

**CORPORATE GOVERNANCE AND FINANCIAL  
PERFORMANCE OF COMMERCIAL BANKS IN NEPAL**

A Thesis Submitted to the Office of the Dean, Faculty of Management in partial fulfillment of  
the requirements for the Master of Business Studies (MBS)

By

Sulochana Kadel

Exam Roll No.: 391597/074

Campus Roll No: 2221/072

T.U. Reg. 7-2-721-198-2012

Shanker Dev Campus

Group: Finance

Kathmandu, Nepal

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## DECLARATION

I hereby declare that the work reported in this thesis entitled "**Corporate Governance And Financial Performance of Commercial Banks in Nepal**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work conducted in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (M.B.S) under the supervision of Asso. Prof. Dr. Kapil Khanal of Shanker Dev Campus, T.U.

.....  
Sulochana Kadel

Shanker Dev Campus

Campus Roll No: 2221/072

T.U. Reg. No: 7-2-721-198-2012

## **RECOMMENDATION**

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**Submitted by:**

**Sulochana Kadel**

**Entitled:**

**CORPORATE GOVERNANCE AND FINANCIAL  
PERFORMANCE OF COMMERCIAL BANKS IN NEPAL**

*has been prepared as approved by this Department in the prescribed format  
of the Faculty of Management. This thesis is forwarded for examination.*

.....  
**Asso. Prof. Dr. Kapil Khanal**  
(Thesis Supervisor)

.....  
**Asso. Prof. Dr, Sajeeb Kumar Shrestha**  
(Head, Research Department)

.....  
**Asso. Prof. Dr. Kapil Khanal**  
(Campus Chief)

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**Master of Business Studies (MBS)**

**Viva-Voce Committee**

Head, Research Department .....

Member (Thesis Supervisor) .....

Member (External Expert) .....

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## ABBREVIATIONS

A	:	Accountability
ADBL	:	Agriculture Development Bank Ltd.
B	:	Board Composition
BFI	:	Bank and Financial Institution
BOD	:	Board of Director
CEO	:	Chief Executive Officer
CFBP	:	Consumer Financial Protection Bureau
CG	:	Corporate Governance
DEA	:	Data Envelopment Analysis
ESOP	:	Employee Stock Ownership Plan
EU	:	European Union
F	:	Fairness
Ltd	:	Limited
N	:	Number of Respondents
NABIL	:	Nabil Bank Limited
NBL	:	Nepal bank Ltd.
NRB	:	Nepal Rastra Bank
OECD	:	Organization for Economic Cooperation and Development
OLS	:	Ordinary Least Squares
PP	:	Perceived Performance
R	:	Responsibility
SA	:	Social Awareness
RBBL	:	Rastriya Banijya Bank Ltd.
SBL	:	Siddhartha Bank Ltd.
Sig	:	Significance
SPSS	:	Statistical Package for Social Scientists
Std.	:	Standard
T	:	Transparency
UK	:	United Kingdom

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Corporate governance in commercial banks is a critical area of study due to the unique role banks play in the economy. Effective corporate governance ensures that banks operate efficiently, maintain financial stability, and protect the interests of stakeholders, including shareholders, depositors, and regulators. Corporate governance is like the rulebook or playbook for how a company is run, managed, and controlled. It's the system of rules, practices, and processes that guide how a company operates and ensures it's doing the right thing for its stakeholders—like shareholders, employees, customers, and even the community. Think of it as the "checks and balances" of the business world. Corporate governance refers to the system of rules, practices, and processes by which a firm is directed and controlled. In the context of commercial banks, it involves the mechanisms through which banks are managed and overseen to ensure accountability, transparency, and ethical behavior. Corporate governance is no more a fashionable and trendy terminology to be used in the corporate speech. It has become the widespread movement to strengthen the functioning, credibility and transparency of an organization. Governance may said to be all about effectiveness, transparency, and accountability of the affairs of an institution by its management. Corporate Governance can be term as operation mechanism of institutions. Though, corporate governance is the system by which companies are directed and controlled. Over the time, many codes of corporate governance and its best practices are evolving.

The intent interest of mass general public, government, stakeholders, regulating body and management towards corporate governance is increasing with the increasing cases of financial irregularities. Nepalese banking industry is suffering from ups and downs because of issues in corporate governance that is observed from recent change in monetary policy by Nepal Rastra Bank regarding capital structure, board member, board size and interdependence of board member.

Banking sector works the financial intermediary in the aggregate economy. Although there are several directives and regulations to strengthening the situation of corporate

governance by Nepal Rastra Bank, there is a gap of policy and implementation of policy in Nepalese banking industry that can be observed by the default of bank and financial institutions in Nepal. The real estate crisis of Nepal in the period from 2007 to 2009 further highlighted the importance of corporate governance in Nepalese banking industry. Therefore, the corporate governance of bank is more importance and need for these ways

- Financial Stability: Banks are pivotal to the financial system, and poor governance can lead to failures that have systemic implications.
- Stakeholder Protection: Effective governance protects the interests of various stakeholders, including depositors, investors, and employees.
- Regulatory Compliance: Banks operate in a highly regulated environment, and good governance ensures compliance with legal and regulatory requirements.
- Banks have an overwhelmingly dominant position in such an economy and considered as engines of economic growth.
- Banks are the most important source of finance for the majority of firms since financial markets are not developed properly.
- Banks are the main depository for economy saving.

## **1.2 Statement of Problems**

Corporate governance plays a critical role in ensuring the stability, transparency, and accountability of commercial banks, which are pivotal to the financial system and economic growth. However, the relationship between corporate governance practices and financial performance in commercial banks remains a subject of significant debate and concern. Poor corporate governance structures have been linked to financial mismanagement, fraud, and bank failures, as evidenced by various global financial crises. Conversely, effective governance mechanisms, such as board independence, audit quality, and shareholder rights, are believed to enhance financial performance by promoting ethical management, reducing risks, and improving decision-making. Despite the growing emphasis on corporate governance reforms, many commercial banks continue to face challenges in aligning governance practices with financial performance objectives. Issues such as weak board oversight, lack of transparency, and conflicts of interest persist, potentially undermining the financial health and sustainability of banks. This raises critical questions about the extent to

which corporate governance frameworks influence key financial performance indicators, such as profitability, asset quality, and shareholder value, in commercial banks.

The problem, therefore, lies in understanding the nature and strength of the relationship between corporate governance and financial performance in commercial banks. Specifically, there is a need to investigate how governance mechanisms, such as board composition, executive compensation, risk management practices, and regulatory compliance, impact financial outcomes. Additionally, the role of external factors, such as regulatory environments and market conditions, in moderating this relationship requires further exploration.

Addressing this problem is essential for policymakers, regulators, and bank management to design and implement governance frameworks that not only ensure compliance but also drive sustainable financial performance. Without a clear understanding of this relationship, commercial banks may continue to face inefficiencies, increased risks, and suboptimal performance, ultimately threatening the stability of the financial system. Therefore, this study seeks to examine the impact of corporate governance on the financial performance of commercial banks, with the aim of providing actionable insights for improving governance practices and enhancing financial outcomes.

The Central bank of Nepal, Nepal Rastra Bank (NRB) has consistently been working to improve the governance of banks by revising and updating, policies and directives. The latest comprehensive directive, stress testing guidelines, CEO's remuneration guidelines, etc are some of the guidelines formulated to ensure better governance in banks. In spite of such guidelines and directives, corporate governance remains challenging as people with nefarious intentions devise new ways of misusing public money. Nepalese organizations are yet to adopt a good governance culture with adequate care of the general public interest. The demarcation between ownership and management is still not clear. The involvement of directors and staff in fraudulent activities is a serious challenge in Nepal (Khatiwada, 2015). H & B bank (2012) and CEO of KIST bank (2013) faced charged because of misappropriation. Similarly, NABIL (2011) and Himalayan bank (2012) were booked for the theft of the pin number of ATM by the employee these cases have created a doubtful environment for

the public to deposit their currency to the banks (Khatiwada, 2015). To ensure a better environment of trust and safety among the general people good governance must be focused. Implementing Governance by banks can increase the customer's deposit as well as increase the profitability of banks. Taking into consideration the background of the study and literature review, this research has been set up with the following research questions:

- What are the dimensions that represent corporate governance and banking performance?
- What is the financial performance of the banks?
- Which factor of corporate governance has a significant impact on bank's performance?

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

Corporate governance and financial performance are critical aspects of the management and operation of commercial banks. The objectives of corporate governance in commercial banks are closely tied to ensuring financial stability, transparency, and long-term sustainability. The main objective of the study is to explore the corporate governance practices in Nepalese commercial banks. Additionally, this study identifies the different factors to corporate governance and its impact on perceived performance of commercial banks. Some specific objectives of this study are noted as bellow.

- To explore the status of current corporate governance practices in selected commercial banks in Nepal.
- To promote ethical behaviors, risk management and strengthen financial stability.
- To enhance accountability and Promote transparent financial reporting and disclosure practices to build trust and confidence among stakeholders.
- Adhere to legal and regulatory requirements to avoid penalties, reputational damage, and operational disruptions to protect stakeholders interest.
- To identify the dimensions that represents the corporate governance and banking performance.
- To explore the unknown and unlock new possibilities of relationship between dependent and independent variables.

- To analyze the perceived performance.

#### **1.4 Significance of the Study**

Strong governance ensures ethical management, risk mitigation, and regulatory compliance, while robust financial performance reflects the bank's ability to generate profits, maintain liquidity, and ensure solvency. Together, they contribute to the bank's stability, reputation, and long-term sustainability in a competitive and regulated industry. Banks that prioritize both governance and performance are better positioned to navigate challenges and create value for their stakeholders. Corporate governance and financial performance are critical factors in the success and sustainability of commercial banks. Their significance lies in their ability to ensure transparency, accountability, and efficiency, which ultimately impact the bank's profitability, stability, and reputation. The main objective of the bank as a commercial organization is to maximize the surplus by the efficient use of its fund and resources. This study attempts to find out relationship between good governance and the performance of the sample bank using the various statistical tools. The study provides in depth information on the financial for other parties such as universities, commercial banks, researchers, scholars, students, management committees and so on. This study focuses on determining the impact of variables of good governance on the performance of banks. Simply, it is the system by which organizations are directed and managed. Corporate governance influences how the objectives of business are set and achieved, how risk are controlled, diverse and hoe internal performance is optimized. Corporate governance refers to the system of rules, practices, and processes by which a bank is directed and controlled. It involves balancing the interests of stakeholders, including shareholders, management, customers, regulators, and the community. In commercial banks, strong corporate governance is essential for the following reasons:

- It fosters trust among stakeholders, including depositors, investors, and regulators.
- It prevents short-termism and unethical practices that could harm the bank's future.
- It could be a literature review to the new researchers and stakeholders & corporate organizations etc.
- It explains the degree of corporate governance practices in Nepalese

commercial banks.

- It explains the relationship associated between corporate governance factors and organization perceived performance.

### **1.5 Limitation of the Study**

Any study cannot go beyond the boundary of some limitations and this study also not an exception. The limitations of the study are as follows

- The whole study is completed with the sample of Nepalese commercial banks and may represent the entire corporate industry.
- Among many components influencing corporate governance, only few components are considered for the study.
- This study is based on primary data, so any distortion of the reality is due to the perception of the respondents.
- Study collected opinions from employees of bank without any bias, the study may not be representative enough because of small sample.
- This research has been conducted on the requirement of partial fulfillment of master degree in business study.

### **1.6 Organization of the Study**

The proposed study is organized into five chapters as follows:

#### **Chapter- I: Introduction**

The first chapter deals with the introduction of the background of the study and subject matter. The chapter includes focus of the study, the statement of the problem, objective of the study, the signification of the study, limitations of the study and organization of the study.

#### **Chapter- II: Review of Literature**

This chapter presents review of literature where conceptual/ theoretical review of the study, reviews of related material like previous thesis, browser booklets, journals, articles and report, magazines etc. will be done. At last research gap is also mentioned in this chapter.

### **Chapter- III: Research Methodology**

This chapter deals with research methodology to be adopted for the study to satisfy the objectives of the study. It consists of research design, population and sample, sources and types of data, data collection procedure, methods and tools of data analysis.

### **Chapter- IV: Presentation and Analysis of Data**

This chapter is most important and plays vital role in this study. This chapter deals with presentation, analysis and interpretation of data. These collected data have been analyzed and interpreted by the help of various statistical and accounting tools and techniques. It also includes major findings of the study.

### **Chapter- V: Summary, Conclusion and Recommendations**

This chapter presents the brief summary of whole research report and conclusions. It also provides some useful suggestion and recommendations to concern parties. At the beginning of the study table of contents, recommendation sheet, viva voice sheet, acknowledgement, list of table and figure and abbreviation are presented at first and bibliography, appendixes and proposal are also presented at the end of the study.

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

A literature review is a critical and comprehensive analysis of existing research and publications on a specific topic. It serves as a foundational component of academic research, providing context, identifying gaps, and establishing the relevance of a new study. The purpose of a literature review is to synthesize and evaluate the body of knowledge on a subject, highlighting key themes, trends, and debates while demonstrating the researcher's understanding of the field. The main objective of literature review is reveals areas where further research is needed, helping to justify the significance of the new study. Moreover, it helps to demonstrate the researcher's familiarity with the topic and their ability to critically engage with existing literature and provides evidence and theoretical frameworks to support the research questions or hypotheses.

Building of theoretical and conceptual foundations for this study is possible by comprises review of old articles, journals, prior relevant studies, book review and review of policy documents. The main purpose of literature review is to be find out what works have been done in the area of the research problem under study and what has not been done in the field of the research study being undertaken. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished thesis and dissertations submitted by master level students have been reviewed. In this chapter, theoretical explanation on the factors influencing corporate governance is explained and subsequently the conceptual model is developed based on the theoretical framework. Moreover, this chapter reviews some empirical studies that have been conducted by previous researchers on the issue. Finally, the research gap is presented at the end of this chapter.

#### **2.2 Conceptual Framework**

The conceptual framework of corporate governance and financial performance explores the relationship between the mechanisms of corporate governance and the financial outcomes of a company. Corporate governance refers to the system of rules,

practices, and processes by which a company is directed and controlled. It involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community. Financial performance, on the other hand, is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.

“The Modern Corporation and Private Property” (1932) emphasized the importance of granting voting rights to all the shareholders, ensuring transparency in actions and sufficient accountability of those who control the corporation. The idea of Corporate Governance, thus, owes its roots to Browne and Means. The duties of Board of Directors expanded substantially during this period. Bob Tricker introduced the term ‘Corporate Governance’ in 1984 and wrote a book with the same title.

A broader view of the term has been enunciated by Organization for Economic Co-operation and Development (OECD, 2004). It states: “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring

A more comprehensive definition has been given by The Institute of Company Secretaries of India. It states “Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders”. Several key phrases in this definition merit attention. These are:

Application of best management practices - It may include laying down of balanced objectives, putting decision-making processes in place, defining clearly roles of key players, designing reporting systems to ensure transparency and accountability, continuous monitoring, etc.

Compliance of law in true letter and spirit - Systems and procedures should be laid down to ensure strict compliance to applicable laws and regulations applicable to the entity.

Adherence to ethical standards for effective management - All the stakeholders should

make a continuous effort to adhere to maintenance of ethical standards. Code of Ethical Conduct, Whistle blower policy, Policy on Executive Remuneration, institutionalizing of severance practices, are some of the ways to ensure such adherence.

Distribution of wealth and discharge of social responsibility - Corporates should distribute wealth and discharge their social responsibility by giving ESOPs, building schools and hospitals, skilling women and youth, providing financial support to encourage use of non-conventional uses of energy and adopting other such programs.

For sustainable development of all stakeholders - Expectations of all the present and future stakeholders (local community, employees, customers, government, suppliers) and needs of the environment should be taken into account while carrying on business activities.

Theories of Corporate Governance A key feature of modern day corporations is separation of ownership and control. Such a separation gives rise to some corporate governance issues. Beginning from 1980's, many theories have been proposed by to explain and address corporate governance problems that arise due to such separation. Some of the important theories are

- **Stakeholder Theory**

Stakeholder Theory is a view of capitalism that stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities and others who have a stake in the organization. The theory argues that a firm should create value for all stakeholders, not just shareholders.

In 1984, R. Edward Freeman originally detailed the Stakeholder Theory of organizational management and business ethics that addresses morals and values in managing an organization. His award-winning book Strategic Management: A Stakeholder Approach identifies and models the groups which are stakeholders of a corporation, and both describes and recommends methods by which management can give due regard to the interests of those groups

Stakeholders and CSR - Stakeholder theory implies that it can be beneficial for the firm to engage in certain corporate social responsibility activities that stakeholders other than shareholders perceive to be important. Without such activities these stakeholders might withdraw their support from the firm (Mitchell, Agle, & Wood, 1997). Thus, even in situations when a firm seeks to serve its shareholders as a

primary objective, its success in doing so will certainly be affected by other stakeholders.

- **The Stewardship Theory**

The stewardship theory is a part of corporate governance and is a normative alternative to agency theory. Simply, the stewardship theory is a theory that managers, left on their own, will act as responsible stewards of the assets they control, and describes the existence of a strong relationship between satisfaction and organizational success. This theory was introduced by Donaldson and Davis (1989). Good stewards work collectively rather than individually and are not instrumentally motivated, as are agents who subscribe to agency theory. Stewardship theory basically argues that a steward recognizes that individualistic, opportunistic, and self-serving goals will be met if work is done for the greater good of the organization

According to stewardship theory top management acts as stewards for the organization. Davis, Schoorman & Donaldson (1998) has stated, “a steward protects and maximizes shareholders’ wealth through firm performance, because by so doing, the steward’s utility functions are maximized”

**Assumptions are as:**

- Managers are trustworthy individuals and so are good stewards of the resources entrusted by them by the shareholders.
- Senior managers have superior access to important information and are, thus, able to make informed decisions.
- The theory holds “Theory Y” view of managerial motivation.

- **Agency Theory**

An agency, in broad terms, is any relationship between two parties in which one, the agent, represents the other, the principal, in day-to-day transactions. The principal or principals have hired the agent to perform a service on their behalf.

Principals delegate decision-making authority to agents. Because many decisions that affect the principal financially are made by the agent, differences of opinion, and even differences in priorities and interests, can arise. Agency theory assumes that the interests of a principal and an agent are not always in alignment. This is sometimes referred to as the principal-agent problem.

By definition, an agent is using the resources of a principal. The principal has entrusted money but has little or no day-to-day input. The agent is the decision-maker but is incurring little or no risk because any losses will be borne by the principal.

**Assumptions are as:**

- Divergence of interest of shareholders and Board of Directors - Agency theory assumes that the interests of principles and agents diverge and both of them seek to promote their own interest.
- Information asymmetry - BODs have a better access to information about entity's position vis-a-vis shareholders.
- BODs have a fiduciary relationship with the shareholders.
- Shareholders are interested in maximizing wealth while managers may succumb to self-interest and, unless restricted from doing otherwise, would be interested in protecting and enhancing his pay and perks. This conflict of interest leads to Agency problem where the important issue is how to ensure that agent acts in the best interests of the principal.

Agency problem results in Agency costs, for example, monitoring costs in large corporations (Shleifer & Vishny, 1998) and 'bonding costs' (example is the bond provided by the agent to principal).

### **2.3 Empirical Review**

The empirical review covers the research studies conducted by different authors regarding corporate governance. In this regard, different authors have used different methodologies to investigate their findings regarding corporate governance and its impact over organization's performance

The summary of review of literature of different authors discussed about corporate governance and its impact in organizations are pointed as bellows:

- I. Al-Najjar (2017). discovered that board size and board independence have a significant impact on the pay of CEO and firm performance for seral UK firms.
- II. Adhikari, P (2014). comes to conclusion that corporate governance is becoming an issue of global significance and corporate governance practices are positively correlated with bank performance even in Nepalese context.

- III. Khatib et al. (2020) emphasized the policy-setting role of corporate governance where directors impact on corporates performance is through policy setting. Apart from these roles, the COVID-19 crisis highlighted the board oversight role in reducing the uncertainty risk followed by the COVID-19 crisis.
- IV. Bino, and Tomar (2008) examined relationship between corporate governance and bank performance and revealed bank size has a positive effect on bank performance which indicates
- V. Pitambar Lamichhane (2018) result of this study concludes that corporate governance, market to book value ratio, age, size of assets and debt ratio have strong explaining power of financial performance of Nepalese firm
- VI. Owino and Kivoi (2016) analyzed effect of strength of auditing and reporting standards, efficiency of board directors, protection of minority shareholders on bank performance of licensed banks using Generalized Method of Movements and argued that strength of auditing and reporting standards, efficiency of board of directors have positive but protection of minority shareholders has negative effect on bank performance.
- VII. Bhattarai (2017) examined relationship between corporate governance and financial performance of Nepalese commercial banks and revealed that audit committee and portion of independent directors have positive but board size has negative effect on financial performance of commercial banks in Nepal.
- VIII. Dr Kapil Khanal\* Vol. 12, Issue 7, July 2023 Asian Journal of Multidimensional Research CORPORATE GOVERNANCE AND ITS IMPACT ON FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS It has been concluded that corporate governance and corporate financial performance are correlated and Governance in the Company has significant positive impact on its financial performance. This research finding may support decision of company to improve its governance structure. Companies should strive to improve its performance along indicators of good governance – Leadership Ethics, Board Composition & Independence, Executive Compensation, Transparency and Reporting, Stakeholder Engagement, and Compliance with law in true letter and spirit. Companies should understand that improving governance and sustainability performance is as important as improving the financial performance.

IX. Impact of Corporate Governance on Performance of Selected Commercial Banks in Bangladesh: A Comparative Approach 2022 Tarik Hossain. This study tries to determine the impact of Corporate Governance (CG) on the performance of Commercial Banks (CB) in Bangladesh. Data are collected from different banks listed under DSE for the period starting from 2015 to 2020. For analyzing the data and testing hypothesis Pearson's correlation and OLS regression models are used to assess the relationship among the performance of the banks and CG related predictor variables like Board Size (BS), Board Independence (BI), Audit Committee (AC), Risk Management Committee (RMC), and some control variables like Firm Age (FA), Firm Size (FS) and Market Capitalization (MC). The regression analysis results showed a mixed result. The BS and BI are significantly affirmatively related with ROE and positively correlated with ROA.

## **2.4. Review of Some Acts or Action Relating to Corporate Governance**

### **➤ European Union's Directive on Shareholder Rights (2017) - European Union**

It aims to strengthen shareholder engagement and improve corporate governance across EU member states and its key provision are:

- Enhances transparency in executive remuneration.
- Requires companies to disclose their dividend policies.
- Promotes shareholder engagement in key corporate decisions.
- Encourages long-term shareholder commitment and responsible investment.

### **➤ Dodd-Frank Wall Street Reform and Consumer Protection Act - United States (2010):**

It is Enacted after the 2008 financial crisis, this act aims to promote financial stability by improving accountability and transparency in the financial system and it has a Key Provisions like as:

- Establishes the Consumer Financial Protection Bureau (CFPB).
- Implements the "Volcker Rule" to restrict banks from making certain speculative investments.

- Requires non-binding shareholder votes on executive compensation ("say on pay").
- Enhances whistleblower protections.
- **Basel III and Corporate Governance:**

The Basel Committee's principles on corporate governance are designed to ensure that banks operate in a safe and sound manner, with a clear focus on risk management, accountability, and transparency. These principles are intended to protect the interests of depositors, shareholders, and the broader financial system. For the most detailed and up-to-date information, it is recommended to refer to the official publications of the Basel Committee on Banking Supervision, particularly the "Principles for Enhancing Corporate Governance" (2010) and other relevant guidelines.

The **Nepal Rastra Bank (NRB)**, which is the central bank of Nepal, has issued various guidelines and directives related to corporate governance for financial institutions and other entities under its regulation. These guidelines are aimed at ensuring transparency, accountability, and ethical practices in the management and operations of financial institutions, including banks and financial companies.

NRB periodically updates its guidelines to align with international best practices and address emerging challenges in the financial sector. For example, in recent years, NRB has placed greater emphasis on cybersecurity, environmental and social risk management, and digital transformation as part of corporate governance.

A bank shall be established under the company act with the recommendation of the Nepal Rastra bank. The bank may determine the location of its head office with the approval of the Nepal Rastra bank. The bank shall be an autonomous corporate body with the perpetual succession. It may be suing or be sued in its own name. Subject to this act in other country Nepal law, the bank may acquire, use and sell movable and immovable property. Any bank may open or shift the location of or close branches depots or other offices with the approval of the NRB. In case of any foreign commercial bank desires to open a branch, representative office or liaison such branch under the company act with the approval of NRB, and provisions of the act shall apply to such foreign bank. The NRB shall obtain the consent of Nepal Government

before granting approval. While granting approval, NRB may prescribed by condition according to the need and the foreign bank shall company the conditions thus prescribed by the NRB.

## **2.5 Research Gap**

A research gap refers to an area in a field of study that has not been sufficiently explored, understood, or addressed by existing research. It represents a missing piece of knowledge, an unanswered question, or a problem that has not been adequately resolved. Identifying a research gap is a critical step in the research process because it helps researchers focus on contributing new insights, theories, or solutions to the field. The literature review of various scholars has helped to find the research gap. There are numerous researches conducted in the field of Corporate Governance. The research on corporate governance and financial performance in the context of Nepalese bank has made a partial contribution to the central bank of Nepal, commercial banks and other financial institutions, upcoming researchers and other non-financial institutions. The analysis of data using correlation and regression helped to find the relationship among dependent variables and independent variables. This result can be helpful for the above-mentioned individuals and organizations.

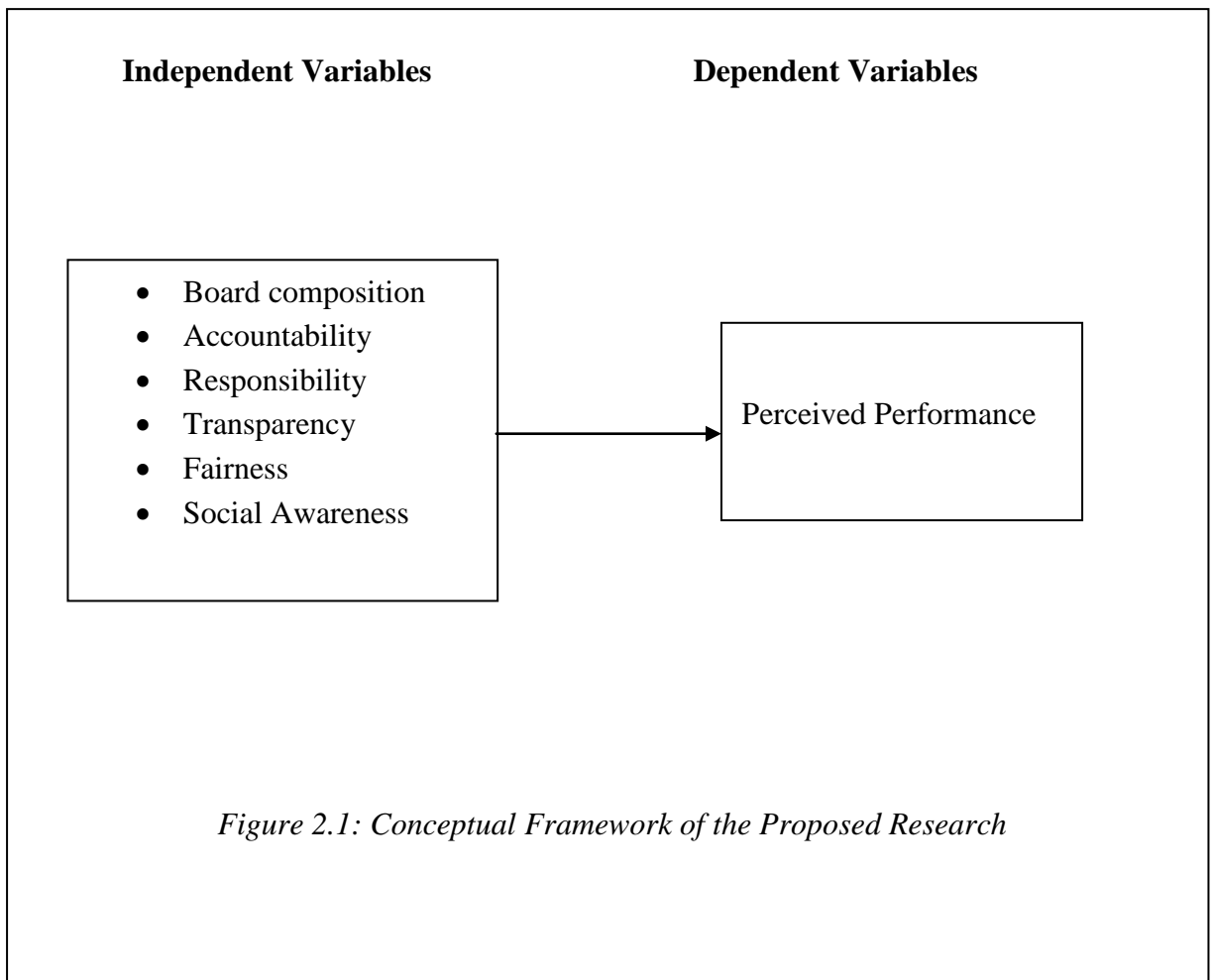
A previous research study has been conducted by different students, experts, and researchers about corporate governance and performance in Nepalese commercial banks. This study mentions the different qualitative variable than pervious case studies over commercial banks in Nepal. Data for variables are based on primary source which makes this study more realistic. So this research gap of this research may be in various aspect like methodological gap, contextual gap, theoretical gap or empirical gap

## **2.6 Conceptual Framework**

Mugenda and Mugenda (2008) defines conceptual framework as a hypothesized model identifying the concepts under study and their relationship. It is a framework usually developed by the researcher to demonstrate the inter relationships between variables of the study. A conceptual framework in a thesis is a structure that outlines the key concepts, variables, and relationships that will be explored in the research. It serves as a roadmap for the study, guiding the research process and helping to organize and interpret the findings. The

conceptual framework is typically developed based on a review of the existing literature and theoretical perspectives relevant to the research topic.

Framework of this research shows several factors of corporate Governance affecting performance of the commercial banks in Nepal. The conceptual framework helps in establishing relationship between the independent and dependent variables that will be used in research. The research seeks relationship between different factors of corporate Governance which influencing performance of commercial banks. where independent variables such Board Composition, Accountability, Responsibility, Transparency, Fairness & Social awareness and Age group, Gender, Education level, Income level as a Moderating Variables and Perceived Performance is dependent variable.



## **CHAPTER III**

### **RESEARCH METHODOLOGY**

This chapter is designed to throw light on the methodology used to undertake this study, which aims show the relationship between corporate governance and financial performance of selected sample banks and drawing some patient conclusion from this. Research methodology refers to the systematic, theoretical analysis of the methods applied to a field of study. It encompasses the concepts, theories, and principles that underpin the methods and practices used in research. Research methodology is crucial for ensuring that the research is conducted in a structured, reliable, and valid manner. For this purpose, the following research methodology has been adopted which includes research design, procedures of gathering data, data collection, processing of data, procedure of analysis and the various performance indicators used.

#### **3.1 Research Design**

Research design is the overall plan or strategy that guides the research process. This study has followed a descriptive research design and causal-comparative research design to deal with issues raised in the study that influence the performance of the selected commercial banks in Nepal. Descriptive research design is a crucial methodology in the social sciences, market research, and other fields where understanding the characteristics of a population or phenomenon is essential. It provides comprehensive overview and aims to accurately and systematically describe a population, situation, or phenomenon. It provides a detailed snapshot of the subject under study, which can be invaluable for understanding complex issues. It is significant to identifying the characteristics of a population or phenomenon. For example, it can be used to determine the demographic profile of a community, the prevalence of a disease, or consumer preferences. The descriptive research design helps in fact-findings, searching for adequate information about components of corporate governance and the performance of Nepalese banks. Such design involves the systematic collection and presentation of data to give a clear picture of the situation. This chapter hence provides information about research design, sources of data, questionnaire, data collection procedures, population and sampling, instrumentation, administration of instrument and data analysis plan. The primary

objective of this chapter is to showcase the methods and procedure utilized to get the most accurate result following the set objective of the research topic. The design and methods have been applied according to the research type which is descriptive.

This research is based on the primary data provide qualitative result rather than quantitative. The data has been collected by formulating a set of questionnaire which was distributed to the respondents. The findings are completely based on the data and facts provided by the sampled respondents. The research studied Corporate Governance in commercial bank of the country so that the responses of employees can be quantified and measured easily.

The study is based on various statistical tests and analyses. For this purpose, Statistical Package for Social Science (SPSS) software and Microsoft Excel were used to analyze and interpret the quantitative data. This software is commonly used by researchers and easily available in business settings. Descriptive statistics is used for the calculation of mean and standard deviation based on the respondent profile. Correlation analysis, t- test, regression analysis and hypotheses testing were carried out in the process of this research. The findings, interpretation and analysis have been presented through different well as tables as and when necessary. The reliability of scales is analyzed by using Cronbach's alpha since Cronbach's alpha test is the best measure for multiple scale items which is also the most popular test for the inter-item consistency reliability.

### **3.2 Population and Sample**

In order to the study is to examine corporate governance practices in Nepalese commercial bank, this study contains a sample of 4 commercial banks of Nepal and Also for the questionnaire purpose 30 employees are selected who work in each Four commercial banks. This study obtained data from 120 employees from Four Commercial Banks of Nepal working all over Country.

There are 20 commercial banks in Nepal. The sample selected for this study include from the government banking sector and private banking sector, mainly those employees were taken as sample that had some knowledge regarding the subject matter. Due consideration was given to make sure that study includes employees from all level management. It includes stakeholders, Branch manager, relationship

officer's operation in charges, Officer and Assistant shareholders and concern members

Convenience sampling was used in this study to track the respondents for the study. With this sampling technique, subjects are selected because of their convenient accessibility and proximity to the researcher. Convenience sampling was appropriate for this research because of its advantages like fairness and the quickness with which data can be gathered.

#### **List of sample banks selected for the study**

- i. Agricultural Development Bank Ltd.
- ii. Rastriya Banijya bank Ltd.
- iii. Nepal Bank Ltd.
- iv. Nabil Bank Ltd.

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

Information and data are the foundation of any research study. The nature and sources of data depend on the research objectives, methodology, and the field of study. Data can be qualitative or quantitative, primary or secondary, and can come from various sources. Necessary data are collected from primary sources where primary data refers to data that is first used to test the working hypothesis and then used as evidence to support a researcher's claim. Primary data is collected directly by the researcher. It is original and tailored to the research objectives. Survey questionnaire method was used as it is best suited for descriptive study. Questionnaires were handed out through delivery and collection method as well as digital convey. Delivery and collection of questionnaires allow researcher to confirm that the questionnaires were filled up completely and reduce the occurrence of missing data. It facilitates the researcher to explain respondents about any queries they may have regarding the questionnaire. This, in turn, would increase the accuracy of the data being collected.

### **3.4 Data Collection Instrument**

Basically, the secondary source of data was internet, books and journals and related articles. Similarly, in the later stage the primary source of data collection was used for the purpose of collecting data so as to analyze data for ascertaining the results. The primary source of data was structured questionnaires, which consisted of multiple

choice questions and rating scales so as to meet the intended objective of the study. The key instrument used in the study is the structured questionnaire which was designed to meet the stated objectives of the research. To maximize content validity, a comprehensive literature review was done in order to grasp the knowledge of corporate governance. On the basis of the questionnaire, data were collected and were analyzed using the statistical program SPSS in an attempt to describe what has been observed regarding theoretical framework developed by referring the related literatures in this topic.

The data for research was collected with the help of a questionnaire based on a 5-Likert point rating scale ranging from 1-strongly disagree to 5 strongly agree. The rating scale ranges from 1 to 5 as follows:

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree

21 opinion statements were set to measure 7 different variables among which 6 are independent variables and 1 is dependent variable. 18 different opinion statements were used to describe independent variables namely as:

1. Board composition (B)
2. Accountability (A)
3. Responsibility (R)
4. Transparency (T)
5. Fairness (F)
6. Social Awareness (S)
7. Perceived Performance (P)

The first part of the questionnaire deals with demographic information of respondents which includes gender, age, income level, education and the bank the respondent associated with.

The second part deals with questionnaires concerning various determinants of corporate governance of commercial bank, as stated in the theoretical framework for the study. The different variables included independent variables such as board

composition, accountability, responsibility, transparency, fairness, social awareness and dependent variable organizational performance. All dependent and independent variables has 3 statement to find conclusion about impact of corporate governance over financial performance in commercial banks in Nepal.

### 3.5 Data Collection Procedures

It is a critical step in the research process, as the quality and reliability of the data directly impact the validity of the findings. To collect a response from respondent well-structured questionnaire were prepared which are distributed to respondent through digital medium as well as personal visit. Replies from respondent are collected electronically and personal network. All collected replies are compiled, analyzed and presented through table's graphs charts for quick and easy understanding. By using statistical tools and analyzing tools major finding are drawn out and conclusion are presented. Only Primary data were used for the study through the survey method where primary data refers to data that is first used to test the working hypothesis and then used as evidence to support a researcher's claim. Survey questionnaire method was used as it is best suited for descriptive study. Questionnaires were handed out through delivery and collection method. Delivery and collection of questionnaires allow researcher to confirm that the questionnaires were filled up completely and reduce the occurrence of missing data. It facilitates the researcher to explain respondents about any queries they may have regarding the questionnaire.

### 3.6 Data Processing Procedure

In order to understand whether the question in this questionnaire all reliably measure the variables under study a Cronbach's Alpha ( $\alpha$ ) was run on a sample of 120 items. Quality and consistency of survey was assessed with Cronbach's alpha.

**Table: 3.1**

*Reliability test of dependent and independent variables*

S.N.	Variables	Cronbach's alpha	No of item (N)
1	Board composition	0.757	3
2	Accountability	0.618	3
3	Responsibility	0.729	3
4	Transparency	0.842	3

5	Fairness	0.693	3
6	Social Awareness	0.692	3
7	<i>Perceived Performance</i>	0.722	3

Table 3.1 shows the Cronbach's alpha coefficients of independent variables. It is typically associated with internal consistency with values ranging from 0 to 1. Cronach's Alpha coefficient less than 0.6 is considered as poor, greater than 0.6 but less than 0.8 is considered acceptable and greater than 0.8 is considered good. Here, Cronbach's alpha of all variables are acceptable where transparency is considered as good. Therefore, the instruments used in this research are considered to be reliable.

### **3.7 Data Analysis Tools and Techniques**

To understand the result and present the finding of research, it is compulsion to follow certain steps, procedures, statistical technique in analyzing the data of research. SPSS is adopted for analyzing primary source of data which are collected from different sectors of an organizations. A list of questionnaire was distributed to respondent and response are classified tabulated and summarized through the help of statistical approach. Cranach's alpha coefficient was used for scaled items to test the reliability. MS-Excel is used for quantitative data entry and analyses. Simple descriptive statistics such as frequency count, percentage, mean and standard deviation, etc. were used particularly to analyze the corporate governance in Nepalese commercial banks.

### **3.8 Statistical Analysis**

Statistical analysis is important part of the study under which the data are presented and the analyzed in useful format. Data were processed and due consideration was taken that those data were accurate and consistent with the intent information obtained. To assess the situation of employees in Nepalese commercial banks and to analyze the factors affecting employee's perceived performance, various statistical tools are used. Statistical tools were used primarily for two purposes: to see the distribution and tendency of the data collected through questionnaire and to test the hypothesis set to achieve the objective of the study. To see the distribution and tendency of the data, several graphical tools like tables, charts and diagrams were used. Particularly, the descriptive study part used graphs, tables, pie charts, mean,

standard deviation and percentage distribution for presentation and analysis. And, the hypothesis testing part included tables, mean, standard deviation, Pearson's correlations and linear regression.

- **Descriptive statistics**

Descriptive statistics is the first step in our analysis. Under descriptive statistic mean and standard deviation are computed and analyzed.

- **Mean or Average**

In other words, the quantities which are the representative of the huge mass of quantities are known as average. The most popular mean is arithmetic mean or average, which is calculating the sum of all variables divided by the number of variables. The mean is the arithmetic average of a variable.

- **Standard Deviation**

Standard deviation (S.D.) is the most popular and the most useful measure of dispersion. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the values of standard deviation higher the variability and vice versa. It is the positive square root of average sum of squares of deviations of observations from the arithmetic mean of the distribution.

- **Correlation analysis**

Correlation is one of the most useful statistics. In other words, correlation is the statistical tool measures the degree of relationship of one variable with other variable. Two or more variables are said to be correlated if change in the one variable appears to be related or linked with the change in the other variables value. Correlation says just degree of relationship between two or more variables. It does not tell us anything about cause and effect relationship. Correlation may be positive or negative. Correlation lies between -1 & +1. When Pearson's correlation( $r$ ) is close to 1 then there is strong relationship between two variables. This means that change in one variable are strongly correlated with change in second variable. When correlation( $r$ ) is close to zero then there is weak relationship between two variables.

- **Regression analysis**

A technique for determining the statistical relationship between two or more variables where a change in a dependent variable is associated with, and depends on, a change in one or more independent variables. Multiple regressions is a statistical tool

used to derive the value of a criterion from several other independent, or predictor, variables. It is the simultaneous combination of multiple factors to assess how and to what extent they affect a certain outcome. It can be used to forecast effects or impacts of changes. The multiple linear regression analysis can be used to get point estimates.

### **3.9 Hypotheses**

This research illustrates 7 dimensions which are gathered from a variety of researchers in terms of corporate governance they are the most significant ones. Although some terms have been repeated in most studies others have different definitions in different studies. Now we put corporate governance as the constant variable for our hypotheses and suppose 6 independent variables.

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

1. Board composition (B)
2. Accountability (A)
3. Responsibility (R)
4. Transparency (T)
5. Fairness (F)
6. Social Awareness (S)
7. Perceived Performance (P)

#### **1. Alternative Hypothesis 1 (H<sub>1</sub>)**

There is a significant relationship of Board Composition on perceived performance.

#### **2. Alternative Hypothesis 2 (H<sub>2</sub>)**

There is significant relationship of Accountability on perceived performance.

#### **3. Alternative Hypothesis 3 (H<sub>3</sub>)**

There is significant relationship between Responsibility and perceived performance.

#### **4. Alternative Hypothesis 4 (H<sub>4</sub>)**

There is significant relationship between Transparency and perceived performance.

**5. Alternative Hypothesis 5 (H<sub>5</sub>)**

There is significant relationship between Fairness and perceived performance.

**6. Alternative Hypothesis 6 (H<sub>6</sub>)**

There is significant relationship between Social Awareness and perceived performance.

## **CHAPTER IV**

### **PRESENTATION AND ANALYSIS OF DATA**

To achieve the main objectives and subject matter mentioned in first chapter of this thesis, necessary analytical tools and techniques have been discussed under research methodology units. In this unit data are presented tabulated and analyzed. Data analysis is an important stage in the research process. The purpose of analysis is to change it from unprocessed form to an understandable presentation. It is the process of developing answer to the question through the examination and interpretation of data. Chapter four provides systematic presentation, interpretation and analysis of data in order to know the relationship among these dependent and independent variables. This chapter describes the analysis results generated from the process of data collection. It deals with the analysis and interpretation of the primary data collected through questionnaire from 120 respondents. Data were analyzed with reference to the objectives of this research as mentioned in the earlier chapter. The primary purpose of this chapter is to analyze and interpret the collected data and present the results of the questionnaire survey. The main objective of this research study is fulfilled with the outcomes derived from the analysis of the data.

#### **4.1 Respondent Profile**

The first part of the questionnaires was based on respondent's profile to obtain information relating to age, income, education, and profession. The data is collected from Kathmandu valley on the personal visit and through a structured questionnaire and respondents are selected on the basis of random and convenient sampling method. With using frequency distribution table, demographic statistics and calculating descriptive numbers such as index of umbilical (mean, median and mode) and index of dispersion (variance and standard deviation) data analysis would be processed in this part.

**Table: 4.1***Distribution of Respondents Profile*

<b>Gender of Respondent</b>	Frequency	Percent
Male	61	50.8
Female	59	49.2
Total	120	100.0
<b>Age of Respondent</b>	Frequency	Percent
Age 21-35	41	34.2
Age 36-40	52	43.3
Above 40	27	22.5
Total	120	100.0
<b>Education of Respondent</b>	Frequency	Percent
Under Graduate	0	0.0
Graduate	34	28.33
Post Graduate	86	71.7
Total	120	100.0
<b>Income of Respondent</b>	Frequency	Percent
Income 20000-30000	0	0.0
Income 30000 -60000	40	33.3
Above 60000	80	66.7
Total	120	100.0

*Source: Field Survey, 2024*

- **Gender of the Respondents**

Table 4.1 shows that out of total respondents, 50.8% of the respondents are male and 49.2% are female. So, can conclude that most of the respondent in the study are male.

- **Age of Respondents**

According to Table 4.1, No any respondents are of the age group of below 20. Similarly, 34.2% of the respondents belong to age group of 21-35 fill up the questionnaire. Similarly, out of the total respondents, 43.3% belongs to age group 36-40 and 22.5% to the age over 40 respectively. Hence, it is quite obvious that the

respondents under 36-40 age groups are the dominant user of the commercial banks services.

- **Educational Level of the Respondents**

According to Table 4.1, No any respondents belong to under graduation fill up questionnaire. Similarly, out of the total respondents, 28.3% belongs to graduation and 71.7% to the above graduation respectively. Hence, it is quite obvious that the respondent's Post graduation level is the dominant user of the commercial banks services.

#### 4.2 Descriptive Statistics

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

**Table: 4.2**

*Descriptive Statistics*

Statements	N	Min	Max	Mean	Std. Deviation	Variance
<b><u>Board Composition</u></b>						
Smaller size of board committee is appropriate for long run success of organization rather than big board committee	120	3	5	4.48	0.534	0.285
Board committee is satisfied that directors acted in the best interest of organization	120	3	5	4.48	0.594	0.353

Board members have appropriate skills, experience, interdependence, knowledge and qualifications of company to enable them to discharge their duties, responsibilities effectively.	120	3	5	4.55	0.548	0.30
<b><u>Accountability</u></b>	120	3	5	4.48	0.518	0.269
Audit committee supervises the internal audit and accounting principles.						
Management committee and board of directors are completely different and they are independent.	120	3	5	4.59	0.587	0.344
Full board meeting are held at least once a quarter for financial and strategic review.	120	3	5	4.42	0.559	0.312
<b><u>Responsibility</u></b>						
Responsibility of corporate governance includes monitoring the integrity of financial reports.	120	3	5	4.45	0.516	0.266
There is a mechanism to allow punishment of executive committee member in event of	120	3	5	4.48	0.549	0.302

mismanagement

Board is responsible to maintain sound risk management and internal control to achieve strategic objectives

120 3 5 4.58 0.512 0.262

**Transparency** 120 3 5 4.62 0.522 0.272

Management has disclose all related financial reports to concerns

Reports are clear, informative and based on standard for analysis.

120 3 5 4.40 0.571 0.326

Public announcement of results, bid for quotation and purchasing procedures are under effective operation

120 3 5 4.53 0.549 0.301

**Fairness** 120 4 5 4.52 0.502 0.252

All employees have access to appraisal record.

Criticism/suggestions methods are easily available.

120 4 5 4.64 0.482 0.232

All necessary information for appraisal criteria is made available prior to evaluation.

120 3 5 4.41 0.527 0.277

**Social Awareness** 120 3 5 4.48 0.518 0.268

Corporate houses believe on ethical behaviors not

just letter of law but considering prevailing law.

Company prohibits under age employee but emphasis on social justice.	120	4	5	4.66	0.476	0.227
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Distribution of earning through corporate social responsibilities is accountabilities of company.	120	3	5	4.41	0.542	0.294
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<b><u>Perceived Performance</u></b> Board size has positive effects on return i.e. profitability.	120	4	5	4.75	0.435	0.189
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During last five years financial statements and reports are satisfactory.	120	4	5	4.83	0.382	0.146
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Company is achieving its objective and targets as actual stated on strategies.	120	4	5	4.89	0.312	0.097
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*Sources: Field Survey, 2024*

In Table 4.2, which is related for the items of variable (T), the mean of each question are less than 5, in other words frequency of the answers: (strongly disagree), (disagree), (neutral) and (agree) and strongly agree. The highest value of mean is 4.89 and lowest value of mean is 4.40 with highest standard deviation of 0.594 and lowest of 0.312. Similarly, largest variance is 0.353 and smallest variance is 0.097 for the statement “Company is achieving its objective and targets as actual stated on strategies.”

**a) Board Composition**

**Table: 4.3**

*Board Composition*

Statement	Std.					
	N	Min	Max	Mean	Deviation	Variance
Smaller size of board committee is appropriate for long run success of organization rather than big board committee	120	3	5	4.48	0.534	0.285
Board committee is satisfied that directors acted in the best interest of organization	120	3	5	4.48	0.594	0.353
Board members have appropriate skills, experience, interdependence, knowledge and qualifications of company to enable them to discharge their duties, responsibilities effectively.	120	3	5	4.55	0.548	0.30

*Sources: Field Survey, 2024*

To describe the board composition and influence of board members, here we have three different opinion statements. The mean of each statement are greater than 2 (>2). The highest mean is 4.55 with the standard deviation of 0.594 and variance with 0.353 for the statement – “Board committee is satisfied that directors acted in the best interest of organization”. Similarly, the lowest mean of the variable is 4.48 for the statement Board members have appropriate skills, experience, interdependence, knowledge and qualifications of company to enable them to discharge their duties, responsibilities effectively and lowest standard deviation of 0.534 with variance of

0.285 for the statement – Smaller size of board committee is appropriate for long run success of organization rather than big board committee.

**a) Accountability**

**Table: 4.4**

*Accountability*

Statement	Std.					
	N	Min	Max	Mean	Deviation	Variance
Audit committee supervises the internal audit and accounting principles.	120	3	5	4.48	0.518	0.269
Management committee and board of directors are completely different and they are independent.	120	3	5	4.59	0.587	0.344
Full board meeting are held at least once a quarter for financial and strategic review.	120	3	5	4.42	0.559	0.312

Average Mean: 4.49 & Standard Deviation is 0.56

Here we have five different opinion statements were used to describe the Accountability of the service quality of commercial banks. The mean of each question are greater than 2 (>2). The highest mean is 4.59 with the standard deviation of 0.587 and variance of 0.334 for the statement – Management committee and board of directors are completely different and they are independent. Similarly, the lowest mean of the variable is 4.42 for the statement- Full board meeting are held at least once a quarter for financial and strategic review and lowest Standard deviation is 0.518 and variance is 0.269 for statement - Audit committee supervises the internal audit and accounting principles. The overall mean value for Accountability is 4.49 with standard deviation of 0.56. This indicates that the employee feels that accountability in

commercial bank is good as most of the respondent agree and strongly agree on this.

**b) Responsibility**

**Table: 4.5**

*Responsibility*

Statement	N	Min	Max	Mean	Std. Deviation	Variance
Responsibility of corporate governance includes monitoring the integrity of financial reports.	120	3	5	4.45	0.516	0.266
There is a mechanism to allow punishment of executive committee member in event of mismanagement	120	3	5	4.48	0.549	0.302
Board is responsible to maintain sound risk management and internal control to achieve strategic objectives	120	3	5	4.58	0.512	0.262

Average Mean: 4.5 & S.D 0.526

Table 4.5, which is related for the items of variable (R), the mean of each question are greater than 3 (>3), in other words frequency of the answers: (strongly agree) and (agree) are more. The highest value of mean is 4.58 for statement – “Board is responsible to maintain sound risk management and internal control to achieve strategic objectives” with standard deviation of 0.549 and variance of 0.302 for – There is a mechanism to allow punishment of executive committee member in event of mismanagement Similarly, the lowest value of mean is 4.45 for statement - Responsibility of corporate governance includes monitoring the integrity of financial reports with standard deviation 0.512 and variance is 0.262 for the statement – Board is responsible to maintain sound risk management and internal control to achieve strategic objectives|| . The overall mean value for Responsibility is 4.5 with standard

deviation of 0.526. Here, result explain that the Board is responsible to maintain sound risk management and internal control to achieve strategic objectives and most of the respondent agree that board and the management have clearly defined roles and responsibilities.

**c) Transparency**

**Table: 4.6**

*Transparency*

Statement	N	Min	Max	Mean	Std. Deviation	Variance
Management has disclose all related financial reports to concerns	120	3	5	4.62	0.522	0.272
Reports are clear, informative and based on standard for analysis.	120	3	5	4.40	0.571	0.326
Public announcement of results, bid for quotation and purchasing procedures are under effective operation	120	3	5	4.53	0.549	0.301

Average mean: 4.52, and standard Deviation is 0.547

Table 4.6, represent the opinion status of respondent over the statement of variable Transparency, the mean of each question are less than 5, in other words frequency of the answers: (strongly disagree), (disagree), (neutral), (agree) and (strongly agree). The highest value of mean is 4.62 for statement Management has disclose all related financial reports to concerns and standard deviation of 0.571 and variance of 0.326 for - Reports are clear, informative and based on standard for analysis. Similarly, the lowest value of mean is 4.40 for - Reports are clear, informative and based on standard for analysis and standard deviation and variance for statement Management has disclose all related financial reports to concerns. which indicates most of the respondent's neutral or agree in the statement. Similarly, the overall mean value for

transparency is 4.52 with standard deviation of 0.547 This indicates that the information in the commercial bank is transparent.

d) **Fairness**

**Table: 4.7**

*Fairness*

Statement	N	Min	Max	Mean	Std.	
					Deviation	Variance
All employees have access to appraisal record.	120	4	5	4.52	0.502	0.252
Criticism/suggestions methods are easily available.	120	4	5	4.64	0.482	0.232
All necessary information for appraisal criteria is made available prior to evaluation.	120	3	5	4.41	0.527	0.277

Average Mean: 4.52, S.D: 0.503

Among three opinion statement of fairness variables, mean of each question are more than 3 (>3), in other words frequency of the answer agree and strongly agree is more in this variable. The highest mean is 4.64 for statement "Criticism/suggestions methods are easily available" with standard deviation of 0.527 and variance of 0.227 for the statement – "All necessary information for appraisal criteria is made available prior to evaluation." Similarly, the lowest mean 4.41 for statement "All necessary information for appraisal criteria is made available prior to evaluation". with standard deviation of 0.482 and variance of 0.232 for opinion statement "Criticism/suggestions methods are easily available." The overall mean value for Fairness is 4.52 with the standard deviation of 0.503, which means that employee agree that there is fairness in commercial bank. It shows that All employees have access to appraisal record. There have been no questions or controversy over whatever bank has issued transparency

report or not).

e) **Social Awareness**

**Table: 4.8**

*Social Awareness*

Statement	N	Min	Max	Mean	Std.	
					Deviation	Variance
Corporate houses believe on ethical behaviors not just letter of law but considering prevailing law.	120	3	5	4.48	0.518	0.268
Company prohibits under age employee but emphasis on social justice.	120	4	5	4.66	0.476	0.227
Distribution of earning through corporate social responsibilities is accountabilities of company.	120	3	5	4.41	0.542	0.294

Average Mean: 4.51, S.D:0.512

Among three opinion statement of Social Awareness variables, mean of each question are more than 3 (>3), in other words frequency of the answer agree and strongly agree is more in this variable. The highest mean is 4.66 for statement - "Company prohibits under age employee but emphasis on social justice." with standard deviation of 0.476 and variance of 0.227 for the statement - "Distribution of earning through corporate social responsibilities is accountabilities of company." Similarly, the lowest mean 4.41 for statement "Distribution of earning through corporate social responsibilities is accountabilities of company." with standard

deviation of 0.476 and variance of 0.227 for opinion statement “Distribution of earning through corporate social responsibilities is accountabilities of company.” The overall mean value for Fairness is 4.51 with the standard deviation of 0.512, which means that corporate houses believe on ethical behaviors not just letter of law but considering prevailing law.

**f) Perceived Performance**

**Table: 4.9**

*Perceived Performance*

Statement	N	Min	Max	Mean	Std. Deviation	Variance
Board size has positive effects on return i.e. profitability.	120	4	5	4.75	0.435	0.189
During last five years financial statements and reports are satisfactory.	120	4	5	4.83	0.382	0.146
Company is achieving its objective and targets as actual stated on strategies.	120	4	5	4.89	0.312	0.097

Average Mean: 4.82, S.D: 0.376

Table 4.9, reflects descriptive data for the perceived performance. Perceived Performance is a dependent variable used in this research. 6 different opinion statements were used to describe the Perceived Performance of commercial banks. The mean of each question are greater than 4 (>4), in other words frequency of the answers: (strongly agree) and (agree).

The highest value of mean is 4.89 for opinion statement-” Company is achieving its objective and targets as actual stated on strategies.”with standard deviation of 0.435 and variance of 0.189 for the statement - Board size has positive effects on return i.e. profitability. which indicates most of the respondents agree or strongly agree in the statement. Similarly, the lowest value of mean is 4.75 for statement- Board size has positive effects on return i.e. profitability. with standard deviation of 0.312 and

variance of 0.097 for the statement - Company is achieving its objective and targets as actual stated on strategies. which indicates most of the respondents strongly agree or agree in the statement. The overall mean value for perceived performance 4.82 with standard deviation 0.376. This indicates that the overall perceived performance in commercial banks is quite good in Nepal as most of the respondents agree or strongly agree on this variable.

### 4.3 Correlation Analysis

Pearson Correlation analysis is used to determine the relation between various independent and dependent variables associated with the research. It measures the linear correlation between any two variables. This analysis was carried out for variables having simple multi option answers. Correlation matrix was computed to assess the extent or degree of relationship in between the research variables. A positive correlation reveals that the direction of the relationship is positive with one increasing in reaction to the other 's increase. Meanwhile, a negative correlation reveals an inverse of the above; an increase in one when the other decreases. Correlation between Independent and Dependent variables is shown in

**Table: 4.10**

*Correlation Analysis*

		B	A	R	T	F	S	P
B	Pearson Correlation	1	.860**	.929**	.924**	.896**	.910**	.785**
A	Pearson Correlation		1	.910**	.864**	.812**	.860**	.714**
R	Pearson Correlation			1	.897**	.857**	.893**	.764**
T	Pearson Correlation				1	.909**	.916**	.766**
F	Pearson Correlation					1	.905**	.758**
S	Pearson Correlation						1	.767**
P	Pearson							1

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

#### **4.3.1 Relationship between Board Composition and Perceived Performance**

The Pearson Correlation coefficient between the independent variable Board composition and dependent variable perceived performance is 0.785, which implies that the two variables are positively correlated and there is correlation between board composition and perceived performance. The positive coefficient of correlation is 0.785 at 5% significant level.

#### **4.3.2 Relationship between Accountability and Perceived Performance**

The Pearson Correlation coefficient between the independent variable accountability and dependent variable perceived performance is 0.714 which implies that the two variables are not correlated and there is no correlation between accountability and perceived performance. The coefficient of correlation 0.714 at 5% significant level.

#### **4.3.3 Relationship between Responsibility and Perceived Performance**

The Pearson Correlation coefficient between the independent variable responsibility and dependent variable perceived performance is 0.764 which implies that the two variables are not correlated and there is no correlation between responsibility and perceived performance. The coefficient of correlation 0.764 at 5% significant level.

#### **4.4.4 Relationship between Transparency and Perceived Performance**

The Pearson Correlation coefficient between the independent variable transparency and dependent variable perceived performance is 0.766, which implies that the two variables are positively correlated and there is correlation between transparency and perceived performance. The positive coefficient of correlation is 0.766 at 5% significant level.

#### **4.4.5 Relationship between Fairness and Perceived Performance**

The Pearson Correlation coefficient between the independent variable fairness and dependent variable perceived performance is 0.758, which implies that the two variables are positively correlated and there remain strong correlation between them. The positive coefficient of correlation is 0.758 at 5% significant level.

#### **4.4.6 Relationship between Social Awareness and Perceived Performance**

The Pearson Correlation coefficient between the independent variable social

awareness and dependent variable perceived performance is 0.767, which implies that the two variables are positively correlated. The positive coefficient of correlation is 0.767 at 5% significant level.

#### **4.4 Hypothesis Testing**

##### **a. Alternative Hypothesis 1 (H<sub>1</sub>)**

**There is relation between board size and Perceived Performance.**

Results presented in Table 4.8 shows that Pearson Correlation Coefficient between board size and perceived performance is  $r = 0.785$ . This shows that strongly correlation exists between board size and perceived performance. This correlation is significant at 5% significant level, as p-value is less than alpha i.e.  $0.001 < 0.05$ . Hence, H<sub>1</sub> is accepted.

##### **b. Alternative Hypothesis 2 (H<sub>2</sub>)**

**There is relation between Accountability and Perceived Performance.**

The result shows that Pearson Correlation Coefficient between Accountability and Perceived Performance is  $r = 0.714$ . This shows that a positive and strong correlation exists between Accountability and Perceived Performance. This correlation is significant at 5% significant level, as p-value is less than alpha i.e.  $0.001 < 0.05$ . Hence, H<sub>2</sub> is accepted.

##### **c. Alternative Hypothesis 3(H<sub>3</sub>)**

**There is relation between Responsibility and Perceived Performance.**

The result shows that Pearson Correlation Coefficient between Responsibility and Perceived Performance is  $r = 0.764$ . This shows that a positive correlation exists between responsibility and Perceived Performance. This correlation is significant at 5% significant level, as p-value is less than alpha i.e.  $0.001 < 0.05$ . Hence, H<sub>3</sub> is accepted.

##### **d. Alternative Hypothesis 4(H<sub>4</sub>)**

**There is relation between Transparency and Perceived Performance.**

The result shows that Pearson Correlation Coefficient between transparency and Perceived Performance is  $r = 0.766$ . This shows that a correlation exists between transparency and Perceived Performance. This correlation is significant at 5% significant level, as p-value is less than alpha i.e.  $0.001 < 0.05$ . Hence, H<sub>4</sub> is accepted.

**e. Alternative Hypothesis 5( $H_5$ )**

**There is relation between Fairness and Perceived Performance.**

The result shows that Pearson Correlation Coefficient between Fairness and Perceived Performance is  $r = 0.758$ . This shows that a strongly correlation exists between fairness and Perceived Performance. This correlation is significant at 5% significant level, as p-value is less than alpha i.e.  $0.001 < 0.05$ . Hence,  $H_5$  is accepted.

**f. Alternative Hypothesis 6( $H_6$ )**

**There is relation between Social Awareness and Perceived Performance.**

The result shows that Pearson Correlation Coefficient between Social Awareness and Perceived Performance is  $r = 0.767$ . This shows that a strongly correlation exists between fairness and Perceived Performance. This correlation is significant at 5% significant level, as p-value is less than alpha i.e.  $0.001 < 0.05$ . Hence,  $H_5$  is accepted.

#### **4.5 Regression Analysis**

It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. A correlation analysis can only tell whether or not a strong relationship exists between two variables. But even if a correlation coefficient indicates that a strong relationship exists between two variables, the exact shape of the relationship between the two variables cannot be determined. In this case, regression analysis provides more information about the slope of the relationship. The general purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. In statistical modeling, regression analysis is a statistical process for estimating the relationships among variables. It is used to describe the nature of a relationship and to make predictions. So, for deeper understanding of the impact of internal communication climate on employee engagement, the regression analysis is conducted. This section determines which independent variable explains variability in the outcome, how much variability in dependent variable is explained by independent variables and dependent variable, and which variables are significant (over other variables) in explaining the variability of the dependent variable. Multiple regressions were used to explore the impact of independent variables (transparency, Responsibility, Discipline, Fairness, Accountability) on dependent variable Perceived

Performance. Multiple linear regression analysis is used to predict the impact of independent variables perceived performance. The equation for Impact of independent variables of perceived performance is expressed in the following equation:

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e_i$$

Where,

$\hat{Y}$ = Perceived Performance (dependent variable)

$X_1$ = Board size

$X_2$ = Accountability

$X_3$ = Responsibility

$X_4$ = Transparency

$X_5$ = Fairness

$X_6$ = Social Awareness

$\alpha$ = Constant

$\beta_1, \beta_2 \dots \beta_5$ =Regression coefficients of Factor 1 to Factor 6 respectively

$e_i$ = Error term

The results of model summary, analysis of variance (ANOVA) and beta coefficients of impact of independent variables of corporate governance on perceived performance are presented in the following tables respectively:

#### 4.5.1 Model Summary of Impact of independent variables of Corporate Governance on Perceived Performance

**Table: 4.11**

*Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.801 <sup>a</sup>	0.641	0.622	0.318

a. Predictors: (Constant), Total Board Composition, Total Accountability

Total responsibility, Total Transparency, Total Fairness, Total Social Awareness:

Model summary indicates the  $R^2$  is also known as coefficient of determination which can help in explaining variance. The value of R-square value as evident from Table 4.11 is 0.641 which means 64.1% variation in Perceived Performance is explained by the independent variables. However, the remaining 36 % (100% - 64%) is still unexplained in this research. In other words, there are other additional variables of corporate governance of Nepalese commercial banks that are important in explaining Corporate Governances that have not been considered in this research.

Similarly, adjusted R-square is 0.622 which means 62.2% variation in Perceived Performance is explained by the independent variables after adjusting degree of freedom (df). This shows positive relationship between all variables of corporate governance and Perceived Performance. Model summary also indicates the standard error of the estimate of 0.439 which shows the variability of the observed value of Perceived Performance from regression line is 0.318 units.

#### 4.5.2 ANOVA of impact of independent variables of Corporate Governance on Perceived Performance

**Table: 4.12**

ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
1. Regression	20.347	6	3.406	33.675	.000 <sup>b</sup>
Residual	11.347	113	0.101		
Total	31.867	119			

a. Dependent Variable: Total perceived performance

Predictors: (Constant), Total Board Composition, Total Accountability, Total responsibility, Total Transparency, Total Fairness, Total Social Awareness:

Based on ANOVA, the p-value is 0.000 which is lesser than alpha value 0.01. Therefore, the model is a good predictor of the relationship between the dependent and independent variables. As a result, the independent variables (Board Composition, Accountability, Responsibility, Transparency, Fairness, Social Awareness) are significant in explaining the variance in Perceived Performance. In other words, at least one of the 6 independent variables has important contribution to Perceived Performance.

### 4.5.3 Beta coefficients of impact of independent variables on Perceived Performance

**Table: 4.13**

Coefficients<sup>a</sup>

		Unstandardized Coefficients			
			Std.		
Model		B	Error	t	Sig.
1	(Constant)	8.699	0.419	20.73	0.000
	Total Board Composition	0.426	0.030	13.781	0.000
	Total Accountability	0.411	0.037	11.064	0.007
	Total Responsibility	0.437	0.33	12.846	0.000
	Total Transparency	0.433	0.033	12.961	0.001
	Total Fairness	0.437	0.034	12.639	0.000
	Total Social Awareness	0.428	0.033	12.972	0.000

**a.** Dependent Variable: Perceived Performance

The results presented in Table 4.13, also summarizes the values of unstandardized betacoefficients ( $\beta_1, \beta_2 \dots \beta_6$ ) and the constant  $\alpha$  with which the estimated equation for Impact of independent variables on Perceived Performance can be written. Using the values of unstandardized beta coefficients and constant, we can write the estimated equation as follows:

$$\hat{Y} = 8.699 + 0.426X_1 + 0.411X_2 + 0.437X_3 + 0.433X_4 + 0.437X_5 + 0.428X_6 + e_i.$$

Table 4.13, shows that responsibility, fairness, discipline and accountability are the significant independent variables while the independent variable accountability has no significant results since respective p-value is less than 0.05. ( $p > 0.05$ )

In the regression analysis, the beta coefficients are used to explain the relative importance of the independent variables in contribution to the variance in dependent variable. The results presented in Table 4.13, shows that Responsibility ( $\beta_3=0.437$ ,  $p=0.000$ ) and Fairness shows ( $\beta_5=0.437$ ,  $p=0.000$ ) carries the same and heaviest weight for Perceived Performance, followed by transparency  $\beta_4= 0.433$ ,  $p=0.000$  Social Awareness ( $\beta_6=0.428$ ,  $p=0.000$ ), Board Composition ( $\beta_1=0.426$ ,  $p=0.000$  Accountability ( $\beta_2=0.411$ ,  $p=0.000$ ). The results showed that a one-unit increase in independent variables would lead to a **Beta** unit increase in Perceived Performance

keeping other variables constant. In table, one-unit increase in Responsibility factor would lead to 0.437 unit increase in Perceived Performance, one unit increase in Board Composition factor lead to a 0.426 unit increase in Perceived Performance and so on. In conclusion, all independent variable dimensions are significant. Thus, the result of multiple regression analysis accepts alternative hypotheses that there is relationship between independent variables of Corporate Governance and Perceived Performance

#### **4.6 Major Findings**

The descriptive statistics study and the hypothesis test were conducted and the final result was presented. The results obtained from descriptive statistics for the dependent variables and independent variables are summarized as follows.

- i. The average mean value of overall Board Composition variable is 4.55, which shows that respondents agree that Board Composition is an important factor for perceived performance. While doing t-test, all the variables of transparency have p- value less than 0.05, which shows that mean value of all these variables are significantly greater than 4.
- ii. The overall average mean of Accountability factor is 4.59 which show that respondents agree that accountability is an important factor of corporate governance that affects perceived performance. While doing t-test, all the variables of accountability have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 4
- iii. The aggregate mean of overall Responsibility variable is 4.58 which show that the employee of banking sector organizations feels that responsibility is very important in commercial bank and it influence the perceived performance. While doing t-test, all the variables of responsibility have p- value less than 0.05, which shows that mean value of all these variables are significantly greater than 4.
- iv. The average mean value of overall Transparency variable is 4.62, which shows that respondents agree that transparency is an important factor for perceived performance. While doing t-test, all the variables of transparency have p- value less than 0.05, which shows that mean value of all these variables are significantly greater than 4.

- v. The overall average mean of Fairness variable is 4.64 which show that the employee of banking sector organizations gives importance to fairness as the important factor and it influences the perceived performance. While doing t-test, all the variables of fairness have p-value less than 0.05 which shows that mean value of all these variables are significantly greater than 4
- vi. The overall average mean of Social Awareness variable is 4.66 which show that the employee of banking sector gives importance to social awareness and it influences the perceived performance of Nepalese commercial banks. While doing t-test, all the variables of fairness have p-value less than 0.05 which shows that mean value of all these variables are significantly greater than 4.
- vii. The aggregate mean of Perceived Performance is 4.89 which show that the levels of perceived performance in Nepalese commercial banking sector are good. While doing t-test, all the variables of perceived performance have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 4.
- viii. Among the various independent variables, the overall least mean of Transparency is 4.40 with the standard deviation of 0.571 and variance of 0.326 which means there is less importance given to the transparency in the commercial as mentioned by the employees of the bank.
- ix. Similarly, the highest mean is 4.66 of Social Awareness with standard deviation of 0.476 While doing t-test, all the variables of social awareness have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 4. We can see that employee feel the commercial banks are giving high importance towards the social awareness and the bank's includes a section devoted to the bank's performance in implementing corporate governance principles also. Hence, the overall discipline of the bank is satisfactory.
- x. The significance of the hypothesis between the variable are also analyzed from the significant value drawn from the sample. All alternative hypotheses Board Composition, Accountability, Responsibility, Transparency, Fairness and Social Awareness are accepted.
- xi. The correlation results were used to answer the five research hypotheses. The

Pearson Correlation coefficient between all six independent variables and dependent variable perceived performance was done, which implies that all the variables are positively correlated at 5% significant level.

#### **4.7 Discussion**

The main goal in the current study was to examine corporate governance of commercial bank of Nepal. This study found that positive relationships exist between Perceived Performance and other variables.

Some previous studies show the significance of study according to Miles (2010) which indicates that independence of director has effect on organizational success but our study proposes that independence has insignificance effect on organizational success in our environment when collective to other variable it has significance.

The study by Ilyas and Rafiq (2012) the role of corporate governance in organizational success is vital and integral to ensure the accomplishment. Analysis of present study tells that the corporate governance has different impact on organizational success. Discipline and responsibility plays a stronger role in making organizations successful in commercial banks operating. Similar indications can be found in support that discipline is one of major contributor in organizational success. Empirical findings of this study in concert with direction of SEC manual corporate governance which force the importance of accounting standards being part of discipline in organizations, this study has also proven that discipline is most important and viable variable for banking sectors organizations to be succeeded.

Better corporate governance is supposed to lead to better corporate performance by preventing the expropriation of controlling shareholders and ensuring better decision-making. In expectation of such an improvement, the firm's value may respond instantaneously to news indicating better corporate governance. However, quantitative evidence supporting the existence of a link between the quality of corporate governance and firm performance is relatively Niruala (2015).

Al-Najjar (2017) discovered that board size and board independence have a significant impact on the pay of CEO and firm performance for seeral UK firms. Similary this study reveals the same result

Khatib et al. (2020) emphasized the policy-setting role of corporate governance where directors impact on corporates performance is through policy setting. Apart from these roles, the COVID-19 crisis highlighted the board oversight role in reducing the uncertainty risk followed by the COVID-19 crisis.

Pitambar Lamichhane on 16 January 2021 result of this study concludes that corporate governance, market to book value ratio, age, size of assets and debt ratio have strong explaining power of financial performance of Nepalese firm.

Dr Kapil Khanal\* Vol. 12, Issue 7, July 2023 Asian Journal of Multidimensional Research CORPORATE GOVERNANCE AND ITS IMPACT ON FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS It has been concluded that corporate governance and corporate financial performance are correlated and Governance in the Company has significant positive impact on its financial performance. This research finding may support decision of company to improve its governance structure. Companies should strive to improve its performance along indicators of good governance – Leadership Ethics, Board Composition & Independence, Executive Compensation, Transparency and Reporting, Stakeholder Engagement, and Compliance with law in true letter and spirit. Companies should understand that improving governance and sustainability performance is as important as improving the financial performance.

Asmita Syangbo on December, 2021, The corporate governance of the commercial bank of Nepal and the relationship of perceived performance with the other variable which are transparency, accountability, discipline, fairness and responsibility. Upon examining the perceived performance and factors of corporate governance it was found that a relationship between the these does exist. The results indicated that commercial bank should give importance to the corporate governance to improve to overall performance of the bank.

The relationship between Corporate Governance and other variable positive or negative is not the key factor rather it's the assurance and reliability between them that makes their work more meaningful. These results provide some insight into the importance of corporate governance in commercial banks to sum up the results, it can be concluded that variable of corporate governance can have significant effects on Perceived Performance of the commercial bank.

## **CHAPTER V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

Corporate governance has now become a global issue and global trend in most of the commercial industries of public concern the ever before. Corporate governance is of more significance in this century to address the concern of stakeholders on the ground of transparency, accountability and integrity. After the various corporate scandals having unethical business practices, corporate governance has gained the serious attentions across the world. Corporate governance maximizes the value of the firm in long run by establishing a reliable corporate system in the organization. Corporate governance is of more importance to financial institutions in Nepal as there is huge competition in the industry. A sound corporate governance system is of vital concern to improve the financial performance of commercial banks in Nepal.

#### **5.1 Summary**

The main purpose of the research study was to find out whether there exists any relationship between corporate governance and its other variable. To answer this question, several literatures with the subject of corporate governance, which are the main variable that effect the corporate governance, which drivers would help to achieve it and finally how we measure corporate governance have been discussed. On the other hand, concept and studies about corporate governance, its dimensions and the relation between other variable have been studied.

This research has taken as samples of 4 commercial banks to study the relationship between the corporate governance and financial performance. Its specific objectives are:

- To explore the status of current corporate governance practices in selected commercial banks in Nepal.
- To promote ethical behaviors, risk management and strengthen financial stability.
- To enhance accountability and Promote transparent financial reporting and disclosure practices to build trust and confidence among stakeholders.
- Adhere to legal and regulatory requirements to avoid penalties, reputational damage, and operational disruptions to protect stakeholders interest.
- To identify the dimensions that represents the corporate governance and

banking performance.

- To explore the unknown and unlock new possibilities of relationship between dependent and independent variables.
- To analyze the perceived performance.

Among these 20 commercial banks, it has taken Agricultural Development Bank Ltd., Rastriya Banijya Bank Ltd., Nepal Bank Ltd. And Nabil Bank Limited using convenience sample method. This study is based on primary data. The primary data is collected through the administration of questionnaires to the staff in related banks. It deals with the analysis and interpretation of the primary data collected through 120 valid questionnaires were selected and data analysis was applied to them. The responses were collected and the data was arranged and analyzed using Microsoft Excel and SPSS software packages. Finally, the researcher came to know that all the tested variables have impact on perceived performance. Finally, the researcher came to know that all the tested variables have impact on perceived performance. The responses were collected and the data was arranged and analyzed using Microsoft Excel and SPSS software packages.

## **5.2 Conclusions**

The larger purpose of this study was to determine the corporate governance of the commercial bank of Nepal and the relationship of perceived performance with the other variable which are board composition, accountability, responsibility, transparency, fairness and social awareness. Upon examining the perceived performance and factors of corporate governance it has been found that a relationship between the two does exist. The results indicated that commercial bank should give importance to the corporate governance to improve to overall performance of the bank.

To its advocate, the role of corporate governance in organizational success is vital to ensure the accomplishment. Analysis of study tells that the corporate governance has different impact on organizational success. Board composition, accountability, responsibility, transparency, fairness and social awareness play a stronger role in making organizations successful in commercial banks operating in Nepal. According to this study these six variables significantly contribute in creating good corporate governance in the commercial bank. Thus, the result of multiple regression analysis

accepts alternative hypotheses that there is relationship between independent variables of Corporate Governance and Perceived Performance.

The most general corporate governance problem in organizations is basically a failure to have board of director and the member of the management are not different, also Board committee is not satisfied that directors acted in the best interest of organization and also the employees are also not satisfied with the performance of audit committee. Employee also feels that boards meeting of the bank are also not held as per the requirement. Moreover, there is a mechanism to allow punishment of executive committee member in event of mismanagement but not into consideration effectively. Although the banks have written code of conduct but they are not performing up to the mark.

Presented research demonstrates that the governance is a very important organ of a corporation, which is more essentially required in the banking sector in order to have an influential power on information disclosure.

By this research, it comes to conclusion that corporate governance in the Nepalese commercial banks can sustain their advantage through the maintained of corporate governance in the commercial bank of Nepal. It can be concluded that variable of corporate governance can have significant effects on banks along with its dimensions.

The corporate governance of the bank also has the significant impact when the dimension of the corporate governance is also evaluated like responsibility, social awareness, fairness and accountability. The shocking result shows that all variables have much impact in the corporate governance. In view of the above analysis, Corporate Governance is necessary to the proper functioning of banks and their variables have also important role in the management of the corporate governance. Generally, top management should take attention toward corporate governance in return to gain customers delighters which insure the overall organizational success.

### **5.3 Implications**

Based on the research findings of this study, the following recommendations are prescribed to serve as a guideline for future research work of similar nature, apart from improving on the aspect of corporate governance in the Nepalese banking sector.

- i. This research only focused on the six factors/groups of corporate governance

However, future research regarding the relationship may provide insight about other variables that may have an effect on corporate governance and perceived performance, apart from the variables mentioned in this study.

- ii. This study was conducted using a sample from commercial bank which cannot be generalized across other development bank, manufacturing company and finance company.
- iii. This study is purely an academic research, so sample size is small. For the professional research purpose, in order to reduce the error and to make the result more pervasive sample size should be increased.
- iv. This research was confined within Kathmandu valley. Research can be conducted in overall country to make the research more effective and genuine.
- v. A recommendation for future researcher is to use a larger sample of participants comprised of the entire banking sector as a whole so that the result of banking sector in Nepal can be identified.
- vi. The data were collected only through questionnaire, survey form and feedback. Future researcher can collect the response through conducting detailed interview techniques to understand the corporate governance and perceived performance.
- vii. Correlation and multiple regression of all variables and perceived performance are strongly significant so further research can to create next level of significant relationship they have to be careful at the time of investment and well manage of the assets.
- viii. In this research researcher used only 120 sample size, which is very less than population so it is less generalized. Further researcher should increase the no. of sample size.
- ix. This study was conducted using a sample from only three banks located in Kathmandu valley which cannot be generalized for commercial banks all over the Nepal. A recommendation for future research is to use a sample comprised of other commercial banks around Nepal, or cover larger area and sample of participants from Kathmandu valley.
- x. This study primarily touched upon six aspects of corporate governance which influences the perceived performance of commercial banks. However, it would be more interesting to see further research, not only in Kathmandu valley but

also other major commercial banks with other aspects of corporate governance.

- xi. The result is basically from commercial banks. Thus, the future study may be incorporated developments banks and other financial institutions
- xii. Finally, future researcher can be used manufacturing sectors for conduct a research in place of commercial banks.

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## APPENDIX

### QUESTIONNAIRE

#### Questionnaire on Corporate Governance Practices in Nepalese Commercial Banks

Dear Respondent,

I am currently conducting research study entitled” Corporate Governance and Financial Performance in Commercial Bank in Nepal” in Partial fulfillment if the requirements for Degree Master in Business Studies of Tribhuvan University.

With this regard I am respectfully requesting for your participation in the said study. Answering all the questions honestly and carefully will help me in summarizing, analyzing & presenting the data accurately. I assured that all of the data gathered from the study will be treated with respect and confidentiality. Also, the result of the study will be provided should you desire to know it.

Your Participation is highly appreciated

Sincerely Yours

#### **Part 1: Participant Information (Please tick an appropriate option)**

Gender	Male		Female
<b>Age in year</b>	21-35 <input type="checkbox"/>	36 40 <input type="checkbox"/>	Above 40 <input type="checkbox"/>
<b>Educational Level</b>	Under Graduate <input type="checkbox"/>	Graduate <input type="checkbox"/>	Post Graduate <input type="checkbox"/>
<b>Income Level</b>	20000-30000 <input type="checkbox"/>	30000 -60000 <input type="checkbox"/>	Above 60000 <input type="checkbox"/>

#### **Screening Question: Please tick mark on your best suited option.**

- Name of the Banking Organization you work for  
 Agricultural Development Bank Ltd.  Nepal Bank Ltd.   
 Rastriya Banijya Bank Ltd.  Nabil Bank Ltd.
- For how long have you been working this particular bank (chosen bank)?  
 Less than 3 years  between 3- 6 years   
 More than 6 years

**For Section:2 Please use the following rating scale and tick mark the best suited options.**

1 = Strongly Disagree	2 = Disagree	3 = Neutral	4 = Agree	5 = Strongly Agree
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**Board Composition**

Code	Opinion Statement	1	2	3	4	5
3	Smaller size of board committee is appropriate for long run success of organization rather than big board committee					
4	Board committee is satisfied that directors acted in the best interest of organization					
5	Board members have appropriate skills, experience, interdependence, knowledge and qualifications of company to enable them to discharge their duties, responsibilities effectively.					

**Accountability**

Code	Opinion Statement	1	2	3	4	5
6	Audit committee supervises the internal audit and accounting principles.					
7	Management committee and board of directors are completely different and they are independent.					
8	Full board meeting are held at least once a quarter for financial and strategic review.					

### **Responsibility**

<b>Code</b>	<b>Opinion Statement</b>	1	2	3	4	5
9	Responsibility of corporate governance includes monitoring the integrity of financial reports.					
10	There is a mechanism to allow punishment of executive committee member in event of mismanagement.					
11	Board is responsible to maintain sound risk management and internal control to achieve strategic objectives					

### **Transparency**

<b>Code</b>	<b>Opinion Statement</b>	1	2	3	4	5
12	Management has disclose all related financial reports to concerns					
13	Reports are clear, informative and based on standard for analysis.					
14	Public announcement of results, bid for quotation and purchasing procedures are under effective operation					

### **Fairness**

<b>Code</b>	<b>Opinion Statement</b>	1	2	3	4	5
15	All employees have access to appraisal record.					
16	Criticism/suggestions methods are easily available.					
17	All necessary information for appraisal criteria is made available prior to evaluation.					

### **Social Awareness**

<b>Code</b>	<b>Opinion Statement</b>	1	2	3	4	5
18	Corporate houses believe on ethical behaviors not just letter of law but considering prevailing law.					
19	Company prohibits under age employee but emphasis on social justice.					
20	Distribution of earning through corporate social responsibilities is accountabilities of company.					

### **Perceived performance**

<b>Code</b>	<b>Opinion Statement</b>	1	2	3	4	5
21	Board size has positive effects on return i.e. profitability.					
22	During last five years financial statements and reports are satisfactory.					
23	Company is achieving its objective and targets as actual stated on strategies.					

***Thanks for your time and consideration.***

PAPER NAME

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AUTHOR

**Sulochana Kadel**

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