**

### **LITERATURE REVIEW**

This chapter delves into the theoretical underpinnings guiding the research, offering a comprehensive review of past studies on capital structure and corporate governance. It comprises a theoretical overview, an empirical review, and a gap analysis, thereby providing a solid foundation for the current study.

#### **2.1 Theoretical Review**

The theoretical framework of this study draws upon established theories in the fields of finance and corporate governance to understand the relationship between capital structure decisions and corporate governance mechanisms. Key theories that inform this research include the agency theory, pecking order theory, stakeholder theory, market timing theory and managerial entrenchment theory.

##### **2.1.1 Corporate Governance**

Corporate governance has emerged as a focal point of scholarly inquiry and practical implementation in recent years, reflecting its critical role in shaping organizational behavior and outcomes. The definition provided by the Committee on Corporate Governance (CGC) and adopted by the Ministry of Finance, Singapore, elucidates the multifaceted nature of corporate governance, emphasizing its function as the "processes and structure" governing a company's operations (CGC, 2001). This definition underscores the overarching objectives of corporate governance, which include not only enhancing long-term shareholder value but also improving corporate performance and accountability. By acknowledging the interests of various stakeholders beyond shareholders, such as employees, customers, and the broader society, corporate governance aims to foster transparency, integrity, and ethical conduct in organizational decision-making processes (CGC, 2001).

A cornerstone of effective corporate governance is the establishment of robust mechanisms for directing and managing a company's affairs in alignment with its strategic objectives and stakeholder expectations. This entails the formulation of clear governance structures, policies, and procedures designed to facilitate prudent

decision-making, risk management, and performance evaluation (CGC, 2001). Key components of corporate governance frameworks typically include the composition and functions of the board of directors, the role of executive management, the rights and responsibilities of shareholders, and mechanisms for transparency and disclosure (CGC, 2001). By delineating these governance arrangements, companies seek to instill trust and confidence among stakeholders while ensuring the efficient allocation of resources and the pursuit of sustainable value creation (CGC, 2001).

The significance of corporate governance extends beyond its instrumental role in enhancing shareholder value to encompass broader societal and economic implications. Effective corporate governance practices have been shown to correlate positively with organizational performance, financial stability, and long-term sustainability (Adams, Hermalin, & Weisbach, 2010). By promoting accountability, integrity, and ethical behavior at all levels of the organization, corporate governance frameworks contribute to the preservation of investor confidence, the attraction of investment capital, and the maintenance of public trust in business institutions (Adams et al., 2010). Moreover, robust corporate governance mechanisms serve as a bulwark against corporate misconduct, fraud, and malfeasance, thereby safeguarding the interests of stakeholders and the broader economy (Adams et al., 2010).

The evolution of corporate governance practices has been shaped by a myriad of factors, including changes in regulatory environments, shifts in market dynamics, and advancements in corporate governance theory and best practices. Organizations operating in diverse industries and geographic regions have grappled with unique governance challenges and opportunities, leading to a proliferation of governance frameworks tailored to specific contexts and needs (Tricker, 2012). From the advent of shareholder activism to the rise of environmental, social, and governance (ESG) considerations, corporate governance continues to evolve in response to evolving stakeholder expectations and societal demands for greater corporate accountability and responsibility (Tricker, 2012).

Corporate governance stands as a cornerstone of modern business practice, embodying the principles of transparency, accountability, and stakeholder engagement. By establishing frameworks for effective decision-making, risk management, and performance oversight, corporate governance contributes to

organizational resilience, sustainability, and value creation. As companies navigate an increasingly complex and interconnected global business landscape, the role of corporate governance in fostering trust, integrity, and responsible business conduct remains paramount, underscoring the ongoing importance of advancing governance practices that serve the interests of all stakeholders.

In the context of Nepal, the assessment of corporate governance practices in commercial banks provides valuable insights into the prevailing governance landscape and its implications for capital structure decisions. The Securities Board of Nepal (SEBO) conducted a comprehensive study to evaluate corporate governance practices across various dimensions, including board composition, decision-making processes, risk management, and financial reporting (SEBON, 2013). This survey shed light on the strengths and weaknesses of governance frameworks within Nepalese banks, informing regulatory interventions and industry best practices. By examining the alignment between governance structures and capital structure outcomes, policymakers and stakeholders can better understand the drivers of financial performance and resilience in Nepal's banking sector, thereby facilitating targeted interventions to enhance governance effectiveness and financial stability.

### **2.1.2 Capital Structure**

Capital structure, a cornerstone of financial management, has attracted significant scholarly attention owing to its pivotal role in shaping a firm's financing strategy and risk profile. Defined as the makeup of a company's financial resources, capital structure delineates the blend of debt and equity employed to fund its activities and investments (Myers, 1984). This amalgamation of financial instruments reflects the fundamental approach adopted by a firm to source capital, balancing the benefits of debt tax shields against the costs of financial distress and agency conflicts (Myers, 1984). The debt-to-assets ratio, a widely used metric, provides a snapshot of a firm's capital structure by quantifying the proportion of debt relative to total assets. This ratio serves as a key indicator of a company's reliance on debt financing, offering insights into its financial risk and leverage profile. Capital structure decisions wield profound implications for various facets of corporate finance, including firm valuation, cost of capital, and financial resilience. By optimizing the mix of debt and equity, firms strive to maximize shareholder value while safeguarding against excessive risk exposure (Modigliani & Miller, 1958).

Capital structure decisions are intricately linked to firm value and financial performance, making them a focal point of inquiry for both researchers and practitioners in the field of finance. The seminal work of Modigliani and Miller (1958) laid the foundation for modern capital structure theory by establishing the irrelevance of capital structure in a perfect market environment, where financing decisions have no bearing on firm value. However, subsequent research has nuanced this perspective, acknowledging the real-world frictions and imperfections that shape capital structure dynamics (Myers, 1984). Scholars have explored various factors influencing capital structure choices, ranging from firm-specific attributes such as profitability and growth prospects to external factors like market conditions and regulatory constraints (Myers, 1984). Additionally, the role of corporate governance in shaping capital structure decisions has garnered considerable attention, with studies investigating the impact of board composition, ownership structure, and governance mechanisms on firms' financing choices (Demirgüç-Kunt & Huizinga, 2004).

The interplay between capital structure and firm value lies at the heart of financial management theory, with researchers striving to unravel the complex relationships governing these phenomena. Empirical studies have sought to empirically validate theoretical models and examine the determinants and consequences of capital structure decisions across diverse settings and industries. By employing advanced econometric techniques and longitudinal data analysis, researchers have elucidated the drivers of capital structure variation and their implications for firm performance (Modigliani & Miller, 1958). Moreover, the evolution of capital structure theories has spurred ongoing debates and controversies within the academic community, fueling a continuous quest for deeper insights and empirical evidence (Myers, 1984).

In practical terms, capital structure decisions exert a tangible impact on firms' financial health, strategic flexibility, and competitive positioning in the marketplace. Effective capital structure management entails a delicate balancing act, weighing the benefits of debt financing, such as tax shields and financial leverage, against the associated costs, including interest expenses and bankruptcy risk (Modigliani & Miller, 1958). By aligning capital structure choices with strategic objectives and market conditions, firms can optimize their capital allocation, enhance shareholder value, and mitigate financial risks. Furthermore, capital structure decisions play a

pivotal role in shaping firms' access to capital markets, influencing their ability to raise funds and pursue growth opportunities (Demirgüç-Kunt & Huizinga, 2004).

Capital structure stands as a fundamental pillar of financial management, embodying the intricate interplay between debt and equity financing in corporate decision-making. With far-reaching implications for firm value, financial stability, and strategic positioning, capital structure decisions occupy a central role in both academic research and practical finance. By delving into the determinants and consequences of capital structure choices, scholars and practitioners seek to unlock the key drivers of corporate financing strategies and chart a course towards sustainable value creation and long-term prosperity.

### **2.1.3 Corporate Governance and Capital Structure in Commercial Banks**

In the realm of commercial banking, the intricate relationship between corporate governance mechanisms and capital structure decisions holds significant implications due to the distinctive regulatory framework and systemic importance of these institutions. Corporate governance practices within banks, comprising elements such as board composition, transparency, risk management, and stakeholder engagement, wield substantial influence over capital structure dynamics (Berger et al., 1997). These governance mechanisms serve as critical safeguards to ensure prudent decision-making, effective risk oversight, and alignment with regulatory requirements, thereby shaping banks' financing choices and risk profiles (Berger et al., 1997). Robust governance structures can bolster investor confidence, reduce funding costs, and mitigate agency conflicts, thereby exerting a tangible impact on banks' leverage levels and strategic capital deployment (Aebi et al., 2012).

Conversely, deficiencies in corporate governance practices may expose commercial banks to a range of risks, potentially leading to suboptimal capital structures and heightened vulnerability to financial shocks (Demirgüç-Kunt & Huizinga, 2004). Weak governance mechanisms can undermine transparency, accountability, and risk management effectiveness, eroding investor trust and exacerbating agency problems within banks (Demirgüç-Kunt & Huizinga, 2004). Consequently, banks may resort to excessive leverage or imprudent risk-taking behaviors, amplifying systemic risks and jeopardizing financial stability (Demirgüç-Kunt & Huizinga, 2004). Therefore, comprehending the intricate interplay between corporate governance and capital

structure decisions is imperative for safeguarding the stability and resilience of the banking sector, as well as fostering investor protection and sustainable growth.

In the context of commercial banking, regulatory oversight plays a pivotal role in shaping corporate governance practices and capital structure dynamics (Aebi et al., 2012). Regulators impose stringent governance standards and capital adequacy requirements to mitigate systemic risks, enhance market discipline, and safeguard depositor interests (Aebi et al., 2012). Moreover, regulatory interventions, such as stress testing and supervisory assessments, aim to assess banks' governance effectiveness and resilience to adverse scenarios, thereby promoting sound risk management practices and capital allocation decisions (Aebi et al., 2012).

Furthermore, the unique nature of banking operations, characterized by asymmetric information, interconnectedness, and reliance on public trust, underscores the importance of robust governance frameworks in mitigating moral hazard and maintaining financial integrity (Demirgüç-Kunt & Huizinga, 2004). Effective governance mechanisms facilitate the alignment of managerial incentives with shareholder interests, promote transparency in financial reporting, and enhance the credibility of banks' risk management practices (Demirgüç-Kunt & Huizinga, 2004). By fostering a culture of accountability and ethical conduct, banks can instill confidence among stakeholders, enhance market discipline, and optimize their capital structure decisions in line with long-term value creation objectives (Demirgüç-Kunt & Huizinga, 2004).

The nexus between corporate governance and capital structure decisions in commercial banks underscores the pivotal role of governance mechanisms in shaping banks' risk profiles, financial resilience, and stakeholder confidence. By fostering transparency, accountability, and effective risk management practices, robust governance frameworks can enhance investor protection, promote financial stability, and support sustainable growth in the banking sector. As regulatory requirements evolve and market dynamics shift, banks must remain vigilant in upholding strong governance standards to navigate challenges effectively and capitalize on opportunities for value creation and resilience.

### **2.1.1 Agency Theory**

Agency theory, developed by Jensen and Meckling (1976), is fundamental in understanding the relationship between principals (shareholders) and agents (management) within corporations. It posits that conflicts of interest arise due to the separation of ownership and control, leading to agency costs. Managers, acting as agents, may pursue personal goals at the expense of shareholders, the principal owners. This misalignment of interests can result in adverse outcomes such as excessive risk-taking, managerial entrenchment, and value destruction. Scholars have extensively examined agency problems in corporate governance, particularly in commercial banks where the agency relationship is pronounced due to the complex nature of banking operations and the significant reliance on delegated decision-making.

Within commercial banks, agency issues manifest in various forms, including risk-taking behavior, executive compensation structures, and board independence. Researchers have investigated how governance mechanisms, such as board composition and managerial incentives, influence managerial behavior and performance. Berger et al. (1997) found that banks with independent boards and performance-based executive compensation tend to exhibit lower agency costs and better financial performance. Similarly, studies by Fahlenbrach and Stulz (2011) and Bebchuk et al. (2009) highlighted the importance of board oversight and shareholder activism in mitigating agency problems in banking.

Additionally, agency theory provides insights into capital structure decisions in commercial banks. Managers may choose capital structures that maximize their own utility rather than shareholder value, leading to suboptimal financing choices. Empirical research by Jensen (1986) and Denis and Mihov (2003) suggests that agency costs influence bank leverage decisions, with higher levels of debt associated with increased agency conflicts. Effective governance mechanisms, such as board monitoring and shareholder activism, can mitigate agency problems and lead to optimal capital structures that balance risk and return in commercial banks.

Agency theory offers a framework for understanding the complexities of corporate governance and capital structure in commercial banks. By identifying and addressing agency conflicts, banks can enhance shareholder value and improve their overall financial performance. Continued research in this area is essential for developing

effective governance practices that align managerial incentives with shareholder interests and promote sustainable value creation in banking institutions.

### **2.1.2 Pecking Order Theory**

Pecking Order Theory, proposed by Myers and Majluf (1984), provides insights into the financing decisions of firms by suggesting a hierarchy of preferred sources of financing. According to this theory, firms have a natural inclination to prefer internal financing, followed by debt, and finally equity issuance. The theory is rooted in information asymmetry, where managers possess better information about the firm's prospects than external investors. As a result, firms tend to avoid external financing, particularly equity issuance, to prevent adverse selection costs.

In the context of commercial banks, pecking order theory offers valuable insights into how banks choose their capital structure. Banks, facing regulatory constraints and information asymmetry, prioritize internal capital generation to maintain financial flexibility and signal financial health to external stakeholders. Empirical studies by Myers (1984) and Rajan and Zingales (1995) support this notion, showing that banks prefer retained earnings as a source of funds due to the lower information asymmetry costs associated with internal financing.

Furthermore, pecking order theory explains why banks may exhibit different financing behaviors compared to non-financial firms. Commercial banks, operating in a highly regulated environment and subject to stringent capital requirements, may face greater challenges in accessing external financing. As such, banks rely heavily on retained earnings and deposit funding to meet their capital needs, while minimizing reliance on costly external debt or equity issuance (Rajan & Zingales, 1995).

Pecking order theory provides valuable insights into the financing decisions of commercial banks, highlighting the importance of internal financing and the impact of information asymmetry on capital structure choices. By understanding the preferences and constraints faced by banks in raising capital, policymakers and practitioners can develop strategies to enhance bank stability and resilience in the face of financial shocks. Continued research in this area is crucial for advancing our understanding of capital structure dynamics in banking and informing policy interventions to promote financial stability.

### **2.1.3 Stakeholder Theory**

Stakeholder theory, originally proposed by Freeman (1984), posits that firms should consider the interests of all stakeholders, including shareholders, employees, customers, suppliers, and the community, in their decision-making processes. Unlike traditional shareholder-centric approaches, Stakeholder Theory emphasizes the broader societal impact of corporate actions and advocates for responsible and sustainable business practices. In the context of commercial banks, Stakeholder Theory offers valuable insights into how banks can balance the interests of various stakeholders while maximizing long-term value creation.

Within commercial banks, stakeholders include depositors, borrowers, regulators, employees, and the broader community. Stakeholder Theory suggests that banks should adopt governance practices that prioritize stakeholder interests and promote ethical and socially responsible behavior. Empirical studies by Freeman and Reed (1983) and Donaldson and Preston (1995) provide support for this perspective, demonstrating that stakeholder-oriented governance practices lead to better financial performance and enhanced reputation for banks.

Furthermore, stakeholder theory highlights the importance of transparency and accountability in corporate governance. Banks that engage with stakeholders, disclose relevant information, and actively manage stakeholder relationships are better positioned to build trust and credibility. Hillman et al. (2007) and Clarkson et al. (2008) suggests that stakeholder engagement enhances bank performance and reduces the likelihood of reputational damage from ethical lapses or misconduct.

Stakeholder theory offers a holistic framework for understanding corporate governance and decision-making in commercial banks. By considering the interests of all stakeholders, banks can build sustainable relationships, mitigate risk, and enhance long-term value creation. Continued research in this area is essential for advancing stakeholder-oriented governance practices and promoting responsible banking behavior in an increasingly interconnected and socially conscious world.

### **2.1.4 Market Timing Theory**

Market timing theory suggests that firms, including commercial banks, may adjust their capital structure in response to market conditions and timing opportunities. According to this theory, firms may issue debt or equity securities when they perceive

market conditions to be favorable, such as during periods of low interest rates or when stock prices are high. In the banking sector, market timing influences capital structure decisions as banks seek to optimize their funding costs and capitalize on favorable market conditions. Banks may issue debt securities during periods of low interest rates to take advantage of cheaper borrowing costs. Conversely, they may refrain from equity issuance during market downturns when stock prices are depressed, as issuing equity at such times may lead to undervaluation and dilution of existing shareholders' wealth (Baker & Wurgler, 2002; Korajczyk & Levy, 2003).

Empirical studies have provided evidence supporting the influence of market timing on capital structure decisions in commercial banks. Baker and Wurgler (2002) found that U.S. banks tend to issue equity when their stock prices are high, consistent with the idea of timing the market to maximize proceeds from equity offerings. Similarly, Korajczyk and Levy (2003) analyzed the capital structure choices of banks in emerging markets and found that these banks adjust their debt levels in response to changes in market conditions, supporting the notion of market timing in capital structure decisions. Market timing theory highlights the importance of considering market dynamics and timing opportunities when analyzing the capital structure of commercial banks.

### **2.1.5 Managerial Entrenchment Theory**

Managerial entrenchment theory suggests that entrenched managers may make capital structure decisions to entrench themselves in their positions, potentially at the expense of shareholder value. In the banking sector, where managerial control can be significant, managers may prefer conservative capital structures to maintain their positions and resist potential takeovers or shareholder activism. Research by Denis and McConnell (2003) provides empirical support for this theory, showing that banks with entrenched managers tend to have higher leverage ratios, indicating a preference for debt financing. Similarly, Masulis et al. (2007) found that entrenched managers in banks are less likely to issue equity, suggesting a reluctance to dilute their control through equity offerings. These findings suggest that managerial entrenchment influences capital structure decisions in commercial banks, with managers prioritizing their own interests over those of shareholders. Thus, managerial entrenchment theory sheds light on the dynamics between managers and shareholders in shaping bank capital structure choices.

## **2.2 Empirical Review**

### **2.2.1 International Context**

Bawuah (2024) investigated the interplay between corporate governance (CG) mechanisms and the nexus between capital structure (CS) and firm performance (FP) across 100 firms in seven Sub-Saharan African countries from 2010 to 2020. Employing a two-step system generalized method of moments estimator, the study extends existing literature and offers fresh insights. The findings indicate that long-term leverage positively affects firm performance measured by return on equity (ROE), while short-term and total leverage are associated with lower performance metrics such as return on assets (ROA), ROE, and Tobin's Q. Moreover, the study reveals that total leverage interacts with CG mechanisms like board independence, gender diversity, board meetings, managerial ownership, and institutional ownership to positively influence firm performance, particularly when boards are diverse and there is higher institutional ownership. However, board size exhibits a negative association between total leverage and firm performance. The study underscores the significant moderator role of CG mechanisms in the CS-FP relationship, while also highlighting the influence of assets tangibility, growth opportunities, financial development, and economic growth on firm performance. The robustness of the results to potential endogeneity issues further strengthens the findings. This study emphasizes the importance of CG mechanisms in shaping the relationship between capital structure decisions and firm performance in Sub-Saharan African countries, offering implications for policy and practice in corporate governance.

Lestari et al. (2024) analyzed the influence of corporate governance on capital structure decisions in non-financial companies listed on the Indonesia Stock Exchange. The study considers variables such as board size, board independence, ownership concentration, audit reputation, management ownership, and institutional ownership as independent variables, while controlling for firm size, liquidity, profitability, and growth. Employing multiple linear regression analysis, the study finds that board size, ownership concentration, firm size, profitability, and growth negatively affect capital structure, whereas independent commissioners, auditor reputation, managerial ownership, and institutional ownership have a positive impact. Interestingly, liquidity does not show any significant influence on capital structure decisions. This study underscores the importance of corporate governance factors in

shaping capital structure choices for companies in the Indonesian market, offering insights for stakeholders and policymakers aiming to enhance corporate governance practices.

Ahmed et al. (2023) investigated the relationship between corporate governance and capital structure, aiming to contribute to the ongoing debate on this topic since the introduction of the concept of corporate governance in the 1970s. Employing panel data from annual reports of 42 non-financial listed firms on the Frankfurt and Oslo stock exchanges spanning from 2017 to 2021, the study utilizes Ordinary Least Square (OLS) regression to analyze the association between various corporate governance indicators and capital structure. The findings reveal that board size (BS) and audit committee size (AUCS) exhibit a positive and significant relationship with capital structure, whereas board meetings (BM) and board independence (BR) with director turnover (DTA) demonstrate a negative and significant association. However, CEO characteristics such as CEO ownership (CEOC) and CEO tenure (CEOT) exhibit mixed results, with CEOC showing a positive but insignificant connection with capital structure. Additionally, control variables such as firm size (FS) and corporate reputation (CR) show varying associations with capital structure. Despite European firms generally exhibiting good corporate governance practices compared to developing countries, the study suggests further improvements in both regions to enhance financial positions. The study advocates for future research to explore other corporate governance indicators affecting capital structure significantly and to compare financial and non-financial firms for a comprehensive understanding of these relationships.

Ertugrul (2023) examined the relationship between corporate governance principles and capital structure in insurance companies, focusing on fairness, transparency, accountability, and responsibility. The study aims to determine how adherence to these principles affects the cost of capital and consequently enhances corporate value. Using financial data from insurance companies listed on Borsa Istanbul from 2014 to 2021, the study employs panel regression analysis to analyze the relationship. The study considers the financial leverage ratio (total debt/total assets) as the dependent variable and the proportion of foreign members, female members, and independent members as independent variables. The findings reveal that the proportions of foreign, independent, and female members positively influence the capital structure, with

foreign members having the most significant impact. This suggests that implementing corporate governance principles, particularly through diverse and independent board compositions, can lead to optimized capital structures in insurance companies, thereby potentially reducing costs and enhancing corporate value.

Mais and Indah (2023) investigated the impact of institutional ownership, managerial ownership, and board size on capital structure, with a focus on firm size as a moderating variable. Conducting their research using data obtained from the website [www.idx.co.id](http://www.idx.co.id), they analyze 23 companies in the real estate sector listed on IDX over the period 2018-2021, totaling four years. Aggregating data from 92 companies using Eviews, the study reveals that managerial ownership and board size positively influence capital structure, while institutional ownership does not exhibit a significant effect. Moreover, firm size moderates the relationship between institutional and managerial ownership in shaping capital structure dynamics. Interestingly, the study finds that firm size does not mitigate the impact of board size on capital structure. Additionally, the number of directors' meetings does not affect capital structure significantly, possibly indicating limitations in governance control within property and real estate companies. This suggests the importance of considering various ownership and governance factors alongside firm size when analyzing capital structure determinants in real estate firms.

Mandiri et al. (2023) focused on the banking sector's compliance with corporate governance policies and its impact on capital structure and corporate performance. With a sample of 23 profit-generating banking companies listed on the Indonesia Stock Exchange during 2015-2019, they employ descriptive analysis and Partial Least Square (PLS) using secondary data. The study reveals several key findings: firstly, corporate governance factors, specifically board size and frequency of board meetings, influence capital structure decisions. Secondly, these corporate governance variables also affect corporate performance, suggesting that the composition and activity of the board of directors play a significant role in shaping both financial structure and operational effectiveness. Thirdly, the study indicates a negative relationship between capital structure, measured by debt-to-equity ratio and capital adequacy ratio, and corporate performance metrics like return on assets, return on equity, and non-performing loans. This highlights the importance of prudent financial management and the potential risks associated with high debt levels for banking

companies. The study suggests avenues for future research to explore additional banking financial ratios and extend the research period beyond five years to strengthen the findings. Overall, the findings underscore the critical role of corporate governance in shaping financial and operational outcomes in the banking sector, with implications for policy and practice in the industry.

Alghadi et al. (2022) analyzed the impact of board of directors' and chief executive officers' (CEO) characteristics on leverage in Jordanian firms listed on the Amman Stock Exchange (ASE) from 2011 to 2019. Using a dataset comprising 783 observations, the study employs a random-effect generalized least square (GLS) regression model for empirical analysis. The findings suggest that managerial ownership, CEO education, and CEO experience positively influence leverage, while board independence and profitability exhibit a negative association with leverage. Interestingly, board independence does not directly affect leverage in Jordan. The study highlights the need for further research on leverage in other nations and emphasizes the importance of developing countries enhancing compliance with international governance standards. This research underscores the significance of board and CEO characteristics in shaping firms' leverage decisions and calls for attention to governance practices to optimize financial strategies in emerging market contexts.

Amin et al. (2022) explored the influence of corporate governance on capital structure, with a focus on the moderating effect of board gender diversity. Drawing on a dataset of 2062 firm-year observations from 226 non-financial firms listed on the Pakistan Stock Exchange (PSX) spanning from 2008 to 2019, the study employs multiple regression analysis to examine the relationships. The findings reveal that larger and independent boards positively impact firm leverage, while CEO duality has a negative effect on this relationship. Additionally, the study highlights that gender diversity contributes to improved corporate governance quality and positively influences firm leverage. Employing Generalized Method of Moments (GMM) estimation for robustness, the results consistently support the main findings. The study underscores the significance of female representation on corporate boards mandated by the Code of Corporate Governance (CCG) regulations in Pakistan and emphasizes the importance of implementing effective corporate governance mechanisms in listed firms to enhance lender confidence. This research provides valuable insights into the

interplay between corporate governance, board diversity, and capital structure decisions in the context of Pakistani firms, with implications for policy and practice regarding board composition and governance standards.

Damina et al. (2022) employed a qualitative approach to investigate the impact of corporate governance on the capital structure of non-financial firms in developing countries spanning from 2011 to 2022. Through a thematic review of evidence from 50 prior studies focusing on the effect of board size on leverage, the study reveals a varied and inconsistent outcome. While 52 percent of the findings indicate a positive relationship between board size and leverage, 32 percent suggest a negative relationship, and 17 percent present mixed results. Moreover, the study highlights the inadequacy of adopting a single theory to fully elucidate the complex relationships between corporate governance and capital structure. Notably, most of the reviewed studies rely on secondary data, prompting the suggestion for future research to explore primary data and alternative methodologies beyond regression or multiple regression analysis. This study underscores the nuanced nature of the relationship between corporate governance and capital structure in developing countries, offering valuable insights for future research directions and methodological considerations in this domain.

Ezeani et al. (2022) delved into the relationship between board characteristics and capital structure dynamics, examining how they influence the speed of adjustment in response to the corporate governance environment. With a dataset comprising 2690 firm-year observations spanning from 2009 to 2018, the study investigates the impact of board attributes on capital structure adjustments. Their findings reveal that firms operating within a stakeholder-oriented corporate governance framework exhibit a faster adjustment of leverage compared to those in a shareholder-oriented environment. Additionally, the study underscores the influence of corporate board characteristics on firms' capital structure dynamics and their speed of adjustment towards target leverage levels. Importantly, the results remain robust across alternative leverage measures and considerations of endogeneity. Ultimately, the study highlights the significance of board composition in mitigating agency conflicts, emphasizing its relevance in both shareholder-oriented and stakeholder-oriented corporate governance settings. This underscores the crucial role of board composition in shaping firms' capital structure decisions, offering valuable insights for corporate

governance practices and policy implications aimed at enhancing financial efficiency and mitigating agency conflicts.

Aris et al. (2021) investigated the influence of corporate governance practices on capital structure decisions among the top 100 companies in the Malaysian capital market from 2012 to 2016. The study aims to analyze the relationship between corporate governance practices, overall corporate governance performance, and capital structure decisions. Data collected from the annual reports of Malaysian listed firms on the Bursa Malaysia Stock Exchange, excluding financial companies, is analyzed using descriptive analysis, correlation analysis, and fixed effects regression models to achieve the research objectives. The major findings indicate that board gender diversity, an independent audit committee, and profitability are negatively correlated with leverage, suggesting that companies with these attributes tend to have lower leverage ratios. Additionally, the study reveals that large firms with high managerial ownership tend to pursue higher debt policies. However, no significant relationship is found between the debt-to-equity ratio and board size or board independence. These findings underscore the importance of specific corporate governance practices in shaping capital structure decisions in Malaysian firms. The implications highlight the need for firms to consider gender diversity, audit committee independence, and profitability in their corporate governance practices to optimize capital structure decisions and enhance financial performance in the Malaysian capital market.

Javid et al. (2021) extended the empirical work on the relationship between corporate governance and capital structure by analyzing the mediating role of the cost of capital in non-financial firms listed on the Pakistan Stock Exchange. Utilizing panel data analysis for the period 2004–2016, the study examines the direct and indirect effects of various corporate governance attributes on firm financing and capital structure decisions. Findings indicate that board size, board composition, CEO/Chair duality, institutional ownership, and managerial ownership have significant direct effects on financing decisions, while also exerting significant indirect effects on capital structure decisions through the mediating role of cost of capital. The study also identifies conventional determinants of capital structure such as firm size, asset structure, profitability, business risk, and growth. Limitations include the exclusion of certain corporate governance mechanisms and the focus solely on the mediating role of cost

of capital. Practical implications suggest valuable guidelines for financial managers and policymakers to optimize corporate governance policies and practices, ultimately influencing capital structure decisions and reducing agency costs. The study's originality lies in its investigation of the mediating role of cost of capital, providing empirical evidence of how corporate governance indirectly impacts capital structure decisions through this mechanism.

Zhou et al. (2021) examined the impact of corporate governance quality on financial leverage in non-financial listed firms in China from 2000 to 2018. Employing panel data analysis, the study examines the relationship between corporate governance quality and financial leverage across different ownership structures, industries, and firm sizes. The empirical results reveal a robust and negative effect of improved corporate governance quality on financial leverage, indicating that firms with better governance tend to have lower levels of leverage. This negative effect is mediated by corporate internal and equity financing. Additionally, the study finds that financial leverage significantly reduces financial performance, especially during economic downturns, but this adverse effect can be mitigated by enhanced corporate governance quality. Overall, the findings highlight the importance of corporate governance in shaping firms' financial leverage decisions and their subsequent performance, especially in challenging economic conditions. The study underscores the potential benefits of improving corporate governance practices for firms to manage their financial leverage effectively and enhance their overall performance.

Driss et al. (2020) examined the impact of board reforms across countries on firm leverage, utilizing them as a natural experiment. Their objective is to examine the effect of governance on firm leverage, specifically focusing on the changes in leverage following board reforms. Employing a robust methodology, the study finds a statistically significant increase in leverage, with an average 1-percentage-point increase overall and a 5-percentage-point increase for firms undergoing substantial board changes. These results hold across various specifications and control for potential confounding events, suggesting a strong association between board reforms and increased leverage. Furthermore, the study reveals that the impact of board reforms on leverage is more pronounced in countries with weak shareholder rights, implying that other shareholder rights can partially compensate for the effects of board reforms. Overall, the findings underscore the importance of corporate

governance mechanisms, particularly board reforms, in shaping firm leverage decisions, with implications for policy formulation and corporate governance practices aimed at enhancing firm financial structure and performance globally.

Uddin et al. (2019) assessed the regulatory impact of corporate governance on leverage decision-making within the context of Bangladesh from 2003 to 2017. Employing appropriate panel methods to address issues of serial correlation, heteroskedasticity, and the cross-sectional nature of manufacturing companies, the researchers investigate the influence of corporate governance attributes such as board size, managerial ownership, and CEO duality on leverage decisions. Additionally, control variables including firm size and profitability are analyzed for their impact on leverage decision-making. The study's major findings reveal that board size, managerial ownership, and CEO duality emerge as dominant factors influencing leverage decision-making in Bangladesh. Furthermore, the results underscore the significant role of control variables such as firm size and profitability in shaping leverage decisions. Importantly, the study substantiates the notion that political and family connections within corporate governance structures play a substantial role in determining leverage decision-making among corporate firms in Bangladesh. These findings highlight the importance of effective corporate governance regulations in shaping the financial decisions of firms in emerging economies like Bangladesh, with implications for policy formulation and corporate governance practices aimed at enhancing firm performance and stability in the region.

Memom et al. (2019) explored the impact of corporate governance on firm leverage while examining the moderating effect of firm age on this relationship, focusing on Chinese listed firms. Employing a sample of Chinese listed firms, the study addresses various issues pertinent to capital structure identified in prior literature. Through their analysis, the researchers reveal novel findings, indicating that CEO duality and board commissions significantly influence leverage levels for NSOEs (non-state-owned enterprises), albeit with diminishing positive effects as the firm ages. Conversely, board size, board independence, and supervisory boards impact leverage levels for SOEs (state-owned enterprises), with the negative effects of board independence and supervisory boards diminishing as the firm matures. These findings underscore the nuanced relationship between corporate governance structures and firm leverage, highlighting the importance of considering firm age as a moderating factor. The

implications suggest that tailoring corporate governance practices to the specific needs and characteristics of firms, particularly regarding CEO duality and board composition, can effectively influence capital structure decisions, thereby enhancing firm performance and stability in the Chinese market.

Jaradat (2015) analyzed the impact of corporate governance variables, including board size, board gender diversity, the presence of outside directors, and CEO duality, on the capital structure of Jordanian firms. The study encompasses all listed firms in Jordan, excluding the financial sector, over the period 2009-2013. Data collected from annual reports of sampled firms amount to 645 firm-year observations from 129 companies. Leverage serves as the measure of capital structure, with explanatory variables including board size, gender diversity, outside directorship, and CEO duality, while control variables encompass firm size, profitability, tangibility, and returns on assets. Utilizing multiple regression analysis, the study finds that board size, gender diversity, and the presence of outside directors are positively associated with leverage, while CEO duality does not exhibit a significant relationship. Moreover, control variables such as managerial ownership, profitability, and return on assets are negatively correlated with leverage, whereas firm size exhibits a positive correlation. These findings underscore the importance of corporate governance structures, particularly board composition, in influencing capital structure decisions among Jordanian firms. The implications of these results highlight the necessity for firms to consider governance practices in shaping their capital structure policies to optimize financial performance.

Waworuntu et al. (2014) investigated the impact of corporate governance on capital structure decisions within Indonesian public listed companies. They employ proxies such as the presence of independent commissioners in the board of commissioners, the expertise of the audit committee, its meeting frequency, the use of Big 4 auditors, ownership concentration, managerial ownership, and CEO tenure to represent corporate governance. Utilizing the debt ratio as a proxy for capital structure, the researchers collect financial data from annual reports of firms listed in the Kompas 100 index during the period of 2007-2011, excluding financial institutions. Employing multiple regression analysis and multicollinearity tests, they find significant associations between certain corporate governance variables and capital structure decisions. Specifically, the presence of independent commissioners and the frequency

of audit committee meetings exhibit negative correlations with the debt ratio, while the presence of financial experts in the audit committee shows a positive correlation. However, other measures of corporate governance do not exhibit significant influences on debt ratio. The study concludes that corporate governance factors, particularly those related to the board of commissioners, impact capital structure decisions in Indonesian listed companies. This underscores the significance of the board of commissioners in shaping capital structure policies. The implications of these findings highlight the importance of ensuring effective corporate governance practices, particularly within the board of commissioners, to optimize capital structure decisions and enhance firm performance.

Table 1

*Summary of Empirical Review in International Context*

SN	Author(s)	Objective	Methodologies	Major Findings
1	Bawuah (2024)	Examine the moderating role of corporate governance mechanisms in the relationship between capital structure and firm performance in Sub-Saharan African countries.	Two-step system generalized methods of moments estimator	Total leverage complements certain CG mechanisms to induce positive effects on firm performance.
2	Lestari et al. (2024)	Investigate how corporate governance affects the capital structure of non-financial companies listed on the Indonesia	Multiple linear regression analysis	Board size, ownership concentration, reputation, managerial and institutional

		Stock Exchange.		ownership, positively impact capital structure. Firm size and liquidity have no significant impact.
3	Ahmed et al. (2023)	Investigate the association between corporate governance and capital structure in European firms.	Panel data analysis (OLS regression model)	Board size and audit committee size positively related to capital structure. CEO characteristics show mixed results.
4	Ertugrul (2023)	Examine the relationship between corporate governance of insurance companies and their capital structures.	Panel regression analysis	Proportion of foreign, independent, and female members positively affect capital structure.
5	Mais and Indah (2023)	Explore the effects of institutional ownership, managerial ownership, and board size on capital structure in Indonesian real estate companies.	Descriptive analysis, Partial Least Square (PLS)	Board size and managerial ownership positively impact capital structure. Firm size moderates the relationship between ownership and capital structure.
6	Mandiri et al. (2023)	Analyze the effect of corporate governance on capital structure and performance in Indonesian banking	Descriptive analysis, Partial Least Square (PLS)	Board size, board meetings, and ownership concentration affect capital structure.

		companies.		High capital adequacy ratio negatively impacts performance.
7	Alghadi et al. (2022)	Examine the effect of board of directors' and CEO characteristics on leverage in Jordanian firms.	Random-effect GLS regression model	Managerial ownership, CEO education, and experience positively influence leverage. Board independence and profitability negatively associated with leverage.
8	Amin et al. (2022)	Investigate the effect of corporate governance on capital structure and the moderating impact of board gender diversity in Pakistani firms.	Multiple regression analysis, Generalized Method of Moments estimation	Larger and independent board positively affect firm leverage. Gender diversity positively impacts corporate governance quality and firm's leverage.
9	Damina et al. (2022)	Examine the effect of corporate governance on the capital structure of non-financial firms in developing countries.	Qualitative analysis	Inconsistent outcomes regarding the relationship between board size and leverage. Advocates for future studies to explore different methodologies.
10	Ezeani et al. (2022)	Investigate the impact of board characteristics	Panel data analysis	Firms in stakeholder-oriented corporate

	on capital structure dynamics and the speed of adjustment in firms.		governance environments adjust leverage faster. Corporate board characteristics influence capital structure.
11 Aris et al. (2021)	Investigate the influence of corporate governance practices on capital structure decisions in Malaysian firms.	Descriptive analysis, correlation analysis, fixed effects regression model	Board gender, independence audit committee, and profitability negatively associated with leverage. Large firm size with high managerial ownership pursue high debt policy.
12 Javid et al. (2021)	Analyze the mediating role of cost of capital in the relationship between corporate governance and capital structure in Pakistani firms.	Panel data analysis	Board size, composition, CEO/Chair duality, institutional ownership, and managerial ownership have significant direct and indirect effects on capital structure.
13 Zhou et al. (2021)	Explore how corporate governance quality affects financial leverage in Chinese non-financial listed firms.	Panel data analysis	Improved corporate governance quality negatively affects financial leverage, mediated by corporate internal

- and equity financing.
- 14 Driss et al. (2020) Investigate the effect of governance on firm leverage using board reforms across countries as a natural experiment. Statistical analysis
- Board reforms associated with a significant increase in leverage, especially in weak shareholder rights countries.
- 15 Memom et al. (2019) Analyze the influence of corporate governance on firm leverage in Chinese listed firms and investigate the moderating effect of firm age. Multiple regression analysis
- CEO duality and board commissions have a significant role in determining leverage levels for NSOEs. Board size, board independence, and supervisory boards influence leverage levels for SOEs.
- 16 Uddin et al. (2019) Examine the regulation of corporate governance on leverage structure decision-making in Bangladesh. Panel methods
- Board size, managerial ownership, and duality are dominant factors for leverage decision-making. Firm size and profitability also influential.
- 17 Jaradat (2015) Investigate the impact of corporate governance variables on capital structure in Jordanian Multiple regression analysis
- Board size, board diversity, and outside director positively related to

	firms.		leverage.	CEO
			duality	has no
			significant	
			relationship	with
			leverage.	
18	Waworuntu et al. (2014)	To examine the effect of corporate governance on capital structure decision in Indonesian public listed companies.	Multiple regression analysis, multicollinearity test	Presence of independent commissioners and audit committee meeting frequency negatively associated with debt ratio. Financial experts in audit committee positively associated with debt ratio.

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### 2.2.2 National Context

Dangol and Shrestha (2024) examined the influence of corporate governance practices on the financial performance of Nepalese commercial banks in the Kathmandu Valley, focusing on 419 top-level employees from 27 "A" grade banks. The study aims to examine how corporate governance factors such as policies, disclosure practices, board size, income diversity, and ethnic diversity impact financial performance indicators like Return on Assets (ROA) and Return on Equity (ROE). Utilizing primary data collected from bank employees and analyzed through SPSS with descriptive, correlation, and regression analyses, the findings reveal that regular board evaluations positively affect financial performance. Transparency in performance information is more strongly correlated with ROE ( $R=0.183$ ) than ROA ( $R=0.060$ ), indicating that ROE is more sensitive to information disparities. The study also finds that larger board sizes negatively impact financial performance, low-income diversity positively affects it, while board ethnic diversity has a negative and statistically significant influence.

Khanal (2023) examined the relationship between corporate governance structures and the performance of banks, emphasizing the role of board and audit committee

mechanisms. Utilizing primary data collected via questionnaires from bank employees and analyzed using descriptive statistics, correlation, and regression analyses, the study examines the impact of governance variables board size, board independence, audit independence, audit activity, and CEO duality on performance measures such as Return on Equity (ROE) and Return on Assets (ROA). The findings reveal that board size, CEO duality, and corporate governance mechanisms significantly enhance bank performance, with board independence, CEO duality, and audit committee independence showing a particularly positive influence. The study concludes that strengthening these aspects of corporate governance can improve individual bank performance and contribute to the overall stability of the banking system. The study recommends that banks adopt robust corporate governance practices to boost market confidence and attract additional capital through improved disclosure and transparency.

Goet (2022) analyzed the impact of various bank-specific characteristics—board size, firm size, foreign ownership, and credit-to-deposit ratio—on the financial performance of listed commercial banks in Nepal, using data from 7 out of 27 listed banks, comprising 70 observations. Employing a correlational and causal research methodology, the study examines how these factors influence Return on Equity (ROE). The findings reveal significant relationships between each of the examined factors and the financial performance of the banks. Specifically, larger board size, firm size, foreign ownership, and higher credit-to-deposit ratios are all found to significantly enhance financial success. The study concludes that these bank-specific characteristics play a crucial role in determining financial performance, suggesting that Nepalese banks should strategically manage these aspects to improve their financial outcomes.

Pokharel (2021) analyzed the impact of managerial entrenchment on capital structure decisions within Nepalese firms, addressing whether firm leverage is negatively associated with managerial entrenchment as suggested by earlier studies. The research includes data from top listed companies on NEPSE, pharmaceutical companies registered with the Department of Drug Administration, and other non-listed companies. Using a descriptive and causal comparative research design, the study calculates the managerial entrenchment index via Principal Component Analysis. The findings indicate that managerial entrenchment increases with the percentage of CEO

ownership, demonstrating a positive relationship between CEO equity holding and managerial entrenchment. This suggests that higher equity holdings by CEOs or top executives lead to diminished shareholder rights and increased managerial entrenchment. The study concludes that in the Nepalese context, greater CEO ownership correlates with higher levels of managerial entrenchment.

Baral (2020) examined the corporate governance mechanisms employed by Nepalese commercial banks, focusing on board structure and composition, board committees, director independence, transparency and disclosure, director remuneration, and shareholders' rights. The study uses panel data from 30 commercial banks covering the period from 2012 to 2016, and employs ANOVA tests to compare governance practices among state-owned, joint venture, and domestic banks. The findings indicate that while corporate governance practices in Nepalese financial institutions are generally satisfactory, there is a significant need for improvement, particularly in state-owned and local private banks. The study concludes that enhancing corporate governance standards is crucial for the stability of Nepal's banking sector, recommending increased director independence, improved transparency and disclosure, and stronger shareholders' rights. This suggests that policy reforms focusing on these areas could significantly bolster the stability and governance of the financial system in Nepal.

Neupane (2020) assessed the current corporate governance practices in Nepalese commercial banks, highlighting its critical role in promoting financial stability and economic growth. The study uses a descriptive research design to gather comprehensive information on how corporate governance affects financial performance. The findings suggest that robust corporate governance frameworks enhance accountability, optimize capital use, and attract quality, long-term investors at lower costs, thereby boosting a country's competitiveness and development. The study concludes that globalization, deregulation, and advancements in information technology present both opportunities and challenges, with corporate governance being a decisive factor for organizational success on the global stage. Effective corporate governance provides a competitive edge by ensuring transparency and accountability, thus improving bank performance and building trust among investors, shareholders, and stakeholders. This implies that Nepalese commercial banks must

adhere to sound corporate governance principles to achieve their goals and maintain financial stability.

Sapkota (2020) investigated the relationship between corporate governance and financial performance in Nepalese commercial banks, and assesses the impact of various governance factors on bank performance. The study examines a sample of 9 commercial banks over a 10-year period from 2008/09 to 2017/18, focusing on variables such as leverage ratio, board meetings, board size, and ownership concentration, with performance measured by return on equity (ROE). The findings reveal mixed results: the debt ratio, net interest margin, and total assets positively contribute to bank performance, while board meetings and liquidity negatively impact it. However, board size and ownership concentration show no significant effect on firm performance. The study concludes that while certain aspects of corporate governance positively influence bank performance, others do not, indicating a nuanced relationship. This implies that Nepalese banks should focus on optimizing specific governance practices like leverage management and interest margins to enhance performance.

Bajgain et al. (2018) explored the impact of ownership structure and corporate governance on the capital structure of Nepalese listed companies. Using regression analysis, the study examines various governance and ownership variables, such as board composition, CEO duality, women directors, number of board members, institutional shareholding, managerial shareholding, firm size, firm age, and return on assets, to determine their influence on leverage and long-term debt to total assets. The findings indicate that higher board composition, CEO duality, presence of women directors, number of board members, institutional and managerial shareholding, firm size, firm age, and return on assets positively correlate with increased leverage and long-term debt. Conversely, a larger board size is negatively associated with these capital structure variables. The study concludes that certain aspects of corporate governance, especially board composition and women directors, along with ownership structures, significantly impact the capital structure of Nepalese firms. This suggests that enhancing corporate governance practices could strategically influence capital structure decisions to optimize leverage and debt levels.

Rijal and G.C. (2017) investigated the relationship between corporate board characteristics and the capital structure of Nepalese listed firms using panel data models. The study aims to provide empirical evidence on how corporate governance practices influence financial leverage and agency conflicts. The findings suggest that stronger corporate governance is associated with lower financial leverage and reduced agency conflicts, though statistically significant results are limited to board composition and CEO tenure, while board size and board skill show no significant impact. A positive association is found between the number of executive directors on the board and debt levels, indicating that entrenched CEOs tend to pursue higher debt policies. The study concludes that Nepalese firms use higher debt levels as a means of expropriating minority shareholders rather than as a disciplinary measure. This implies that improving corporate governance, particularly in board composition and CEO tenure, could mitigate excessive debt usage and protect minority shareholders.

Bimali et al. (2016) analyzed the impact of corporate governance on capital structure and profitability in Nepalese commercial banks, using a dataset of 20 banks derived from Nepal Rastra Bank's Banking and Financial Statistics and annual reports. The study employs regression models to analyze how board size, firm size, public ownership, foreign ownership, and firm age influence dependent variables like return on assets (ROA), return on equity (ROE), debt-equity ratio, and debt ratio. The findings reveal that larger board size negatively affects ROA, while public ownership, foreign ownership, firm size, and firm age positively influence ROA. Similarly, foreign ownership, firm size, and firm age boost ROE, whereas board size and public ownership reduce it. Additionally, foreign ownership correlates positively with the debt-equity ratio, while board size, firm size, public ownership, and firm age correlate negatively. Conversely, board size, firm size, and foreign ownership are positively associated with the debt ratio, but public ownership and firm age are negatively associated. The study concludes that corporate governance variables significantly impact banks' financial performance, highlighting that larger foreign ownership enhances profitability and capital structure, while larger board size may hinder profitability. These results suggest that optimizing board size and leveraging foreign ownership can improve bank performance.

## Table 2

### *Summary of Literature Review in National Context*

S.N.	Author(s)	Objective	Methodologies	Major Findings
1	Dangol and Shrestha (2024)	Examine the influence of corporate governance practices on financial performance of Nepalese commercial banks	Utilize primary data from top-level employees of 27 "A" grade banks, analyze using SPSS with descriptive, correlation, and regression analyses	Regular board evaluations positively affect financial performance; Transparency in performance information more strongly correlated with ROE than ROA; Larger board sizes negatively impact financial performance; Low-income diversity positively affects it; Board ethnic diversity has negative and significant influence
2	Khanal (2023)	Investigate the relationship between corporate governance structures and bank performance, focusing on board and audit committee mechanisms	Utilize primary data collected via questionnaires from bank employees, analyze using descriptive statistics, correlation, and regression analyses	Board size, CEO duality, and corporate governance mechanisms significantly enhance bank performance; Board independence, CEO duality, and audit committee independence show particularly positive influence
3	Goet (2022)	Analyze the impact of bank-specific characteristics on financial performance of listed commercial banks in Nepal	Use panel data from 7 listed banks, comprising 70 observations, and employ correlational and causal research methodology	Larger board size, firm size, foreign ownership, and higher credit-to-deposit ratios significantly enhance financial success
4	Pokharel (2021)	Examine the impact of	Utilize data from top listed	Managerial entrenchment increases with CEO ownership,

		managerial entrenchment on capital structure decisions within Nepalese firms	companies on NEPSE, pharmaceutical companies, and other non-listed companies, employ descriptive and causal comparative research design	leading to diminished shareholder rights; Higher CEO equity holdings result in increased managerial entrenchment
5	Baral (2020)	Investigate corporate governance mechanisms employed by Nepalese commercial banks	Use panel data from 30 commercial banks, employ ANOVA tests to compare governance practices	Corporate governance practices generally satisfactory, but significant improvements needed in state-owned and local private banks; Enhancing governance standards crucial for banking sector stability
6	Neupane (2020)	Assess current corporate governance practices in Nepalese commercial banks	Employ descriptive research design to gather comprehensive information	Robust governance frameworks enhance accountability, attract quality investors, and boost competitiveness; Effective governance provides competitive edge and fosters economic growth
7	Sapkota (2020)	Investigate relationship between corporate governance and financial performance in Nepalese commercial banks	Use regression analysis with data from 9 commercial banks over 10-year period	Mixed results: certain governance aspects positively influence performance, others do not; Emphasizes need to optimize specific governance practices for improved performance
8	Bajgain et	Explore impact	Employ regression	Certain governance aspects

	al. (2018)	of ownership structure and corporate governance on capital structure of Nepalese listed companies	analysis with data from various governance and ownership variables	significantly impact capital structure; Emphasizes need to enhance governance practices to optimize leverage and debt levels
9	Rijal and G.C. (2017)	Investigate relationship between corporate board characteristics and capital structure of Nepalese listed firms	Use panel data models with data from various board characteristics	Stronger corporate governance associated with lower financial leverage and reduced agency conflicts; Certain board characteristics show significant impact on capital structure
10	Bimali et al. (2016)	Analyze impact of corporate governance on capital structure and profitability in Nepalese commercial banks	Utilize regression models with data from 20 banks	Corporate governance significantly impacts financial performance; Certain variables positively influence profitability and capital structure

### 2.3 Research Gap

The studies reviewed shed light on the intricate relationship between corporate governance and capital structure decisions across various contexts. However, despite the extensive research conducted, several key gaps and challenges persist in understanding this relationship comprehensively. Firstly, while numerous corporate governance variables have been examined, including board size, independence, ownership concentration, and managerial ownership, there remains a need to explore additional dimensions of governance and their impact on capital structure decisions. Variables such as ratio of outside directors in board committee warrant further investigation. Secondly, while the studies provide valuable insights into the influence

of corporate governance on capital structure, there is a lack of consensus on the optimal governance structures and practices for firms operating in different industries and regions. The diversity of findings across studies underscores the need for context-specific approaches to corporate governance and capital structure. Additionally, methodological considerations such as sample selection, data analysis techniques, and endogeneity issues present challenges in comparing and synthesizing findings across studies. Addressing these methodological concerns can enhance the robustness and generalizability of research findings in this field. Furthermore, the studies predominantly focus on listed firms, thereby neglecting the governance-capital structure dynamics in private firms and small and medium-sized enterprises (SMEs). Exploring these dynamics in non-listed entities is crucial for a comprehensive understanding of the governance-capital structure nexus. Lastly, while the studies provide insights into the impact of corporate governance on capital structure decisions, there is limited exploration of the mechanisms through which governance practices influence financial policies. Future research should delve deeper into the underlying mechanisms and channels through which governance variables affect capital structure decisions, thereby contributing to a more nuanced understanding of this relationship.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

Research methodologies play an important role in guiding the systematic investigation of research questions, providing frameworks for data collection, analysis, and interpretation. A diverse range of methodologies exists within the realm of social sciences, each tailored to specific research objectives and contexts.

#### **3.1 Research Design**

The research design used in this study is both descriptive and causal research methodologies to investigate the relationship between corporate governance variables and capital structure decisions among commercial banks operating in Nepal. Descriptive research involves the systematic description of phenomena, while causal research aims to establish cause-and-effect relationships between variables. In this study, descriptive analysis is employed to characterize the corporate governance structures and capital structure dynamics of Nepalese commercial banks, providing an overview of their governance practices and financial leverage patterns. Concurrently, causal analysis utilizes regression techniques to explore the extent to which corporate governance factors influence capital structure decisions, identifying significant relationships and potential causal pathways between the variables of interest.

#### **3.2 Population and Sample, and Sampling Design**

The population of interest consists of all commercial banks operating in Nepal, totaling 20 commercial banks. From this population, a sample of six commercial banks is selected for inclusion in the study using purposive sampling method. The selection criteria prioritize banks with substantial market presence, diverse ownership structures, and availability of comprehensive financial and governance data. The chosen sample includes banks such as NABIL Bank, Standard Chartered Bank Nepal, Everest Bank Limited, Rastriya Banijya Bank, Nepal Bank Limited, and Agriculture Development Bank Limited. These banks represent a diverse cross-section of the Nepalese banking sector, ensuring variation in governance practices and capital

structure dynamics for analysis. The purposive sampling method was used to select the sample banks for the study from total population.

### **3.3 Nature and Sources of Data**

The data utilized in the study are sourced from publicly available financial reports, annual statements, and corporate governance disclosures of sampled commercial banks. Financial data include balance sheets, income statements, and cash flow statements, providing information on firms' financial positions and performance metrics. Corporate governance data encompass details on board composition, CEO characteristics, ownership structure, and other governance variables. These data are typically sourced from regulatory filings, company websites, and corporate governance databases. Additionally, relevant literature and research articles may serve as secondary sources for theoretical frameworks and variable definitions.

### **3.4 Data Collection Procedures**

Data collection procedures involve systematic retrieval and compilation of financial and governance information from various sources. Initially, a comprehensive search is conducted to identify eligible firms meeting the study criteria. Financial statements and corporate governance reports are then collected from databases, regulatory sources, and company websites. Data extraction involves recording relevant variables, such as board size, CEO duality, bank size, and profitability measures, from the obtained documents. To ensure data accuracy and reliability, multiple data sources may be cross-referenced, and any discrepancies resolved through verification with primary sources or additional inquiries. Once the data collection process is complete, the dataset is prepared for analysis, including data cleaning, coding, and transformation as necessary to facilitate statistical analysis.

### **3.5 Research Framework and Definition of Variables**

The research framework for investigating the relationship between corporate governance and capital structure encompasses several key variables. Capital structure, represented by the debt to assets ratio, serves as the dependent variable, reflecting the financing choices of firms. Independent variables include board size, CEO duality, the ratio of outside directors, bank size, and profitability (measured by return on assets). The framework posits that these corporate governance variables influence firms'

capital structure decisions, with potential implications for financial stability and performance. By examining the interplay between corporate governance mechanisms and capital structure dynamics, the framework aims to provide insights into the governance practices that optimize firms' financing strategies and enhance their financial performance. The research framework of the study is presented in Figure 1.

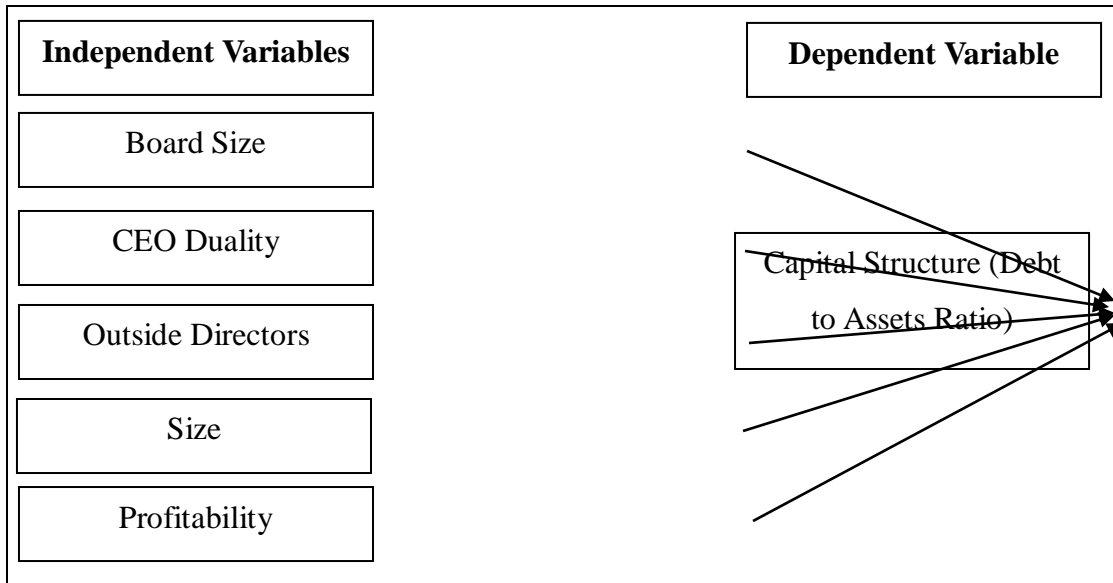


Figure 1 *Research Framework*

Source: *Memom et al. (2019); Lestari et al. (2024)*

### 3.5.1 Capital Structure (Debt to Assets Ratio)

Capital structure refers to the composition of a company's financial resources, particularly the mix of debt and equity used to finance its operations and investments. In this context, debt to assets ratio represents a key measure of capital structure, calculated by dividing a company's total debt by its total assets. This ratio provides insights into the extent to which a firm relies on debt financing relative to its total assets. A higher debt to assets ratio indicates a greater proportion of debt in the company's capital structure, implying higher financial leverage and potentially greater financial risk. Conversely, a lower ratio suggests a lower reliance on debt financing and a higher proportion of equity, indicating a more conservative financial structure. The debt to assets ratio serves as the dependent variable in studies examining the impact of various independent variables, including corporate governance attributes, on firms' financing decisions. (Aris et al., 2021; Javid et al., 2021; Lestari et al., 2024).

### 3.5.2 Board Size

Board size refers to the number of directors serving on a company's board of directors. It is an essential corporate governance variable that reflects the structure and composition of the board overseeing the company's strategic decision-making processes. Larger boards typically encompass a diverse range of expertise and perspectives, potentially enhancing the board's ability to provide effective oversight and guidance to management. In empirical studies investigating the relationship between corporate governance and capital structure, board size serves as an independent variable, hypothesized to influence firms' financing decisions. A larger board size may indicate increased monitoring and oversight capabilities, potentially affecting the firm's capital structure choices. (Ahmed et al., 2023; Mandiri et al., 2023; Bawuah, 2024).

### **3.5.3 CEO Duality**

CEO duality refers to the situation where the Chief Executive Officer (CEO) of a company also serves as the Chairman of the Board of Directors. This governance structure consolidates both executive and oversight roles within a single individual, potentially impacting the effectiveness of corporate governance mechanisms. CEO duality is a significant variable in studies examining corporate governance practices and their influence on various firm outcomes, including capital structure decisions. Empirical research often considers CEO duality as an independent variable hypothesized to affect firms' financing choices. The presence or absence of CEO duality may signal differences in leadership structure and governance dynamics, potentially influencing the firm's capital structure preferences. (Jaradat, 2015; Uddin et al., 2019; Amin et al., 2022).

### **3.5.4 Ratio of Outside Directors**

The ratio of outside directors represents the proportion of independent directors serving on a company's board of directors relative to the total number of directors. Independent directors are individuals who do not have any significant financial or personal ties to the company or its management, ensuring objective oversight and accountability. This variable is crucial in evaluating the independence and effectiveness of a company's board in monitoring management actions and decision-making processes. In empirical studies exploring the relationship between corporate governance and capital structure, the ratio of outside directors serves as an independent variable. A higher proportion of outside directors may enhance the

board's independence and oversight functions, potentially influencing the firm's capital structure decisions. (Waworuntu et al., 2014; Zhou et al., 2021; Bawuah, 2024).

### **3.5.5 Bank Size**

Bank size refers to the scale of operations and financial resources of a bank, typically measured by total assets, deposits, or market capitalization. In the context of corporate governance and capital structure research, bank size serves as an independent variable representing the characteristics of financial institutions involved in providing financing to firms. Larger banks may have greater capacity and willingness to extend credit to corporate borrowers, potentially influencing firms' capital structure decisions. Empirical studies examining the impact of bank size on capital structure often consider it alongside other governance and financial variables to assess its relative importance in shaping firms' financing choices. (Memom et al., 2019; Lestari et al., 2024).

### **3.5.6 Profitability (Return on Assets)**

Profitability, often measured by return on assets (ROA), represents the efficiency with which a company generates profits from its assets. ROA calculates the net income generated by a company relative to its total assets, providing insights into management's ability to utilize resources effectively to generate profits. Profitability is a fundamental financial metric that reflects a company's operational efficiency and financial health. In studies exploring the relationship between corporate governance and capital structure, profitability serves as an independent variable hypothesized to influence firms' financing decisions. Higher profitability levels may signal greater financial stability and capacity to service debt obligations, potentially affecting the firm's capital structure preferences. (Jaradat, 2015; Mandiri et al., 2023; Mais & Indah, 2023).

## **3.6 Method of Analysis**

The analysis employs a combination of descriptive statistics and regression analysis to examine the relationship between corporate governance variables and capital structure

decisions among Nepalese commercial banks. SPSS 25.0 software is used to analyze and interpret the collected data to meet the objectives of the study.

### **3.6.1 Descriptive Statistics**

Descriptive statistics are utilized to provide a summary of key characteristics and distributions of variables within the sample of commercial banks. Measures of central tendency, such as mean, offer insights into the average values of variables such as board size, CEO duality, ratio of outside directors, bank size, profitability, and capital structure indicators. Measures of dispersion, including standard deviation and range, reveal the variability and spread of data around the central values. Frequency distributions illustrate the distribution of categorical variables, such as the presence of CEO duality or independent directors. Descriptive statistics help in understanding the basic features of the data set and provide a foundation for further analysis.

### **3.6.2 Correlation Analysis**

Correlation analysis is utilized to examine the strength and direction of relationships between pairs of variables. Pearson correlation coefficients are calculated to assess the linear association between corporate governance variables (board size, CEO duality, ratio of outside directors) and capital structure indicators (debt to assets ratio). This analysis provides insights into the bivariate associations between individual governance factors and capital structure decisions. Correlation analysis helps identify potential variables that may be significantly correlated with capital structure, guiding subsequent regression analysis.

### **3.6.3 Regression Analysis**

Regression analysis is employed to explore the multivariate relationships between corporate governance variables and capital structure decisions while controlling for other relevant factors. Multiple regression model is constructed, with capital structure indicators (debt to assets ratio) as dependent variables and corporate governance variables (board size, CEO duality, ratio of outside directors) as independent variables. Additional control variables, such as bank size and profitability, may also be included to account for potential confounding effects. Regression coefficients are estimated to quantify the strength and direction of the relationships between independent and dependent variables. Regression analysis enables the identification of significant predictors of capital structure decisions among Nepalese commercial

banks, thereby contributing to a deeper understanding of the role of corporate governance in shaping financial decision-making processes. The regression model used in this study is as follows:

$$CS_{it} = \alpha + \beta_1 BS_{it} + \beta_2 CD_{it} + \beta_3 OUT_{it} + \beta_4 SIZE_{it} + \beta_5 PRO_{it} + \epsilon$$

Where,

CS = Capital Structure measured by Debt to Assets Ratio

$\alpha$  = constant term and

$\beta$  is coefficient of variable

BS = Board size no of Board Members

CEOD = CEO duality Measure 1 if CEO have a dual role otherwise 0

OUTD= Outside director measured by ratio of outside directors in Board members

SIZE= Firm size measure by Natural Log of total assets

PRO= Profitability measured by return on assets

$\epsilon$  = error

## CHAPTER IV

### RESULTS AND DISCUSSION

This section of paper provides a glimpse of impact of corporate governance on leverage of the banks. As mentioned in methodology, various statistical tools like mean, standard deviation and regression analysis have done using SPSS software have been used to measure the impact of corporate governance on leverage of the banks. Analysis is using some related data and analytical tools/techniques mentioned in chapter third. Here the collected data are shown in tabular form for the purpose of simplicity to analyze it according to the objectives of the study.

#### 4.1 Results

The results of the analysis provide valuable insights into the relationship between corporate governance factors and leverage decisions in Nepalese commercial banks. Trend of study variables, descriptive statistics, correlation analysis and regression analysis was done as per the objectives of the study.

##### 4.1.1 Descriptive Statistics

Descriptive statistics play a crucial role in analyzing the variables of interest in this study investigating the determinants of capital structure (CS) in banks. The study utilizes descriptive statistics to summarize and understand the characteristics of each variable, including board size (BS), CEO duality (CD), the presence of outside directors (OUTD), firm size (SIZE), and profitability (PRO). Descriptive statistics i.e., mean, standard deviation, are likely employed to provide insights into the central tendency, of these variables across the sample of banks. This allows researchers to identify any notable patterns, variations, or outliers in the data, aiding in the interpretation and formulation of hypotheses regarding the relationships between these variables and capital structure. Descriptive statistics also assist in assessing the adequacy and reliability of the data, ensuring robustness in subsequent regression analysis. The descriptive statistics is presented in Table 3 for total 60 observations from six sample commercial banks during the ten years of the study period.

Table 3

*Descriptive Statistics*

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Debt to Assets Ratio	60	80.74	106.14	88.1057	3.99363
Board Size	60	5.00	9.00	6.8333	.90510
CEO Duality	60	.00	1.00	.1500	.36008
Outside Directors	60	.00	20.00	13.7232	4.62373
Size	60	24.70	26.90	25.7243	.51147
Return on Assets	60	.50	3.33	1.7763	.64128

Table 3 shows the descriptive statistics which provide a overview of the variables examined in the study. The debt to assets ratio, a key measure of capital structure, exhibits a mean value of 88.11% with a relatively small standard deviation of 3.99%, indicating a moderate level of variation across the sample of 60 banks. Board size ranges from 5 to 9 directors, with an average of 6.83 directors per board. CEO duality, reflecting whether the CEO also serves as the chairperson of the board, is present in 15% of cases on average. The presence of outside directors is notable, with an average of 13.72 directors, suggesting a significant proportion of independent voices on the boards. Firm size, measured as the natural logarithm of total assets, ranges from 24.70 to 26.90, with an average of 25.72, indicating substantial variation in the size of banks within the sample. Return on assets, a measure of profitability, has a mean value of 1.78%, indicating the average earnings generated per unit of total assets. These descriptive statistics provide valuable insights into the characteristics and distribution of variables under consideration, laying the groundwork for further analysis to explore the relationships between these variables and capital structure in the banking sector.

#### **4.1.2 Correlation Analysis**

Correlation analysis is instrumental in examining the relationships between the variables of interest in the study exploring the determinants of capital structure in banks. By calculating correlation coefficients between pairs of variables such as board size (BS), CEO duality (CEOD), the presence of outside directors (OUTD), firm size

(SIZE), profitability (PRO), and capital structure (CS), researchers can assess the strength and direction of these relationships. Correlation analysis can reveal whether there are significant positive or negative correlations between board size and capital structure, indicating the extent to which changes in one variable are associated with changes in the other. Similarly, correlations between other pairs of variables such as CEO duality, the presence of outside directors, firm size, profitability, and capital structure provide insights into their interdependencies and potential influences on capital structure decisions within the banking sector. By uncovering these correlations, researchers can identify key variables that may have a significant impact on capital structure and guide further regression analysis to delve deeper into these relationships and potential causal mechanisms. Table 3 presents the correlation analysis of study variables.

Table 4

*Relationship Analysis*

		CS	BS	CEOD	OUTD	SIZE	PRO
CS	Pearson Correlation	1	-.041	.352**	-.121	.064	-.204
	Sig. (2-tailed)		.755	.006	.359	.628	.117
BS	Pearson Correlation		1	-.130	-.508**	-.156	.277*
	Sig. (2-tailed)			.322	.000	.233	.032
CEOD	Pearson Correlation			1	.159	.267*	-.080
	Sig. (2-tailed)				.226	.039	.545
OUTD	Pearson Correlation				1	.194	-.070
	Sig. (2-tailed)					.138	.594
SIZE	Pearson Correlation					1	-.337**
	Sig. (2-tailed)						.008
PRO	Pearson Correlation						1
	Sig. (2-tailed)						

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

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

Table 4 shows correlation matrix between dependent and independent variables. X0= Capital Structure (Dependent Variable), X1= Board Size, X2= CEO duality, X3= Outside Directors, X4= Size of the Bank, X5= Profitability. The correlation between capital structure and board size was negatively correlated (-0.041) in opposite

direction which is low degree of negative correlation. Negative correlation coefficients indicate an indirect relationship, indicating that as increasing in board size result in the decreased in capital structure of the banks. The p value for board size is 0.755 which is higher than the significant value i.e., 0.05. This result indicates that there is a negative insignificant relationship between board size and capital structure of commercial banks in Nepal.

Similarly, the correlation between capital structure and CEO duality is positively correlate i.e. (0.352) which indicates that the increase the CEO duality will increase the capital structure of the banks. The p value for CEO duality is 0.006 which is lower than the significant value i.e., 0.05. This result indicates that there is a positive significant relationship between CEO duality and capital structure of commercial banks in Nepal. Correlation between capital structure and outside directors was also positively correlate i.e. (-0.121) which the result can consider as outside directors and leverage of the banks are in opposite direction, which means the increasing the outside directors i.e., board independence then the leverage of the banks also increased. The p value for outside directors is 0.359 which is higher than the significant value i.e., 0.05. This result indicates that there is a negative insignificant relationship between outside directors and capital structure of commercial banks in Nepal.

Likewise, capital structure and size of the bank is positively correlated (0.064) with low degree of positive correlation in positive direction. It means it can be considered about size of the bank and capital structure were simultaneously. The p value for size is 0.628 which is higher than the significant value i.e., 0.05. This result indicates that there is a positive insignificant relationship between board size and capital structure of commercial banks in Nepal. Finally, correlation between capital structure and profitability was negatively correlate i.e. (0.204) which the result can consider as profitability and capital structure are in reverse direction. The p value for profitability is 0.117 which is higher than the significant value i.e., 0.05. This result indicates that there is a negative insignificant relationship between board size and capital structure of commercial banks in Nepal.

From the correlation analysis result it is concluded that CEO duality have significant relationship with capital structure of commercial banks while other study variables

i.e., board size, outside directors, size of the bank and profitability does not have any significant relationship with capital structure of commercial banks in Nepal. This result will be further justified by the regression analysis which was interpreted in next part.

#### 4.1.3 Regression Analysis

Regression analysis is employed in this study to quantitatively examine the relationships between the variables and the capital structure (CS) of banks. By fitting the specified regression model, researchers can estimate the coefficients ( $\beta$ ) associated with each independent variable, including board size (BS), CEO duality (CEOD), the presence of outside directors (OUTD), firm size (SIZE), and profitability (PRO). The constant term ( $\alpha$ ) represents the intercept, indicating the expected value of the dependent variable when all independent variables are set to zero. These regression coefficients provide insights into the strength and direction of the relationships between the independent variables and capital structure. Regression analysis allows researchers to statistically test hypotheses about the determinants of capital structure and assess the significance of each variable in explaining variations in capital structure across banks. Table 6, 6 and 7 shows the regression results of the study variables.

Table 5

##### *Model Summary*

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Durbin-Watson
1	.444 <sup>a</sup>	.197	.123	3.74012	1.150

a. Predictors: (Constant), PRO, OUTD, CEOD, SIZE, BS

b. Dependent Variable: CS

Table 5, the predictors in the model explain 0.197 of variations in capital structure showing the strength of a relationship between capital structure and the corporate governance factors. This shows that dependent variable (capital structure), 19.3 percent explained by the independent variables i.e., board size, CEO duality, outside directors, size of the bank and profitability used in this study and rest 80.3 percent are

explained by other variables which were not covered in this study. The adjusted R Square is 0.123 which adjusts the R Square value for the number of predictors in the model. In this result, it suggests that about 12.3% of the variance in the dependent variable can be explained by the independent variables, considering the number of predictors. Durbin Watson value of 1.150 suggests that there may be no serious autocorrelation (correlation of the error terms in the regression model).

Table 6

*Analysis of Variance (ANOVA)*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	185.616	5	37.123	2.654	.032 <sup>b</sup>
	Residual	755.378	54	13.988		
	Total	940.994	59			

a. Dependent Variable: CS

b. Predictors: (Constant), PRO, OUTD, CEOD, SIZE, BS

Table 6 the analysis of variance (ANOVA) table provides additional insights into the regression model's performance in explaining the variance in the dependent variable (CS, capital structure) using the predictors (PRO, OUTD, CEOD, SIZE, BS). It is clear that 60 observations are used in the model and dependent variable is capital structure of the banks and independent variables are corporate governance factors like board size, CEO duality, outside directors, size of the bank and profitability. Also, the f-static is significant at the level of 5 percent which means that the independent variable is able to explain the dependent variable. An F-value of 2.654 suggests that the model is statistically significant. The p-value associated with the F-test. A significance value less than the chosen alpha level (often 0.05) indicates that the model is statistically significant. Here, with a significance value of .032, the model is significant at the 0.05 level.

Table 7

*Regression Coefficients*

Model		Unstandardized		Standardized		Collinearity		
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	108.391	27.760		3.905	.000		

BS	-.236	.651	-.054	-.363	.718	.682	1.467
CEOD	4.229	1.414	.381	2.991	.004	.915	1.093
OUTD	-.180	.125	-.208	-1.440	.156	.712	1.404
SIZE	-.569	1.058	-.073	-.538	.593	.809	1.236
PRO	-1.235	.839	-.198	-1.472	.147	.819	1.221

a. Dependent Variable: CS

Table 7 the regression coefficients table shows a valuable information about the relationship between the predictors (BS, CEOD, OUTD, SIZE, PRO) and the dependent variable capital structure in the regression model. The constant term (intercept) in the model is 108.391. This suggests that when all predictors are zero, the expected value of the dependent variable (CS) is approximately 108.391.

The coefficient for board size is -0.236. This indicates that for a one-unit increase in board size, the capital structure (CS) decreases by 0.236 units. However, the coefficient is not statistically significant ( $p = .718$ ), suggesting that board size may not have a significant impact on capital structure after accounting for other predictors.

CEO duality with a coefficient of 4.229, CEO duality has a positive impact on capital structure. A one-unit increase in CEO duality is associated with an increase of approximately 4.229 units in capital structure. This effect is statistically significant ( $p = .004$ ), indicating that CEO duality plays a significant role in determining the capital structure.

The coefficient for outside directors is -0.180. This suggests that an increase in the number of outside directors leads to a slight decrease in capital structure, but the effect is not statistically significant ( $p = .156$ ). The coefficient for bank size is -0.569. It implies that larger banks tend to have slightly lower capital structure values. However, this relationship is not statistically significant ( $p = .593$ ).

Profitability has a coefficient of -1.235. This indicates that higher profitability is associated with lower capital structure values. However, like some other predictors, the effect of profitability on capital structure is not statistically significant ( $p = .147$ ).

The collinearity statistics (Tolerance and VIF) assess multicollinearity among the predictors. Tolerance values close to 1 and VIF values below 10 generally indicate no significant multicollinearity issues. So, all variables have VIF values less than 10 which indicate there is no multicollinearity issues in the model.

While CEO duality appears to have a statistically significant positive impact on capital structure, the effects of bank structure, outside directors, bank size, and profitability are not statistically significant in this model.

## **4.2 Discussions**

This study aims to examine the corporate governance practices and their relationship with leverage in Nepalese commercial banks. While descriptive statistics provide insights into the factors that are being considered, they also emphasize the moderate range that exists in important indicators such as the ratio of debt to assets, the size of the board, the presence of a dual CEO, and the size of the company. The examination of correlation demonstrates that there are complex links between leverage and corporate governance characteristics. There is a considerable positive linkage between leverage and CEO duality, which is shown by the correlation analysis. On the other hand, other governance variables, such as the size of the board, the presence of outside directors, the size of the business, and profitability, do not display statistically significant associations with leverage, which suggests that leverage has a limited impact in this context. The findings of the regression analysis demonstrate that the presence of a dual CEO has a considerable influence on leverage, whilst the impacts of other governance parameters continue to be small. According to the findings of the research, it is essential to take into account the dynamic relationship that exists between corporate governance procedures and leverage choices in Nepalese commercial banks. The study also reveals that CEO duality is a crucial component that plays a role in determining capital structure decisions.

The alignment of the conclusions of the research with particular outcomes is shown when the findings are compared with consistent empirical investigations. The significant positive correlation between CEO duality and leverage, is consistent with results that Jaradat (2015) made in Jordanian companies that were quite comparable to this study findings, demonstrating that the influence is shared across very dissimilar settings. This consistency highlights the robustness of the influence that CEO duality has on leverage across a variety of scenarios and helps to a fuller understanding of the role that it plays in influencing choices about capital structure. Furthermore, research conducted by Amin et al. (2022) and Alghadi et al. (2022) provides further evidence

that suggests that the qualities of CEOs, notably CEO duality, have a substantial impact on the leverage choices made by companies. The authors Amin et al. (2022) emphasizes the favorable impact that bigger and more independent boards have on firm leverage, so reiterating the significance of board composition in the process of making choices about capital structure. In a similar vein, Alghadi et al. (2022) highlight the significance of CEO ownership and expertise in terms of their ability to influence leverage. This lends more credence to the idea that the attributes of the CEO play a crucial part in the formation of financial strategies. This study contributes to the larger body of literature on corporate governance and capital structure by aligning itself with these consistent results. This increases the knowledge of the influence of CEO-related variables on leverage choices, which is a significant contribution.

The conclusions of the analysis, on the other hand, are not consistent with the findings of certain empirical investigations, especially with respect to the effect of other corporate governance aspects on leverage. The current study suggests that factors such as board size and the presence of outside directors have a limited influence in the context of Nepalese commercial banks, in contrast to the findings of Achchuthan et al. (2013), who discovered that corporate governance practices made significant contributions to the capital structure of manufacturing companies in Sri Lanka. In a similar vein, research conducted by Mandiri et al. (2023) and Ertugrul (2023) sheds light on the important influence that corporate governance elements, such as board size and board meetings, have on choices regarding capital structure in the banking industry. According to Mandiri et al. (2023), the membership of the board of directors has a significant impact in determining the financial structure and operational success of banking firms. On the other hand, Ertugrul (2023) highlights the beneficial effects that adhering to corporate governance principles has on the capital structure of insurance companies. The implications of this paradox highlight the complexity of the dynamics of corporate governance and the context-specific consequences that these dynamics have on financial results. In addition to this, it underscores the need of doing more research in order to investigate these correlations in a comprehensive manner and to shed light on the underlying processes that are responsible for capital structure choices in a variety of scenarios. Therefore, although CEO duality emerges as a key factor in shaping leverage choices in Nepalese commercial banks, the minimal effect of other corporate governance variables emphasizes the necessity for

specialized governance strategies to maximize capital structure decisions. This is because leverage decisions are influenced by a number of factors.

While there are some consistencies in the findings across studies, such as the nuanced relationship between board size and capital structure, there are also notable contradictions, highlighting the complexity of corporate governance dynamics and their impact on capital structure across different contexts. Further research is needed to better understand these relationships and their implications for corporate decision-making and performance.

## **CHAPTER V**

### **SUMMARY AND CONCLUSION**

#### **5.1 Summary**

Commercial banks rely heavily on customer deposits, underscoring the importance of adhering to robust governance standards to maintain profitability and client trust. Effective governance processes are crucial for securing and retaining customer confidence, given the pivotal role of trust in banking relationships. The study suggests that governance practices significantly impact the financial success of commercial organizations and proposes measures to enhance governance effectiveness. Specifically, it recommends minimizing board size to mitigate conflicts and stresses the importance of substantial ownership stakes among directors to ensure their commitment to profitable governance practices. In recent years, corporate governance has emerged as a global concern, garnering considerable attention in the wake of numerous corporate failures. This study aimed to explore the relationship between corporate governance and leverage in Nepalese commercial banks. The primary objective was to analyze the influence of corporate governance factors on bank leverage and investigate the relationships among these variables.

The research employs a mixed-method approach, utilizing both descriptive and causal research methodologies to investigate the relationship between corporate governance variables and capital structure decisions among commercial banks in Nepal. Purposive sampling is used to select a sample of six banks based on market presence, ownership structure, and data availability. Data are collected from publicly available financial reports and corporate governance disclosures, with SPSS 25.0 software employed for analysis. Descriptive statistics are utilized to summarize key variables, while correlation analysis examines relationships between governance factors and capital structure indicators. Regression analysis is then employed to explore multivariate relationships, controlling for relevant factors such as bank size and

profitability. This comprehensive methodological framework allows for a systematic investigation of the complex interplay between governance mechanisms and financial decision-making processes in Nepalese commercial banks.

The findings of the revealed that the predictors in the model collectively explained 19.7% of the variance in capital structure. Specifically, CEO duality emerged as a significant determinant of capital structure, with a coefficient of 4.229 ( $p = 0.004$ ), indicating that a one-unit increase in CEO duality led to an approximate increase of 4.229 units in capital structure. However, board size, outside directors, bank size, and profitability did not exhibit statistically significant relationships with capital structure after controlling for other predictors. The model as a whole was statistically significant ( $F = 2.654$ ,  $p = 0.032$ ), indicating that the independent variables collectively explained variance in the dependent variable.

This study conducted on six commercial banks in Nepal using secondary data sources offers significant benefits for the country's banking sector. By investigating the relationship between corporate governance factors and leverage, it provides valuable insights into areas where governance practices can be strengthened, ultimately enhancing transparency, accountability, and risk management within banks.

## **5.2 Conclusion**

In conclusion, this study aimed to assess the current corporate governance practices and their relationship with leverage in Nepalese commercial banks. A detailed image of the corporate governance environment among Nepalese commercial banks was given by the analysis that was carried out as part of this research. A number of important governance variables, including board size, CEO duality, and the involvement of outside directors, were examined with the use of descriptive statistics. The results indicated a diverse environment that was defined by approaches to governance structures and dynamics that were different from one another. Despite the fact that some financial institutions-maintained governance standards that were generally consistent, others showed changes in important indices. The fact that this heterogeneity exists highlights the many governance methods that are used across the banking industry. It also suggests that there is a need for more investigation and possible improvements in governance processes in order to guarantee efficient supervision and decision-making.

A correlation analysis is used in order to investigate the connections that exist between the various aspects of corporate governance and leverage in Nepalese commercial banks. Despite the fact that CEO duality was shown to be a significant predictor that was positively connected with leverage, other characteristics such as the size of the board of directors, the presence of outside directors, the size of the business, and profitability did not reveal statistically significant correlations with leverage. Based on these contradictory findings, it seems that there is a complex link between corporate governance issues and leverage choices in the international banking industry. The results suggest that although some governance practices may play a vital role in determining choices about capital structure, other practices may have minimal impact or more indirect effects that demand additional examination. This is something that should be investigated further.

The objective of the regression analysis that was carried out as part of this research was to investigate the manner in which corporate governance characteristics influence leverage in Nepalese commercial banks. Despite the fact that CEO duality was shown to be a significant factor that had a beneficial influence on leverage levels, the impacts of other governance variables, such as board size, outside directors, company size, and profitability, were not found to be statistically significant. This study shows that whereas CEO duality may have a direct impact on choices about capital structure, other governance aspects may have more subtle or indirect effects that were not captured in this research. The findings show the intricacy of the interaction between corporate governance standards and leverage choices within the banking industry. They also highlight the need of doing more research in order to get a thorough understanding of these dynamics and the consequences they have for the outcomes of financial transactions.

These findings contribute to the broader understanding of corporate governance dynamics and their implications for financial outcomes, emphasizing the importance of considering the interplay between governance practices and leverage decisions within the banking sector.

### **5.3 Implications**

Based on the discussions, major findings and conclusion of the study, the following implications were made:

- Study highlights the importance of strengthening corporate governance practices within Nepalese commercial banks to ensure transparency, accountability, and effective oversight. Focusing on reducing CEO duality and promoting diverse board structures could lead to improved governance frameworks.
- Given the significant impact of CEO duality on leverage, banks should carefully consider the implications of having the CEO also serve as the chairperson. Implementing measures to separate these roles could mitigate potential conflicts of interest and enhance decision-making processes.
- The study underscores the need for a deeper understanding of the complex dynamics between corporate governance factors and leverage decisions. Further research could explore additional governance variables and their nuanced effects on capital structure choices.
- Banks should prioritize stakeholder engagement and communication to foster trust and confidence. Transparent governance practices can enhance investor perception and mitigate risks associated with leverage decisions.
- Regulators should incorporate findings from this study into governance guidelines and standards for commercial banks. Ensuring compliance with best practices can contribute to a more resilient and stable banking sector.
- Banks should integrate governance considerations into their risk management strategies. Understanding the impact of governance structures on leverage can inform risk assessment and mitigation efforts, particularly in times of economic uncertainty.
- Investors should consider governance factors alongside financial metrics when evaluating banks for investment purposes. Recognizing the influence of governance practices on leverage can help investors make more informed decisions.
- Academic institutions and professional organizations can develop educational programs focused on corporate governance in the banking sector. Equipping industry professionals with the knowledge and skills to navigate governance challenges can promote better decision-making and risk management.
- Future studies could employ longitudinal analysis to track changes in governance structures and leverage decisions over time. Examining trends and

patterns can reveal evolving relationships and inform strategies for sustainable governance and financial management in Nepalese commercial banks.

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## APPENDICES

Data of Sample Commercial Banks (2013/14 to 2022/23)

BANKS	FISCAL YEAR	CS	BS	CEOD	OUTD	SIZE	PRO
NABIL	2013/14	85.94	8.00	0.00	12.50	25.23	2.89
	2014/15	89.87	7.00	0.00	14.29	25.50	2.06
	2015/16	86.93	6.00	0.00	16.67	25.57	2.32
	2016/17	89.72	7.00	0.00	14.29	25.67	2.69
	2017/18	87.82	7.00	0.00	14.29	25.85	2.61
	2018/19	88.47	7.00	0.00	14.29	26.03	2.11
	2019/20	89.12	7.00	0.00	14.29	26.19	1.58
	2020/21	88.37	7.00	0.00	14.29	26.40	1.71
	2021/22	87.38	7.00	0.00	14.29	26.76	1.20
	2022/23	88.17	7.00	0.00	14.29	26.90	1.42
SCB	2013/14	90.46	7.00	0.00	14.29	24.70	2.51
	2014/15	90.64	6.00	0.00	16.67	24.90	1.99
	2015/16	88.46	7.00	0.00	14.29	24.90	1.98
	2016/17	84.20	7.00	0.00	14.29	25.08	1.84
	2017/18	83.43	7.00	0.00	14.29	25.15	1.61
	2018/19	83.99	7.00	0.00	14.29	25.26	2.61
	2019/20	87.03	5.00	0.00	20.00	25.48	1.71
	2020/21	85.86	6.00	0.00	16.67	25.47	1.22
	2021/22	85.30	5.00	0.00	20.00	25.54	1.83
	2022/23	86.69	7.00	0.00	14.29	25.74	2.29
EBL	2013/14	91.59	8.00	0.00	0.00	24.91	2.25
	2014/15	91.97	8.00	0.00	0.00	24.98	1.85
	2015/16	91.59	8.00	0.00	0.00	25.32	1.61
	2016/17	89.17	6.00	0.00	0.00	25.46	1.72
	2017/18	88.86	7.00	0.00	14.29	25.48	1.97

	2018/19	89.64	7.00	0.00	14.29	25.70	1.94
	2019/20	106.14	7.00	0.00	14.29	25.86	1.42
	2020/21	90.23	7.00	0.00	14.29	25.94	0.89
	2021/22	89.98	7.00	0.00	14.29	26.08	1.13
	2022/23	89.86	7.00	0.00	14.29	26.25	1.41
	2013/14	87.93	7.00	1.00	14.29	25.53	1.29
	2014/15	92.47	7.00	1.00	14.29	25.66	0.99
	2015/16	94.83	7.00	1.00	14.29	25.87	3.33
	2016/17	93.96	7.00	1.00	14.29	25.91	1.60
	2017/18	90.35	7.00	1.00	14.29	26.01	1.42
	2018/19	90.47	6.00	1.00	16.67	26.15	2.23
	2019/20	91.37	5.00	1.00	20.00	26.31	1.64
	2020/21	90.75	6.00	1.00	16.67	26.46	1.10
	2021/22	90.66	7.00	1.00	14.29	26.52	1.30
<b>RBB</b>	2022/23	87.12	6.00	0.00	16.67	26.70	0.91
	2013/14	87.71	6.00	0.00	16.67	24.98	1.07
	2014/15	89.68	7.00	0.00	14.29	25.08	0.92
	2015/16	93.51	6.00	0.00	16.67	25.20	0.55
	2016/17	89.78	6.00	0.00	16.67	25.51	2.78
	2017/18	83.25	6.00	0.00	16.67	25.59	2.41
	2018/19	82.99	5.00	0.00	20.00	25.62	1.51
	2019/20	84.29	5.00	0.00	20.00	25.87	1.22
	2020/21	85.08	7.00	0.00	14.29	25.98	1.33
	2021/22	86.36	6.00	0.00	0.00	26.28	1.12
<b>NBL</b>	2022/23	87.69	8.00	0.00	12.50	26.42	1.81
	2013/14	84.93	9.00	0.00	11.11	25.18	1.76
	2014/15	83.93	9.00	0.00	11.11	25.34	3.12
	2015/16	82.55	9.00	0.00	11.11	25.46	2.32
	2016/17	82.09	8.00	0.00	12.50	25.58	2.15
	2017/18	80.74	7.00	0.00	14.29	25.63	2.71
	2018/19	81.28	7.00	0.00	14.29	25.74	2.77
<b>ADBL</b>	2019/20	84.12	7.00	0.00	14.29	25.91	1.86

	2020/21	85.84	7.00	0.00	14.29	26.13	1.59
	2021/22	86.45	7.00	0.00	14.29	26.23	0.90
	2022/23	87.28	7.00	0.00	14.29	26.31	0.50

Sources: Annual Reports of NABIL, SCB, EBL, RBB, NBL and ADBL from fiscal year 2013/14 to 2022/23

Note:

CS=Capital Structure of the Bank which was calculated by Debt to Assets Ratio.

BS=No of Board Members in the Bank

CEOD= CEO Duality which means 1 if CEO have a dual role in a bank otherwise 0

OUTD=Ratio of outside directors to total directors

SIZE =Natural Log of Total Assets

PRO =Profitability of banks which was calculated by Return on Assets

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Abstract This study investigates the relationship between corporate governance and leverage in Nepalese commercial banks, utilizing bivariate Pearson correlation coefficients and regression models to analyze the impact of governance factors on financial decision-making processes. Drawing from existing finance theories, the research examines various governance variables, including board size, CEO duality, presence of outside directors, bank size, and profitability. Findings suggest a diverse landscape of governance structures within the banking sector, with CEO duality emerging as a significant predictor positively associated with leverage. However, other governance factors such as board size and profitability do not demonstrate statistically significant relationships with leverage, highlighting potential nuances in the relationship. The study underscores the importance of further research to comprehend the complexities of capital structure decisions in Nepalese commercial banks and emphasizes the need for effective governance practices to promote transparency and accountability in the banking sector. These findings offer valuable insights for policymakers and industry stakeholders seeking to enhance governance frameworks and foster financial resilience in Nepal's banking industry.

Keywords: Capital structure, corporate governance, profitability ii CHAPTER I INTRODUCTION 1.1 Background of the Study Corporate governance encompasses a system of laws and principles that oversee the direction and control of corporations, focusing on internal and external structures to monitor management and director actions and mitigate agency risks (LaPorta, 1999). This concept gained prominence following the collapse of numerous banks during and after the 2008 global financial crisis, sparking discussions on its effectiveness, even in advanced market economies (Rose & Mejer, 2003). The collapse of 80 American banks between 2007 and 2009